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## STAKEHOLDER GOVERNANCE: ADAPTING STAKEHOLDER THEORY TO E-GOVERNMENT

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### ABSTRACT

The e-government field, like most young fields, lacks a strong body of well-developed theory. One strategy for coping with theoretical immaturity is to import and adapt theories from other, more mature fields. This study reviews Stakeholder Theory (ST) and investigates its potential in relation to e-Government. Originally a management theory, stakeholder theory advocates addressing the concerns of all stakeholders in a firm, as opposed to concentration on the interests of senior managers and stockholders. Apart from its original profit focus, there is no serious conceptual mismatch between stakeholder theory and government's objective of providing policy and services for citizens and organizations – society's stakeholders. Potential problems with adapting a management theory to a government setting are discussed. The paper further discusses how information technology impacts a stakeholder model of governance. Finally, the paper makes recommendations for future work in adapting ST to the e-government context.

**Keywords:** stakeholder theory, e-government, e-governance.

### I. INTRODUCTION

The developing e-government field, like many immature fields, could be described as a 'fragmented adhocracy' [Whitley, 1984]. A plurality of competing themes is combined with inheritances from many disciplines, different (and often insufficiently rigorous) research methods, and competing (but often dubious) claims combined with poorly grounded prescriptive advice. Some of these problems reflect difficulties in the practice of e-government, with government targets reported as 'vague' [Muir and Oppenheim, 2002] and many e-government initiatives described as 'chaotic and unmanageable' [Layne and Lee, 2001]. The field is an applied field, in the sense that its focus is on practical innovation through technology, and much of the literature is concerned, in one sense or another, with which innovations to prioritize, and how to diffuse or implement them effectively. Amongst the predominant themes are a focus on services and governmental commerce (with its roots in the information systems discipline), a focus on

electronic participation, inclusion democracy and voting (with roots in political science), a focus on technology based efficiency improvements in internal governmental communication and control (with roots in political administration) and a focus on the necessary technical computing solutions such as interoperability, multi-platform access, identity management and security (rooted in computer science). Whilst Edmiston's characterization of 'a literature that is increasingly becoming a series of disconnected case studies' [Edmiston, 2003] is probably exaggerated, two persistent worries in the field are

1. the proper underpinning of studies with appropriate research method, and
2. the use and generation of theory.

Grönlund [2004] assessed 170 papers from three major e-government conferences, finding that

*'theory generation and theory testing are not frequent while case stories (no theory, no structured data collection) and product descriptions (no analysis or test) are. Also, claims beyond what is reasonable given the method used are frequent.'* [Gronlund, 2004]

The rather few examples of illuminating theory development, such as the stages of growth model proposed by Layne and Lee [Layne and Lee, 2001] are now well-known and used. Thus we suggest that the e-government field is immature in the sense that its theoretical foundation is weak. Such theoretical weakness leads to hidden normative assumptions (such as technological utopianism), poorly grounded (non-theoretical) description (such as best practice examples), and many instrumental suggestions for practice in terms of new systems and management practices which are dubious because they lack the theoretical foundation for generalization outside the immediate context.

One strategy used in developing a theoretical foundation to an immature field is the adaptation of theory from other, more mature disciplines. This paper assesses the suitability of Stakeholder Theory (ST) as a possible theoretical contributor to the e-government field. Scholl [2001] made an early attempt to introduce ST to e-Government in 2001. He found that insights from ST can be useful in the context of managerial decision making in major e-Government initiatives. However, Scholl [2001] only briefly discussed ST in relation to characteristics of public sector organizations. Also, his conclusions remain very general. Although stakeholder analysis was used in the e-government context [Murray et al., 2004], ST has yet to capture the attention of the e-Government research community. This paper extends Scholl's work from 2001 in reviewing ST, discussing its theoretical precepts in relation to the e-Government domain, and in outlining a research strategy to adapt ST to e-Government.

While the stakeholder concept can be traced back to the 1930's, stakeholder management was originally proposed by Freeman [1984] as a practical, effective, and ethically responsible way of managing private companies. Freeman argued that the traditional business assumption that organizations should focus on maximizing shareholder profit was inadequate, and that attending to the needs of multiple stakeholders makes the firm more competitive in the long run. Donaldson and Preston [1995] characterized ST as involving three distinct but mutually supportive aspects;

- descriptive,
- instrumental and
- normative.

Thus the ST literature can be described as a set of management principles which combines:

1. an ethical discussion of the merits of managing the legitimate interests of multiple stakeholders, as opposed to a more traditional view of management as profit maximization on behalf of shareholders, with
2. a way of describing companies in terms of their stakeholder relationships, and
3. toolsets and frameworks as instrumental help for managers together with a discussion of the effectiveness of the approach in relation to more conventional management approaches.

Although this distinction is generally accepted by management and organizational scholars, Freeman argues that it is artificial and unhelpful [Freeman, 1999], whereas Kaler, [2003] argued that the descriptive and instrumental aspects refer to second order theories.

Though ST's roots are in the strategic management literature, it is discussed and adapted in many contexts, including the public sector. It is also used in a political context, for instance as the concept *stakeholder democracy* in the British Labour Party's 'third way' policy orchestrated by Anthony Giddens. We consider ST appropriate for consideration as a theoretical underpinning to E-government because:

1. Government can be conceptualized as the management of relationships and interests of societal stakeholders. For example, a government agency normally deals with internal stakeholders and many other related governmental agency stakeholders, together with external citizen stakeholders and profit and non-profit organizational stakeholders. In fact all democratic political models involve balancing legitimate competing interests in society;
2. As an applied field, e-government maintains a practical focus on managing successful technological innovation in a complex stakeholder environment. ST may be able to help provide a theoretical foundation for tools and techniques which help in these tasks;
3. Government agencies face 'increasing demands to run government like a business' [Box, 1999] but are normally budget-optimizing in relation to their various clients (or stakeholders) rather than profit-maximizing in relation to shareholders. ST thus represents a better-fit type of management theory for the government context than conventional profit-maximizing management theories.

Thus ST might be expected to contribute to the development of management propositions for e-government (which also include tools and techniques for managing), based on a theoretical description of governmental stakeholder relationships. The underlying normative (ethical) justification is the need to take into account the legitimate interests of those stakeholders.

The paper takes the form of a literature study, where ST is analyzed according to a simple model (Section II). The literature search strategy and analysis model are developed in the next section (Section III). The analysis leads to a discussion (Section IV) of the strengths and weaknesses of ST as a candidate for a theoretical contribution to the e-government field, and the opportunities and challenges involved in its adaptation.

