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Institutional Contradictions and Change of Organisations and Accounting: Case Evidence from Greenland

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Institutional contradictions and change of organisations and accounting: Case evidence from Greenland

Abstract

Purpose – the purpose of this paper is to analyse how contradictions between institutional pressures shape accounting and organisational change within AirGreenland.

Methodology – the paper applies document analysis and retrospective interviews to trace accounting and organisational change spanning 50 years and analyses developments on multiple levels: societal, governance and micro levels.

Findings – the paper illustrates the didactical development of the organisation and management accounting. The contradictory impetus from the institutional level generates a space where actors are able to affect development and change management accounting systems. Actors at company level further acted on the institutional level to affect change in governance and institutions.

Research limitations – the case differs from case studies in emerging countries due to the low number of inhabitants in Greenland, its income per capita and the legislative influence asserted by Denmark, the former colonial power, restricting the generalizability of findings.

Originality – the paper extends extant research on development of organisations and management accounting change in developing countries through a longitudinal study of how contradictory demands from the governance and legislative levels affect accounting and organisational change. Moreover, the paper is the first case study to address management accounting practices in Greenland.

Keywords: Modes of production, structural contradictions, management accounting change, structuration theory, emerging country.

Introduction

The development of management accounting in state-owned enterprises (SOEs) in developing and emerging countries is important, because of the social and economic consequences of management accounting systems (Uddin and Hopper, 2001; Uddin and Choudhury, 2008). The development of management accounting practices is tightly linked to changes at political and macro institutional levels. The macro level, however, may be both an impetus for change and an obstacle generating unintended, politicised and dysfunctional outcomes (Gupta, 2005, Uddin and Hopper, 2001; Hopper, Tsamenyi, Uddin, Wickramasinghe, 2009).

Development may be impeded by the institutional level for a number of reasons. Actors at the institutional and political levels may have interests that are in opposition to the development of efficient forms of governance (Hopper et al, 2009). Development may be used to favour political factions and often changes are implemented "for political gain rather than commercial ends" (Xu and Uddin, 2008). Furthermore, developing countries often lack financial and technical capacity as well as strong institutions (Hopper et al, 2009) and institutional pressures may be contradictory where multiple inconsistent modes of production (MOP) (Hopper, et al 2009) are affecting the development of organisations and management accounting. Accounting and organisational change practices in developing and emerging countries is therefore problematic because it is closely tied to the institutional and the political level, which may facilitate as well as impede change. These problems however have only to a limited extent been analysed in longitudinal studies spanning multiple systems (MOPS). This paper therefore wishes to analyse "How is accounting and organisational change in SOEs affected by contradictory institutions and systems of governance"

In general the development of organisations and management accounting have been analysed through governance, critical and institutional perspectives. The governance perspective argues that privatisation and removal of political influence furthers development. The critical perspective argues that development towards market and state capitalistic modes of production are diverted into dysfunctional, politicised governance modes. The institutional perspective either seeks to understand how institutional changes are enacted or how contradictions lead to decoupling between institutions and operations. These three research streams however only to a limited extent focus on how structural contradictions affect accounting and organisational change over extended periods of time and only to a limited extent investigate how actors affect development and change. The second research question of this paper is therefore “what is the role of actors in accounting and organisational change subject to structural contradiction”.

The paper contributes to extant literature by employing a dialectic, structuration theoretical perspective to analyse a development process within one organisation (AirGreenland) spanning 50 years. More specifically, the paper contributes by analysing contradictions on multiple levels and identifies four types of conflicts and contradictions – principal versus principal conflict; nepotism and corruption versus transparency; independence and dependence on Denmark, and lastly; market efficiency versus social concerns. These contradictions were identified at macro institutional level and at board/governance level and we investigate how these contradictions affect change. Secondly, contrary to most literature in this field, it illustrates how actors in SOEs have the capacity to act and influence development at governance and political level. Change doesn’t just flow from societal and governance levels, modernising organisations, but sets processes in motion that enable key actors to affect corporate and societal development.

The paper is structured as follows. First, we develop the research framework by reviewing extant literature and discussing the structuration perspective used in the paper. Second, the case is analysed and conclusions are presented.

Theoretical approach

Review

Literature on accounting and organisational change has analysed development of management accounting in developing countries in three different ways. One stream of research argues that changes in governance systems are important as they potentially increase transparency, efficiency and profits (Uddin and Choudhury, 2008). Here, extant corporate governance literature focuses on how privatisation of SOEs (State Owned Enterprises) increases the efficiency and effectiveness of operations (Boubakri, Cosset, Guedhami, 2005). Privatisation increases performance through two mechanisms. The managerial view argues that privatisation improves performance because private owners monitor more intensively than civil servants. The political view argues that governments pursue political objectives that are detrimental to profit maximisation and motivation. Privatisation removes political influence and hence improves efficiency (Gupta, 2005). This view, with its teleological connotations, (Van de Ven and Poole, 2005) however, has difficulty understanding how changes in organisatations come about without changes in governance like privatisation and how conflict and contradiction affect outcomes.

A second strand of research employs old or new institutional theory to investigate changes in governance and control. This stream of research either looks at how isomorphic pressures change routines in organisations or how the pressure to change is decoupled from operational decision-making. Guerreiro, Alberto, Pereira and Frezatti analysed how the institutionalisation of accounting differed across hierarchical levels (2006). Firth (1996) studied the diffusion of management accounting techniques through isomorphic pressures. Nor-Aziah and Scapens (2007) analysed how change in a Malaysian company was loosely coupled both as a process and as an outcome because of power relations and lack of trust. This stream of research either focuses on the unfettered institutionalisation of accounting reforms or discusses the lack of institutionalisation due to decoupling (Hoque, Siddiquee and Hopper 1994). This approach, however, has difficulties explaining how change may come about without large institutional changes and often disregards the actor's view.

A third stream of literature focuses on how the macro institutional level affects efforts to develop companies in emerging and developing countries. This literature is much more critical about the effects of governance changes to development. The literature analyses how changes in modes of production affect management accounting and outcomes like profit and social needs. A key model outlining typical development patterns is Uddin and Hopper´s (2001) model of the development patterns of less developed countries.

The model has three stages and two unintentional outcomes. The first stage of development, *Colonial despotism*, is based on weak capital markets; minimal state regulation and management accounting systems (MAS) are based on centralised, coercive controls and violence. Such a system has a low implementation of management accounting systems – a non-accounting style – but physical measures of production are important (Hopper et al 2009).

The second and third stages embody ideal and politicised state capitalism focusing on the public governance of SOEs. The system is based on weak financial markets, heavy regulation by the state and "bureaucratic rational legal accounting" (Hopper, et al 2009) and budgets are "seen as corner stones of planning and monitoring" aimed at increasing efficiency and accountability (Hopper et al, 2009; 482). Legal rational accounting however is likely to be in opposition to traditional cultures (Hopper et al, 2009). The development towards state capitalism is therefore often diverted into the third stage of *politicised state capitalism*. In this model politicians interfere directly with the operations of companies. MAS is ritualistic, used for external legitimation and have a low level of cost and profit awareness. The system is likely to be troubled by contradictions because "local leaders faced conflicting expectations – traditional, modern or hybrid" (Hopper et al, 2009; 484).

Lastly, the system may move towards the fourth and fifth stages of ideal and politicised capitalism. Ideal market capitalism is based on capital market controls. Strong profit consciousness is to be expected in this stage as market pressures affect signification and legitimation structures. The system, however, often ("actually") develops into *politicised market capitalism*. Politicised market capitalism is characterised by crony capitalism with politicised regulation corrupting political and economic ideals (Hopper et al, 2009; 475).