## II. METHOD

Literature reviews are an important part of the development of the IS field [Webster and Watson, 2002]. They offer the opportunity to synthesize and reflect on previous theoretical work, thus providing secure grounding for the advancement of knowledge. They suggest that the elements of a good literature review include a structured approach to identifying the source material and the use of a concept matrix or other analytical framework leading to 'a coherent conceptual structuring of the topic'.

### ARTICLE SELECTION APPROACH

The article selection approach focuses on identifying stakeholder theory contributions in the social science field based on their impact. The most common way of assessing impact is through citation indexes. Articles which are heavily cited are assumed to be widely read and to be contributing to the evolution of the theoretical area. We used the Web of Science (<http://isi3.newisiknowledge.com/portal.cgi>) citation index to identify the fifty most cited articles using the keywords 'stakeholder theory' in the title, abstract or keywords. These articles are listed in Appendix I. The Web of Science covers 1254 leading journals in the science, social science, and humanities fields. We obtained full text versions of all fifty articles. This list contains many contributions from the Academy of Management Review (11), the Academy of Management Journal (4), other leading strategy and management journals (4), Journal of Business Ethics (9),

Business Ethics Quarterly (4), with other contributions in journals covering business, management information systems, accounting, finance, tourism, organization studies, marketing and public administration. Because the database does cover books, we used the reference lists in these journals to identify relevant book contributions (we grounded the entire review process on Freeman's seminal text 'Strategic Management: A Stakeholder Approach' [Freeman, 1984]).

A disadvantage of the impact/citation strategy is that it biases against recent contributions<sup>1</sup>. Therefore, we used Webster and Watson's backwards/forwards strategy [Webster and Watson, 2002] to identify significant contributions which were more recent. We also retrieved abstracts for 133 of a total of 153 contributions in our eventual Endnote library.

## ANALYSIS MODEL

An influential article by Donaldson and Preston [Donaldson and Preston, 1995] analyzed stakeholder theory in terms of its normative, descriptive, and instrumental aspects. These terms assumed particular meanings in the stakeholder theory debate, which do not necessarily correspond to more general meanings of the terms in, for example, the philosophy of science.

The normative aspect is essentially an ethical or moral debate concerning the nature of the corporation and its obligations to society. Here the principle moral issue is whether a corporation duty goes beyond its duty to its shareholders. Stakeholder theory assumes multiple relationships with stakeholders (e.g., employees, customers, suppliers.) thus multiple responsibilities. Managers cannot simply maximize shareholders' economic interests, whilst ignoring the legitimate interests of other groups (the normative argument), nor do they in practice. In its descriptive dimension; stakeholder theory provides a descriptive theoretical model of the corporation as a hub for (or web of) legitimate stakeholders and provides a conceptual language for the analysis of stakeholder relationships (for example in terms of urgency, power and legitimacy).

The final aspect of stakeholder theory, [Donaldson and Preston, 1995] is its instrumental aspect. This aspect focuses on the connection between the practice of ST precepts and traditional measures of corporation success. Is stakeholder theory effective is the question, and does ST in practice lead to better outcomes than other management approaches? This instrumental aspect differs from the other dimensions in that it can, in principle at least, be measured. Thus instrumental ST can be evaluated according to a correspondence theory of truth by the collection of data from the external world, whereas descriptive ST can only be compared to other types of descriptive theory, and normative ST theory must be argued from philosophical or moral principles.

These distinctions are now widely accepted and discussed, but they somewhat undermine Freeman's original purpose, which was, in the tradition of much of the management literature, to provide practical tools and techniques for managers to help them to manage. Thus Freeman's contribution is a design theory of how to manage (a set of management principles), based on a particular description of a firm as a nexus of stakeholders. Donaldson and Preston also accept this: 'stakeholder theory is managerial in the broad sense of the 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' [Donaldson and Preston, 2002, p.67]. Nevertheless the normative, descriptive, instrumental framework seems to have been extremely influential on the development of ST (Section III), and most of the literature we investigated can be assigned to one of these categories.

A further complication is that some later contributors (for instance Pouloudi, [1999]) expand Donaldson and Preston's specialized meaning of instrumental to include the tools, techniques, and methods of ST (focusing on the natural language meaning of instrument as tool).

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<sup>1</sup> The bias against recent contributions exists because readers did not have enough time to read the paper and cite it in their own work.

Since the purpose of this paper is to investigate how stakeholder theory can be adapted to the e-government context, we adapt a modified version of Donaldson and Preston's account as our literature analysis model (Figure 1)<sup>2</sup>.

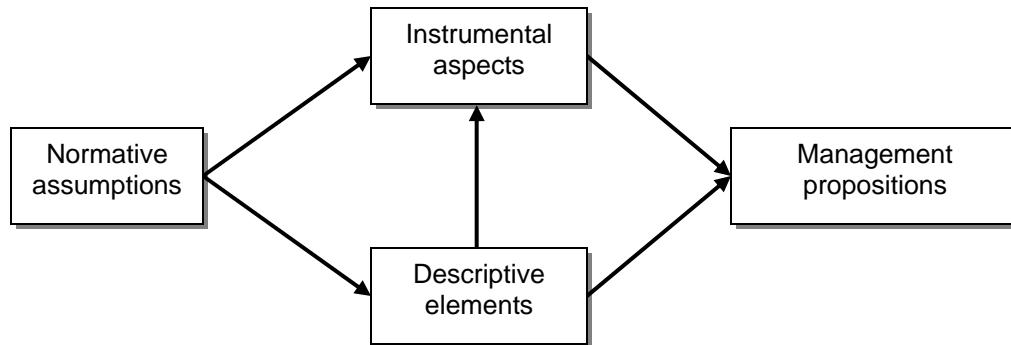


Figure 1. Components of Stakeholder Theory

Because E-government is an applied field with a strong focus on improving practice and on good management (or governance), we consider it appropriate to restore some of Freeman's original perspective to our literature analysis model. In our model (Figure 1), the categories *normative assumptions* and *descriptive elements* are taken directly from Donaldson and Preston, whereas the category *instrumental aspects* is expanded to include both the 'effectiveness' meaning and the 'tools' meaning. The category *management propositions* serves to emphasize Freeman's collective focus on managerial attitudes, structures and practices and responds to Freeman's criticism of what he considers an artificial and confusing division of the theory. Thus our analysis model restores some of Freeman's pragmatic approach. It characterizes stakeholder theory as a set of management propositions, dependent on:

- normative (ethical) assumptions about the independent value of stakeholders interests,
- descriptive theoretical models (which can be used to analyze stakeholder situations),
- instrumental aspects which (a) operationalize the theory in the form of management tools and techniques, and (b) investigate the effectiveness of these approaches

Explicit normative assumptions in ST can serve as a way of scrutinizing hidden assumptions in e-government theory, and descriptive theoretical models in ST can strengthen under-theorized best practice descriptions. Many analysis tools are also dependent on parts of the descriptive models (for example categories of stakeholders), and stakeholder theory might help to contribute theoretically sound conceptual tools and frameworks for e-government practice. In addition e-government could benefit from serious research into its effectiveness. Taken together, normative assumptions, descriptive models, and instrumental aspects can be regarded as a set of propositions about how to manage (for example by analyzing a corporation's stakeholders and designing and executing strategies to handle their diverse interests). These management propositions have been used outside the context of the private sector companies, and may also be relevant to public administration.

<sup>2</sup> Scholl [2001] discussed ST in terms of two strands, namely the social science strand and the business ethics strand.

### III. STAKEHOLDER THEORY ANALYSIS

This section consists of a short overview of the historical development of stakeholder theory, an analysis of the top 50 cited papers according to Donaldson and Preston's categories, and a review of ST according to the analysis model in Figure 1. (See Appendix I for a list of these papers).

#### STAKEHOLDER THEORY: HISTORICAL OVERVIEW

Although the stakeholder concept can be traced back to the 1930s, stakeholder theory development was substantially advanced by Freeman's 'Strategic Management: A Stakeholder Approach' in 1984. The purpose of the book, according to Freeman, was to outline an alternative form of strategic management, which responds to increased competitiveness, globalization and the increased complexity of business operations [Freeman, 1984], by acknowledging that organizations have stakeholders and that relationships with these stakeholders need to be actively managed to ensure profitability and sustainability.

The next notable development in ST was Donaldson and Preston's seminal paper 'The Stakeholder Theory of the Corporation: Concepts, Evidence and Implications' [Donaldson and Preston, 1995]. This paper fuelled the ST debate by identifying three distinct approaches to ST (descriptive, instrumental and normative) and prompted the development of divergent strands of ST.

The business ethicists [Argandoña, 1998, Brock, 1996, Caldwell et al., 2002, Moore, 1999, Smith and Hasnas, 1999], used ST as an ethical justification for their claim that businesses should be accountable to a wider set of actors than shareholders. ST gave a better theoretical legitimacy for this claim than the traditional theory of corporate social responsibility.

In another strand of ST development, proponents of instrumental ST [Berman et al., 1999] tried empirically to establish that stakeholder management actually leads to benefits. Though the normative and instrumental strands have often been thought to dominate stakeholder theory development, the descriptive aspect of stakeholder theory has also been given explicit attention. Although some studies focus entirely on defining descriptive stakeholder concepts (e.g. Mitchell et al. [1997]), descriptive elements also occur as natural elements of normative or instrumental studies.

In 1999, Jones and Wicks [Jones and Wicks, 1999] outlined a convergent ST as a response to these divergent strands of ST development. Their argument for undertaking this task was that neither the normative nor the instrumental approach is complete without the other. Convergent ST is

*'explicitly and unabashedly normative, demonstrating how managers can create morally sound approaches to business and make them work'* [Jones and Wicks, 1999].

Freeman also disagreed with the separation of stakeholder theory [Freeman, 1999, Freeman and Phillips, [2002], suggesting that the separation of the normative and instrumental aspects of ST reflected an outdated conflict between positivism and relativism. Freeman was, however, less enthusiastic about convergent ST and advocated accepting different narratives on stakeholder management in order to obtain an increased understanding of the phenomenon. Despite these disagreements about the future course of ST development, ST lives on as an influential part of management organizational science.

#### ANALYSIS OF THE 50 MOST CITED ST PAPERS

Although the instrumental or pragmatic approach is said to have the greater potential, we found an even distribution of normative/ethical and instrumental/pragmatic studies among the 50 most cited ST papers (

Table 1). The descriptive elements have also been given generous attention in this selection.

Table 1. Distribution of the 50 Most Cited ST Papers

Aspect of ST	Number of papers
Normative assumptions	15
Descriptive elements	14
Instrumental aspects	15
Meta discussions	6

The overview presented in

Table 1 is based on an analysis of the key contribution of the 50 most cited ST papers. We expanded the meaning of instrumental aspects to incorporate some of the original Freeman tool perspective (Section II Analysis model). This expansion of definition made it possible to allocate 44 of the 50 papers into our analysis model. Six papers used the structure and future development of ST in itself as their primary focus and did therefore not fit into our analysis model. These six papers are represented as meta discussions in

Table 1. As indicated by Donaldson and Preston [1995], the three aspects of ST are intertwined and few of the papers focus entirely on one aspect. The sub-division of ST has been criticized for being artificial and confusing [Freeman, 1999]. This view is supported in the top 50 papers (e.g. Fineman and Clarke [1996]). In summary we argue that the Donaldson and Preston's analysis of ST can be justified as pedagogical vehicle for presenting the theory whereas the future development of ST in the e-government context can benefit from revisiting Freeman's original pragmatic focus.

### STAKEHOLDER THEORY: NORMATIVE ASSUMPTIONS

Business ethicists develop normative theories that attempt to derive intermediate-level ethical principles, i.e., principles that are expressed in language accessible to the ordinary business person and which can be applied to concrete moral quandaries in the business domain. The three leading normative theories of business ethics are stockholder theory, stakeholder theory and social contract theory [Smith and Hasnas, 1999]. Although none of the theories are without considerable challenges, adherence to their principles is of great value in enabling more consistent ethical decisions [Smith and Hasnas, 1999].

The normative part of stakeholder theory identifies moral and philosophical guidelines for the operation and management of corporations [Donaldson and Preston, 1995]. Normative analysis may well be prescriptive, but normative prescriptions rest on an entirely different base from instrumental prescriptions. An instrumental approach is essentially hypothetical; it says, in effect, 'If you want to achieve (avoid) results X, Y, or Z then adopt (don't adopt) principles and practices A, B or C.' The normative approach, in contrast, is not hypothetical but categorical; it says, in effect, 'Do (don't do) this because it is the right (wrong) thing to do. Thus, the ethical imperatives of ST involve acceptance of the following ideas:

1. 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.
2. The interests of all stakeholders are of intrinsic value. That is, each group of stakeholders merits consideration for their own sake and not merely because of its ability to further the interests of some other group, such as shareowners.' [Donaldson and Preston, 1995].