The perspective is critical and focuses on the clash between traditional cultures along with state and capitalistic societal forms. Hopper et al (2009) argue that contradictions fuel instability, a potential driver for change; "Each regime is rendered unstable by contradictions and conflicts that fuel political struggles nationally and within production and lay the basis for new regimes" (Hopper et al, 2009; 476). Traditions and efficiency may contradict each other and development is often diverted and thus employs a dialectical view (Van de Ven and Poole). The perspective is critical to the effect of privatisation, and sometimes looks at how actors circumvent intended effects, however, their key explanation lies at the institutional and regulative level. Here, it is argued that actors in less developed countries "have a larger residue of traditional cultures and MOPs [Modes of Production]; their poverty renders them more dependent on external finance, ideologies and structural reforms, with lower institutional capacity to deliver change. This limits locals' ability to determine political choices and state mechanisms of governance" (Hopper, et al 2009; 496). In general, the literature therefore pays less attention to agency at company level and when agency is taken into consideration it is usually in the form of interruption by actors producing unintended, negative effects.

In sum, the argument is thus far that current perspectives has difficulties understanding how accounting and organisational change take place without alterations in governance and it has not sufficiently analysed how institutional contradiction affects change processes over extended periods of time. Furthermore, research tends to conceptualize actors in developing countries as powerless, neglecting the ability of actors to affect developments.

Structuration theory

Giddens's Structuration theory embraces structuralist and actor oriented positions and is consequently ideally suited for analysing management accounting change as both institutional and driven by actors. This approach has been widely applied to study organisational and management accounting change (e.g. Burns and Scapens, 2000; Busco, 2009).

As discussed, the typical development phases of less developed countries are characterised by contradictions between traditional cultures, legal rational accounting and market-based reforms (Hopper et al 2009). Such contradiction shows what Giddens calls "fault lines" in systems, which often lead to conflict and actual struggle between actors or groups.

Structures and agency are thus both emphasised in structuration theory. A key assumption in structuration theory is the "duality of structure" that enables actors to "draw on the modalities of structuration in the reproduction of systems of interaction, by the same token reconstituting their structural properties" (Giddens, 1984; 28), whereby agency and structure are not two independent phenomena, a dualism, but are a duality, meaning that they mutually constitute each other. Social structures both enable and constrain action (Busco, 2009).

In structuration theory the contradictory structures affecting development – such as between traditional cultures, nepotism, social concerns, free markets and efficiency - may be viewed as affecting actors through three distinct modalities. Interpretive schemes are ''the core of mutual knowledge whereby an accountable universe is sustained''(Busco, 2009; 251). Norms are related to the legitimation structure and are ''the actualization of rights and enactment of obligations'' (Busco, 2009; 251). Facilities is the modality which relates domination structures to interaction and are ''reproduced relations of autonomy and dependence in social interaction'' (Busco, 2009; 251). However power is never one-directional but dialectic meaning that "in power relations there is no condition where one party possesses absolute power while the other possesses no power at all" (Uddin and Tsamenyi, 2005)

The discussions above points to several theoretical foci. Firstly, changes at institutional level should be specified in terms of Uddin and Hopper's (2001) model. Secondly, the effects of contradictions on conflicts at governance and operational level of the company is analysed. Finally, all factors are analysed by the duality of structure to ensure that the analysis doesn't become deterministic – where changes at societal level automatically affect lower levels, but that the enactment of contradictory social structures and institutions is dynamic and dependent on actors' active and reflexive reproduction or production of structures.