Freeman's normative claim for stakeholder theory is largely based on Rawlsian principles [Rawls, 1971], which outline an ideal just society where all stakeholders are considered on an equal basis [Freeman 1984]. Freeman later moved away from this principle towards a more pragmatic approach [Freeman, 1994, 1999, Hendry, 2001]. Freeman [1999] criticized the ST typology of Donaldson and Preston [1995] as being of little value and even leading theorists like Jones and



Wicks [1999] in the wrong directions. Freeman claims that ST is built on instrumental premises and that a separation of the instrumental and normative claims of ST represents an old-fashioned scientific mindset. Accepting that science, and social science in particular, is not value free, Freeman [1999] argues that the existence of a normative realm, in isolation from actual human values and convictions is a fiction that long outlived its usefulness. To Freeman, a pragmatic approach of adding divergent narratives on stakeholder management would be superior to the traditional positivism contrasted with relativism in the further development of ST.

In a review, Hendry [2001] identified three categories in the normative strand of stakeholder theory: Modest, Intermediate, and Demanding theories.

1. *Modest Theories* claim that all stakeholders should be treated with respect but not necessarily be directly involved in decision making. Donaldson and Preston [1995] and Jones and Wicks [1999] are typical advocates [Hendry, 2001].
2. *Intermediate Theories* (for example in the public policy debate) accept that some stakeholders should be involved in the governance of a corporation.
3. *Demanding Theories* insist on participation for all stakeholders. Examples of this last category are often found in philosophical literatures and are typically Rawlsian-type theories (e.g. [Freeman and Evan, 1990] and [Philips, 1997]).

Modest Theories require altered management behavior in the context of existing laws and institutional practice, whereas Intermediate Theories require legal and institutional change. However Demanding Theories may also invoke societal level changes, following a notion of an ideal society.

## STAKEHOLDER THEORY; DESCRIPTIVE ELEMENTS

A descriptive theory purports to describe actual behavior [Jones and Wicks, 1999]; thus the concepts and patterns of a descriptive theory should easily translatable to real life events and vice versa. Descriptive approaches typically serve instrumental research purposes and, as a result, descriptive and instrumental aspects may be inseparable [Pouloudi, 1999]. Stakeholder theory is used to describe, and sometimes to explain, specific corporate characteristics and behaviors such as:

- the nature of the firm,
- the way managers think about managing,
- how board members think about the interests of corporate constituencies, and
- how some corporations are actually managed [Donaldson and Preston, 1995].

A number of studies add to the descriptive parts of stakeholder theory by developing an understanding of the concepts and relationships necessary for describing how organizations operate.

### Stake

Surprisingly, the term stake is seldom discussed or defined in the stakeholder literature. The noun stake is defined as:

*'a: something that is staked for gain or loss b: the prize in a contest c: an interest or share in an undertaking (as a commercial venture)'*. Merriam Webster Online Dictionary

All three alternatives provide insights to the concept of stake but they differ slightly in purpose and area of use. Alternative **a** outlines a universally acceptable definition. Following this definition does not delimit the user of the term to any specific context or distinguish between public and private sector. Alternative **b** suggests a somewhat different context than business or organizational science, namely that a stake is the prize in a lottery, sports event, or similar. Alternative **c** suggests an interest in an undertaking but fails to highlight the consequences of the outcome of what is at stake. Thus, alternatives **a** and **c** both add to our understanding of the term

stake, yet we argue that they are incomplete in isolation and suggest a synthesis as a viable definition:

*'A stake is an interest or share in an undertaking where the interest is a consequence of potential gain or loss.'*

### **Stakeholder**

The idea that organizations have stakeholders are now commonly accepted among management scholars [Donaldson and Preston, 1995, Mitchell et al., 1997]. Nonetheless, an array of stakeholder definitions can be found within ST. These range from narrow definitions such as:

*'Voluntary stakeholders bear some form of risk as the result of having invested some form of capital, human or financial, something of value, in a firm. Involuntary stakeholders are placed at risk as a result of a firm's activities. But without the element of risk there is no stake'* [Clarkson, 1994]

to wider definitions such as:

*'A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievements of the organization's objectives.'* [Freeman, 1984]

Generally, narrow definitions tend to identify relevant stakeholder in terms of their direct relevance to the firm's core economic interests or in terms of their moral claims towards particular groups or individuals [Mitchell et al., 1997]. The broader views advocate that organizations can be affected by, or affect almost anyone. The broad view thus presents managers with a wickedly complex reality that poses significant managerial challenges, for example in

*'recognizing and responding effectively to a disparate, yet systematically comprehensive, set of entities who may or may not have legitimate claims, but who may be able to affect or are affected by the firm nonetheless, and thus affect the interests of those who do have legitimate claims'* [Mitchell et al., 1997].

Although posing practical challenges like how to avoid perpetual loops of stakeholder analysis, the wider definitions like Freeman's dominate the stakeholder literature.

### **Profit/Value maximization**

As in other theories of the firm, the assumed objective of an organization is to maximize its profit. In stockholder theory, the sole purpose of an organization is to maximize profit for the owners (stockholders). Stakeholder theory, on the other hand argues that organizations should recognize that their variety of stakeholders all possessing intrinsic value. The managerial maxim of stakeholder theory posits the value of addressing the needs of a number of stakeholders, because doing so will lead to increased organizational profitability and sustainability in the long run. In this respect, ST differs from stockholder theory in that it provides a more longitudinal perspective on profit maximization and suggests maximizing value to all, or a selection, of relevant stakeholders.

Whereas profit maximization is not priority in the public sector, value maximization inarguably is and ST is thus well aligned with the purpose of public sector organizations.

### **Stakeholder Relationships (Dynamics)**

The core of ST concerns the dynamics of stakeholder relationships and stakeholder management. Mitchell et al. [1997] develop the concepts that make up the salience (prominence) of any stakeholder for management, namely

- power,
- legitimacy, and
- urgency.

These attributes influence how management attends to stakeholder claims. A (salient) stakeholder possesses one or more of the three attributes. The composition of the attributes constitutes how managers should address different stakeholders. However, a different approach advocates that organizational responses to stakeholder pressures are determined by the density of the stakeholder network and the centrality of the focal organization in the network [Rowley, 1997].

Although acknowledging the usefulness of stakeholder salience, Friedman et al. [2002] propose a way of classifying stakeholders by categorizing them as compatible or incompatible versus necessary or contingent in order to increase the ability of managers to determine the potential influence of a stakeholder group and how to address groups with different characteristics.

Hill et al. [1992] combine agency theory with stakeholder theory to construct a paradigm (stakeholder agency theory) that explains certain aspects of the strategic behavior of the firm. Stakeholder relationships are depicted as explicit or implicit contracts between managers and stakeholders. Hill et al. [1992] claim that stakeholder agency thinking excels in describing and explaining the structure of incentive alignment and the institutional forms that have evolved to police the implicit and explicit contracts between managers and stakeholders.

### Overview Models

Freeman's [1984] thinking about management places the senior managerial decision makers at the centre of the firm, and the firm at the centre of its stakeholders, giving rise to the most common way of depicting organizational stakeholders: the star model (Figure 2).

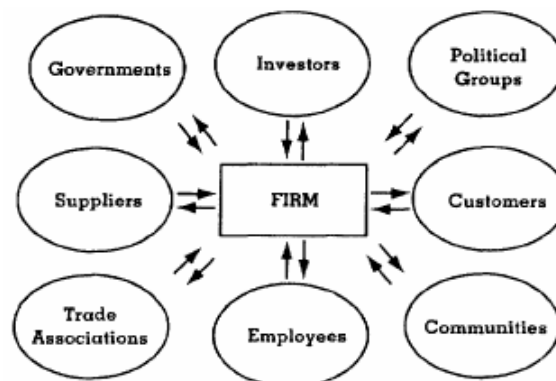


Figure 2. The Star Stakeholder Model

These models can be generic (like the model in Figure 2) or specific to a particular organization, and appear in various research disciplines (e.g. [Donaldson and Preston, 1995, Freeman and Liedtka, 1997, Post et al., 2002]). The star model is elaborated in several ways. For example, Post et al. [2002] rearrange the star model into a circular stakeholder model with the focal organization in the centre surrounded by its resource base, industry structure and the social political arena. In another variation, Shankar et al. [2002] apply the stakeholder paradigm to e-business, setting a concept (online trust) at the focal point of their stakeholder model.

Another, less frequent, but also less manager- and firm-centric, way of depicting relationships between stakeholders is by outlining some form of network model. Although not presented graphically, this way of depicting stakeholder relationships is evident both in Freeman's work from 1984 and in later work by others including Rowley [1997]. This approach provides a general overview of a stakeholder environment without an obvious centre.

The distinction between the network stakeholder approach and the star stakeholder approach would somewhat contradict recent arguments that the descriptive uses of stakeholder theory is highly context specific and that it is therefore difficult to record general trends in the descriptive aspects of stakeholder theory [Pouloudi, 1999].

## STAKEHOLDER THEORY, INSTRUMENTAL ASPECTS

### Evaluating ST's effectiveness

In describing the instrumental aspects of stakeholder theory, Donaldson and Preston [1995] focus on the connections 'between stakeholder management and the achievement of traditional corporate objectives.' This stream of ST research, also in evidence in the top fifty cited papers, concentrates on trying to develop testable propositions which relate adherence to stakeholder theory principles and practices with desirable corporate outcomes – 'theory that posits that certain outcomes will be obtained if certain behaviors are adopted' [Jones and Wicks, 1999]. For example, Jones [1995] develops a testable type of instrumental stakeholder theory combining ethics and economic theories. The firm is characterized as a nexus of relationships with stakeholders which take the form of contracts, with top managers as contracting agents. The proposition is that 'firms that contract with their stakeholders on the basis of mutual trust and co-operation will have a competitive advantage over those that do not.'

Berman et al. [1999] go further, developing models of strategic stakeholder management (stakeholder interests are considered solely as a means to increase profit) and intrinsic stakeholder management (managers have a normative moral commitment to stakeholder interests which shapes their strategy and therefore influences profits). They further test the models in existing databases of corporate financial data, finding support for the strategic model (companies that took care of their stakeholders, particularly employees and customers, did perform better) but no support for the intrinsic model (managers did not formulate strategy to please their stakeholders). A similar analysis method was used to test the relationships between stakeholder attributes (power, legitimacy and urgency), salience (importance as perceived by management) and corporate financial performance [Agle et al, [1999]. This study found strong support for the relationship between stakeholder attributes and salience, but no support for the salience - financial performance link.

### Tools and techniques

Pouloudi [1999] in her review of ST (which is focused on information system development), focuses less on the problem of reality correspondence (do the principles work when put into practice in real situations) and more on the approaches, tools, and techniques themselves. ST, in the tradition of management literature, contains many conceptual instrumental tools which are designed to help practitioners in the analysis of those relations and the design of effective strategies for managing them. Freeman's original focus was highly practical and he developed many such tools including:

- Mapping type analysis tools: stakeholder maps
- Matrix-type analysis tools: stakeholder management capability matrix (p 73), stakeholder/business success matrix (p 113), and stakeholder/issues matrix (p 114)
- Matrix-type design tools design tools: stakeholder dilemma game (p 77), and stakeholder strategy matrix (p 116)
- Matrix type implementation tools: implementation of strategic programs (p 156)
- Prescriptive process models for: strategy process at the enterprise level (p 92), values analysis (p 98), and stakeholder audit (p 112)
- Parameter-based analysis tools (societal issues analysis p 100)
- Generic stakeholder management strategies (p 101-7) [Freeman, 1984]

Freeman also provides a more general instrumental process for managing stakeholders consisting of stakeholder analysis, the design of stakeholder management strategies and their subsequent implementation. Though this practical focus is largely absent from the debates conducted in the fifty most cited papers, it continues elsewhere in the literature. Mitroff, for instance, used the stakeholder concept widely in developing his Strategic Assumption Surfacing and Testing (SAST) method [Mitroff and Linstone, 1993]. Poloudi [1999] reviews other examples of management techniques involving stakeholder analysis.

Other relevant arenas where ST techniques were used include the public sector and information system development. Gregory [1994] developed a practical method for creating policy alternatives using stakeholder values in situations of public policy making involving many stakeholders with conflicting objectives. He reports on its use in a mining planning decision in an important environmental site in Malaysia. ST is combined with Soft Systems Methodology (see e.g. Checkland and Scholes [1990]) to help in information systems development by Vidgen [1997]. Pouloudi et al [1997a] contribute a three-stage method for identifying stakeholders, and describe the method in use an identifying stakeholders for drug use management systems.