Method

The paper follows the majority of studies on MAS and developing countries, which have employed the case study method (Hopper, et al 2009). However, the AirGreenland case has special features compared to extant research on MAS in emerging countries. For example, Greenland is part of the Danish realm but with significant powers deferred to the Greenlandic self-rule government. Greenland is not part of the European Union (as is Denmark) and has wide autonomy over internal affairs. In some respects Greenland is an emerging economy with a colonial past, a relatively short history of government institutions, weak infrastructure and industrial base and is somewhat dependent on subsidies from the Danish government[1]. Based on income though, Greenland at present time is not considered a developing economy. We choose to frame Greenland as an emerging country due to the study's longitudinal nature, which incorporates the

[1] Greenland is a blank spot in the UNDP development index and thus has no clear "official" status as either developed or developing country: http://hdr.undp.org/en/countries

colonial past and the current great involvement of the state in larger Greenlandic organisations. This choice we find is warranted given that the model seems to presume a development towards more industrialized and emerging country states. This development Greenland indeed has had, but present time's high income and modern legal framework is of a somewhat more developed nature than assumed in the Uddin and Hopper model.

The uniqueness of the case restricts generalizability of findings, however, it is also advantageous, the close-knit Greenlandic society with only 56,000 inhabitants made it relatively easy to get access to key respondents such as former leaders of the home-rule government, chairmen of different boards, key regulators, etc. Thus, the choice of case compared to extant research facilitated analysis of the multiple levels affecting changes to the organisation and management accounting systems.

The paper has employed multiple methods in a longitudinal case study of AirGreenland. We have conducted 31 interviews (+ 3 follow-up interviews and 17 interviews for other research projects) using a retrospective interview method (Cox and Hassard, 2007). Interviews focused on key developments in management accounting and governance in Airgreenland. We have performed archival analysis of government records, newspaper articles and company files and have had access to most documents within the organisation. One exception was the minutes of board meetings where access was not granted. This despite the second author's employment at the firm while pursuing an industrial Ph.D.

The employment of the second author facilitated access to key respondents but also generated reliability issues because of the potential interests of respondents and familiarity with interviewer. We have sought to handle these issues through triangulation and through the first author reviewing interviews and the use of quotes. Furthermore we have selected respondents from inside and outside the organisation in order to get a nuanced perspective on developments (see Appendix 1).

Data analysis occurred in an iterative process. First, we researched relevant literature, then we conducted and subsequently coded interviews and as analysis progressed more detailed literature studies were performed, coding categories developed and data recoded. The second author was chiefly responsible for coding, which the first author reviewed for reliability and selection bias. The different data sources were triangulated to augment validity of the study.

We apply Hopper et al.'s models of MOPS (2009) to divide the case analysis into periods. We distinguish between the epochs through key events in relation to the governance of AirGreenland. These epochs overlap as *"organizational change represents not so much a shift from one archetype to another, but a layering of one archetype on another"* while each epoch overlap contradicts new structures and continues to affect events in subsequent periods (Cooper, Hinings Greenwood and Brown, 1996: 624). Each period is analysed in the following manner. First we analyse the societal structures and governance at macro level. This is followed by an analysis of key events and the use of management accounting in the period.

Analysis

Company background

AirGreenland is a semi-public, semi-private, state-owned enterprise (SOE). It was, founded in 1960 as a fully private firm for commercial purposes by SAS and the Cryolite Mining Company "Øresund" (CMC). The firm was founded in order to execute a contract with the U.S. Military supplying their four U.S. radar stations that was located throughout the country. In 1962 the government of Greenland and the Danish state (KGH) joined as shareholders, establishing AirGreenland as a semi-private state-owned enterprise.

AirGreenland is a privately held company (close corporation) and the current ownership is split between the owners, as follows: Greenlandic government (37.5%), Danish state (25%) and SAS Group (37.5%). The Greenlandic self-rule government appoints the chairman. The table below presents key financial and operational figures from Airgreenland (all numbers from final year in period):