### PROPOSITIONS ON HOW TO MANAGE

Taken together, the normative, descriptive, and instrumental aspects of ST represent a distinctive set of propositions about how to manage. The most central propositions can be summarized as follows:

1. Every company has external and internal stakeholders with legitimate interests. This descriptive reality can be verified.
2. Companies' ethical duty is to respect stakeholders' interests, but can do so to varying degrees.
3. Stakeholder interests can be described and analyzed using appropriate tools, and companies can form and implement appropriate stakeholder strategies and policies.
4. Respecting stakeholders' interests can lead to improved company performance. Moreover, an ethical stance to stakeholder interests makes an organization reliable and trustworthy, and thus a desirable partner.

Freeman's original management propositions are based on some conventional managerial and organizational assumptions (such as senior managers as analytical decision makers determining the strategy of the organization, which is then executed as planned). However they also represent some alternative (non-conventional) ways of thinking (such as accommodating a plurality of different stakeholder goals and corporate social responsibility). Freeman's management propositions assume that senior executives are at the heart of the organization which in turn is at the heart of a nexus of stakeholders. The organization is conceived as a conventional hierarchical structure, where senior executives make decisions according to rational analysis, and employees carry the decisions out. This senior executive activity determines the formation of organizational strategy which, in turn, determines the direction of organization (strategy implementation is trivial). In this picture, organizational employees are just another stakeholder group, not central actors on the stage. However the focus of this analytical decision making is different in that it concerns external stakeholders, rather than market position, product development, or acquisition strategy. Freeman's stakeholder manager would use the analysis tools and techniques that Freeman provides to identify and prioritize stakeholders, to analyze stakeholder relationships, and to identify and implement stakeholder management strategies. These strategies complement, rather than replace, other business strategies. The focus on analytical techniques and deliberate strategy would place Freeman in Mintzberg's planning school. Here strategy formation is:

*"a controlled, conscious and formal process, decomposed into distinct steps, each delineated by checklists and supported by techniques [...] responsibility for the overall process rests with the chief executive [...] strategies emerge from the process full blown". [Mintzberg 1990].*

In Whittington's [1993] analysis, Freeman belongs to the systemic perspective, focusing on deliberate analytical strategy process (rather than emergent patterns of decisions) and plural (not just profit) goals. However Freeman's goals are still conventional managerial goals; stakeholder management is a route to improved profitability, sustainability, and competitive advantage rather than an end in itself.

Although the central ideas of Freeman's ST did not change significantly since 1984, several authors argued the need for a stronger and more explicit focus on the values and effects of networks [Barringer and Harrison, 2000, Hill and Jones, 1992, Post et al., 2002, Rowley, 1997].

Another post-Freeman trait of ST development is an increased focus on business ethics based on the normative assumptions of ST. Whereas Freeman was more pragmatic and intended ST as a set of guidelines to ensure corporate prosperity, business ethicists used ST to debate corporate morality separate from corporate objectives. This ethical debate resulted in an extended stakeholder perspective which includes non-human entities (such as threatened natural resources) as stakeholders [Phillips and Reichart, 2000], though this development also met with criticism. ST has also spread to different disciplines like information systems [Pouloudi and Whitley, 1997, Vidgen, 1997] and health care management [Brugha and Varvarovszky, 2000]. Although not a leading theory in either of the two examples, ST offers ways to combine ethical issues with complex operational environments, and detail with overview.

#### IV. DISCUSSION

Heeks [2001] warns of the dangers of applying theories and methods developed to fit private industry directly to other contexts without adapting and adjusting them to fit the characteristics of the new context. This section explores how ST fits the e-Government context, an issue that was only briefly discussed in Scholl's work [Scholl, 2001].

#### NORMATIVE ASSUMPTIONS AND E-GOVERNMENT

Political administration does not rely on normative theories specific to that discipline. Much of the normative discussion in social theory is applicable to a variety of contexts, in both public and private sectors. Whereas the primary objectives for business organizations are to ensure sustainability and profit maximization, governments and government agencies are concerned with policy-making, regulation, the provision of services and national and regional development. A key distinction between private and public sector is ownership [Boyne, 2002]. Private companies are typically owned by entrepreneurs or shareholders, whereas public organizations are owned collectively by members of political communities. Other important differences are the predominant funding mechanisms and control structures [Boyne, 2002]. Public organizations are largely funded by taxation and are therefore less affected by market forces than their private sector counterparts<sup>3</sup>. Thus, the primary constraints are imposed by the political system rather than the economic system. These public sector characteristics/operating environment led to the development of a set of values, commonly referred to as a 'public service ethos' [Pratchett and Wingfield, 1996]. Public service ethos suggest that public sector managers:

- are generally less materialistic than private sector managers,
- strongly desire to serve the public, and
- their level of organizational commitment is lower in public organizations than in private organizations.

Both the purpose and ownership structure of government agencies and the desire to serve the public seem compatible with the normative core of ST. There is no conceptual mismatch between the public sector goal of serving the interests of constituents and normative guidelines suggesting that all stakeholders have intrinsic value and therefore should be given appropriate attention. However much of the discussion in normative ST on the structure of private companies and the degree of influence or power that various stakeholders should enjoy cannot be directly translated into the public sector, and the suggestion that stakeholders possess intrinsic rights is not controversial.

Nevertheless consideration of the e-government field raises many parallel normative issues. One such issue is the balance between the interests of political administrators (as the agents of politicians) and the interests of other societal stakeholder groups –

<sup>3</sup> However some taxation income depends on market forces such as the amount of sales tax paid.

*whether citizens have an influence in decision making, and whether they perceive it a fair and legitimate – resisting self-serving decisions by politicians and political administrators [Husted, 1998].*

In the same way that managers can maximize the financial interests of shareholders, administrators can maximize the financial interests of government. Thus democratization e-government projects which primarily serve citizens' interests can become under-prioritized in relation to service and efficiency e-government projects with an obvious cost-saving objective [Chadwick, 2003].

Another normative issue concerns the interests of computer literate stakeholders versus other society stakeholder groups; extensive concentration on e-government can extend the digital divide and further disadvantage already disadvantaged groups.

A further normative issue concerns the increasing commercialization of public administration (e-government as e-business):

*increasing demands to run government like a business, importing private-sector concepts such as entrepreneurship, privatization, treating the citizen like a 'customer;' and management techniques derived from the production process [Box, 1999].*

Normative studies of e-government address how far this tendency is desirable and how far it challenges "core public-sector values of citizen self-governance and the administrator as servant of the public interest" [Box, 1999].

Yet another parallel normative issue concerns the level and nature of technology enabled stakeholder participation in government. Democracy model studies [Van Dijk, 2000] implicitly or explicitly consider these normative policy implications.

Consideration of the normative aspects of the e-government field also invites consideration of hidden normative assumptions in the e-government literature. The normative technology imperative and the normative democracy imperative are both common. The technology imperative involves utopian or un-critical assumptions about the necessity of technological development or about the abilities of technology (for example, in its ability to deliver large cost-savings, transparency, participation, or democracy). The normative democracy imperative assumes that more direct<sup>4</sup> democracy is desirable and that technology can deliver it.

## DESCRIPTIVE THEORY AND E-GOVERNMENT

Much of the descriptive theory of ST is free of explicit private sector concepts (such as profit) and translates well to the e-government field. Thus the idea of a stake, stakeholder relationships, star and network stakeholder maps, salience, power, legitimacy and urgency can be applied equally well to e-government. ST's profit focus can be replaced with budget optimization in the e-government context. ST is also scaleable and makes descriptive sense both at the macro (societal) and micro (project) level. However ST fails to adequately describe two important dimensions of e-government: the technological dimension and the political dimension. The technological side of e-government relates to:

- technology stakeholders (technology developers, suppliers),
- technology as a stakeholder (e.g. the technological level of society should be raised as a goal in itself in response to international competition),
- technology as mediator between stakeholders,
- technology implementations modifying relationships between stakeholders, and
- technology infrastructure as determinant of, or influential upon stakeholder actions.

<sup>4</sup> Because there are several models of democracy, "more" does not mean anything because it means different things in each model. "More direct" is what is usually meant and what terms such as consultation and participation indicate.

A theory of stakeholder e-governance would need to account for these technological aspects of e-government.

Stakeholder theory is an inherently political theory inasmuch as it deals (like all political theories) with the relationships among different interest groups. However, it does so in a managerialist context which is far from universally accepted in the management literature. Managers (as the controllers of companies) develop strategies through rational analysis to respond to important stakeholders; employees implement the strategies (un-problematically). This managerialist stance is sometimes recommended (or assumed) in political administration: ministers sitting in government develop policies through rational analysis to respond to societal needs; civil servants implement them (un-problematically). However differences are thought to exist between public organizations and private firms (for instance in employee motivation) which make direct applications of managerialism ineffective in the public sector.

Public administration theory operates with somewhat different rationales. Managerialism is an impoverished way of characterizing the political process and unpopular in political science. Political systems, governance and the mechanisms of democracy (for example voting, lobbying and opinion forming) are given more complex expressions by social theorists and political scientists, which are also reflected in the e-government literature. A stakeholder theory of e-governance would also need to account for these more sophisticated ways of describing the political process.

### **INSTRUMENTAL ASPECTS AND E-GOVERNMENT**

The instrumental aspect of stakeholder theory firstly prompts consideration of the need to evaluate the benefit of e-government initiatives rigorously, the real benefit of the technological systems, and the instrumental effectiveness of e-government theories. As Grönlund [2004] points out, the e-government literature contains many anecdotal best practice histories, product descriptions, and localized prescriptions, but few examples of rigorous evaluation or methodologically justifiable theory development. In addition, evaluation is a political hot potato, whereas both the making and evaluation of verifiable theory in so wide a domain is difficult methodologically. Evaluation of e-government initiatives also involves consideration of which stakeholder interests they should be evaluated against. Much government-sponsored research assumes too easily that the interests of government also represent the interests of other stakeholders. A further instrumental question is whether ethical behavior in e-government towards stakeholders results in political advantage. This question mirrors Jones' argument that firms that contract with their stakeholders on the basis of mutual trust and co-operation, gain a competitive advantage over those that do not [Jones, 1995].

ST contains many instrumental tools for developing stakeholder analysis and strategy. Many of these tools can also be used in the public sector. However the tools are somewhat management oriented and may need to be adapted for use in public administration and policy. In addition, because of the descriptive orientation of ST theory noted above, few tools deal with technology or political issues.

### **PROPOSITIONS FOR STAKEHOLDER GOVERNANCE**

Management is a central issue in e-government as it is in the private sector. The ST management propositions identified above can easily be re-formulated to apply to government agencies, and to e-government concerns:

1. Every government agency's external and internal stakeholders have legitimate interests. This descriptive reality can be verified.
2. Government agencies have an ethical duty to respect stakeholders' interests, but can do so only to varying degrees.
3. Stakeholder interests can be described and analyzed using appropriate tools. Agencies can form and implement appropriate stakeholder strategies and policies for e-government projects.



4. Respecting stakeholders' interests can lead to improved e-government projects. Moreover, an ethical response to stakeholder e-government interests makes an agency reliable and trustworthy, thereby increasing its political credibility.

Taken together, these propositions can form the basis of a research agenda in stakeholder governance.

## APPLICATION AREAS FOR STAKEHOLDER GOVERNANCE

### Practice

Scholl [2001] suggests ST as particularly relevant in the context of managerial decisions about major e-Government initiatives. However, he does not elaborate on the nature of this relevance. We suggest that ST could be useful in providing a holistic approach to e-government development in both national and international arenas. This section provides suggestions for how this goal may be achieved. However, the practical approach to testing the propositions in this paper is to apply them to small-scale e-government projects.

Applying stakeholder thinking to strategy processes can lead to an increased understanding of who will be affected by e-government initiatives and in which ways. Governments of western democracies are expected to provide policy, services, and regulation for their various constituents - increasingly delivered electronically. A clear understanding of stakeholders in e-government, combined with an understanding of e-government's potential effects, enables policymakers to develop e-government in ways that are likely to benefit the majority of stakeholders. However, it is naïve to assume that all stakeholder groups will always experience positive effects from this development. A good stakeholder understanding helps identify disadvantaged groups, balance conflicting stakeholder needs, and launch alternative measures to ensure inclusion and equal access.

ST can provide a useful framework for creating sustainable cross-national or cross-sector policies. The development and implementation of such policies are faced with considerable challenges in terms of aligning cultural and process differences. Adherence to stakeholder management principles can assist in surfacing differences between actors. Awareness of differences can lead to increased understanding of future challenges in providing policies that support and align different perspectives, rather than suppress them.

Adherence to stakeholder management principles can be as valuable in the operational phase of e-government as in the policy development phase. Understanding stakeholder constellations and requirements are important in both the social and technical aspects of designing and implementing public sector information systems. The information systems literature suggests that reengineering of work processes and organizational structure is necessary to exploit the full potential of information technology. To date this reengineering aspect is marginalized in most e-government efforts. However if e-government is to fulfill its promise of providing a more efficient, citizen-centric way of governance, it will need to progress beyond the mere automation of existing processes. The degree of future reengineering is unknown. In one extreme scenario government agencies decide to focus their attention on the core tasks of policy formation and process ownership (with a strong monitoring function), and outsource traditional service provision and regulation activities to sub-contractors. However, even modest reengineering efforts are known to produce internal conflicts, and stakeholder theory could provide useful tools for addressing these complex change initiatives.

The public sector is faced with increasing efficiency demands, and public administrators see e-government as a vehicle for cost reduction. This perspective raises some important ethical questions. Will e-government principally accommodate the needs of a small elite of technology literate citizens? Is e-government a sham that maximizes value for the controlling professional administration? Will e-democracy serve to increase societal differences? These questions pose considerable challenges to the public sector as a re-distributor of wealth and a guardian of democratic values. A narrow focus on costs and efficiency may well undermine its wider purpose. This growing focus on efficiency resulted in a recent increase in evaluation efforts. Here the

challenge will be to develop evaluation tools and performance metrics that accommodate both the need for efficiency and traditional public sector values. The adoption of a stakeholder governance mindset can help ensure that the needs and requirements of various groups are incorporated into such metrics and tools.

### Research

The introduction of a relatively mature theory into the e-government field presents an opportunity to increase scientific rigor by establishing a verifiable set of concepts and relationships between means and ends. It also facilitates cumulative research that can serve to connect findings from different studies by applying the same theoretical underpinning. Moreover the descriptive concepts provided by ST can help researchers understand the complex mosaic of e-government actors and their agendas. In addition to providing tools and techniques for identifying stakeholders, ST can help explain complex relationships between stakeholders or groups of stakeholders. Case studies, narratives and action research on stakeholder governance are needed to increase our understanding of e-Government and the applicability of stakeholder theory in this context.

Despite an extensive body of literature on stakeholder theory, the impact of information technology on a stakeholder management approach is not yet explored. The IS literature indicates that IT/IS is usually linked with change, for example in work processes, organizational structures and business scope. Thus, the relationship between technology and stakeholder management needs further investigation in the e-government context. Moreover the managerialist approach of stakeholder theory may be inappropriate to the e-government field, and may need to be modified to reflect different managerial assumptions in the fields of political science and political administration.

Surprisingly, research critical of e-government is sparse. Few writers question the ethical assumptions inherent in the evolution of e-democracy and e-services, or the potential societal changes that e-Government may engender. One reason for this situation may be that e-Government is primarily an applied field, focusing on the practical issue of how to make technology work in government. Another possible explanation could be a lack of an appropriate theoretical framework for critical scrutiny of the phenomenon. ST can provide a framework for ethical research on e-Government. Accepting that all stakeholders' interests have intrinsic value, and that governments have a moral obligation to address the needs and requirements of those stakeholders opens a number of relevant ethical discussions.

### V. CONCLUSION

This paper discussed the theoretical poverty of current e-Government research and assessed the strengths and weaknesses of one candidate theory. Although originally a management theory, stakeholder theory has been adapted to the political arena in both Britain and America, and shows some potential for use in the e-government field. We characterize stakeholder theory as a *set of management propositions* dependent on:

1. normative (ethical) assumptions about the independent value of stakeholders interests,
2. descriptive theoretical models which can be used to analyze stakeholder situations, and
3. instrumental tools which can facilitate the process of situation analysis and strategy design.

Scholl [2001] contends that insights from ST can be applied in parts to public sector settings and in particular to the context of managerial decisions regarding major e-Government initiatives. Scholl's [2001] overall conclusion is corroborated by our analysis to include areas where ST might need further development to apply in e-Government settings. Our analysis shows that stakeholder theory displays some managerial orientations which may not be appropriate to the e-government field. Though the economic focus on profit can be adapted to a public sector value-

for-money ideal, some of the overtly managerialist overtones may be less easy to adapt to the conventional norms of public administration. In addition, the theory lacks any direct theorization of the relationship between technology and stakeholder relationships – essential to any understanding of e-government. Also, the potential of ST related to the political dimensions of e-Government needs further investigation because these dimension do not translate directly from for-profit scenarios. Nevertheless the particular normative stance of stakeholder theory makes it a much better candidate theory for the e-government field than many other management theories. As described in Section IV, its management propositions can easily be adapted to the e-government context:

- Every government agency's external and internal stakeholders have legitimate interests. This descriptive reality can be verified.
- Government agencies have an ethical duty to respect stakeholders' interests, but can do so only to varying degrees.
- Stakeholder interests can be described and analyzed using appropriate tools. Agencies can form and implement appropriate stakeholder strategies and policies for e-government projects.
- Respecting stakeholders' interests can lead to improved e-government projects. Moreover, an ethical response to stakeholder e-government interests makes an agency reliable and trustworthy, thereby increasing its political credibility.

Such a stakeholder governance agenda could contain positive implications both for e-government practice and research. Adapted for practice, it could provide a sensitizing filter for framing the many conflicting interests and needs of those with a stake in e-government, and provide tools and techniques for managers to help analyze and address those interests and needs. Adapted for research, it could be one of several theories which could assist in helping the e-government field to develop more stable and reliable theoretical roots. These tools are important for the consistent interpretation and comparison of findings, the cumulative development of theory, and the evolution of a more self-critical tradition. Solid theoretical roots are also important as the justification for good recommendations and prescriptions for practitioners. Initial priorities in stakeholder governance research might focus on:

1. identifying and classifying stakeholders in e-government,
2. improving descriptive stakeholder models so that they reflect a richer understanding of relationship between technology and stakeholder relationships, and
3. improving descriptive stakeholder models so that they better reflect the traditions of public sector administration and the democratic and political process.

Though the adaptation of stakeholder theory to e-government practice and research requires a great deal of work, many good empirical observations, case studies and quantitative surveys are already published. Progress in the near term may be largely a question of thinking more theoretically about the many experiences which are already recorded.

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## APPENDIX I

### 50 MOST FREQUENTLY CITED PAPERS ON STAKEHOLDER THEORY (AUGUST 2004)

The following alphabetically ordered list is based on a sample drawn from the Web of Science (<http://isi3.newisiknowledge.com/portal.cgi>) during August 2004. We searched for articles containing 'stakeholder theory' in title, abstract, or keywords.

Note that 22 of these articles are also listed in the Reference section that precedes this appendix..

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