	1960-1979	**1979-1990**	**1990-2000**	**2000-2010**
Turnover	4-119 mio. DKK	120-399 mio. DKK	418-651 mio. DKK	668-1.134 mio DDK
employees	67-306	365-350	355-502	538-664
passengers	9.000-61.000	70.000-180.000	190.000-308.000	260.000-393.000
Helicopters (**O**)wned/(**L**)eased	12	21	16 (O)	9 (O) 5 (L)
Airplanes (**O**)wned/(**L**)eased	6 (O)	7 (O) 1 (L)	1 Boing (L) 8 (O)	13 (O)
Routes	Domestic	Domestic	Domestic – Transatlantic – Iceland	Domestic – Transatlantic – Iceland
Subsidiaries		GLA Hotel Arctic A/S Grl Rejsebureau A/S GLACE A/S	Hotel Arctic A/S Grl Rejsebureau A/S	Hotel Arctic A/S Grl Rejsebureau A/S WOG A/S WOGAC A/S AUL A/S
Subsidies	Deficits covered	Deficits covered varied app. 15 mio. DKK	Subsidy 61 mio. DDK	Service contracts 115 mio. DKK

Key figures table 1

(Post-) colonial rule, state capitalism and non-accounting (1960-1979)
The constitutional amendment in 1953 established Greenland as a county within the kingdom of Denmark, which officially ended the era of Greenland as a colonial state (Lidegaard, 1991: 198). However, Greenland was greatly dominated by Denmark being a county within Denmark and governed by Danish law through a "national chief" appointed by the Danish state. So while Greenland was no longer a colony officially, it remained controlled by Denmark.

Until the late 1970s the Danish state controlled supplies, infrastructure and maintenance (Tobiassen, 1995). The control of Greenland was overseen by the Ministry of Greenland and through state enterprises. At this time, infrastructure was deemed unsatisfactory "...passenger transportation was in the late 1950s operated with ship and irregular helicopter transport, this had the consequence that a trip from a Greenlandic settlement to Denmark could take up to two weeks" (Det Juridiske Laboratorium, 1978: 12). Transport infrastructure became a political issue and politicians engaged KGH (The Royal Greenland Trading Department) and the newly founded airline (GreenlandAir) to operate vital parts of the infrastructure in Greenland.

Dominance by KGH and SAS

Greenlandair was heavily dependent on subsidies. The need for subsidies was caused by the fact that the operation of domestic flights would mean either very high prices or deficits due to the size of Greenland and the scattered pattern of settlements[2]. The total annual contribution to domestic transport

[2] Greenland is the largest island in the world. It covers an area equaling the distance between Norway and the Sahara and has 55.984 inhabitants (Statistic Greenland, 2016 6).

in Greenland amounted to approx. DKK 35 million (approx. 4.5 Mill EUR) in 1975 (Juridiske Laboratorium, 1978: 16). The revenue of the domestic flights only covered approx. 80% of the cost of running the transportation infrastructure in Greenland.

To ensure the infrastructure of Greenland the Danish government acted as a regulatory body by securing funds through subsidies given to KGH (Royal Greenlandic Trading Department), which then gave a block grant to cover unprofitable routes operated by Greenlandair. KGH had appointed a director with obligation to the Ministry in the Danish government. KGH dominated Greenlandair and other parts of the industry in Greenland and ”KGH was autocratic, in all areas, shipping, air transport, and supply and store management. You name it! It was like they controlled the economy” (interview with station-manager). The system was primarily state capitalistic, as all vital parts of the industry in Greenland were state owned and heavily regulated by government agencies.

Deficient budgeting, soft budget constraint and external control

Councils, the state and other authorities continually exposed GreenlandAir to intervention. Air Greenland received a deficit guarantee and some politicians intervened in route scheduling (Interview former chief financial officer). KGH owned substantial parts of assets (airplanes and buildings) and was the ultimate decision maker on key decisions about assets. A company controller argues:

> *“Back then the company received block grants and no one actually knew what it covered and if it was sufficient. So there was never any time where you could take a commercial decision and rely on if it was good or bad”. (Former CFO)*

Greenlandair relied on bailouts from the state and “*just got a bag of money, when a deficit was generated”* (interview network revenue management). The budget constraint was soft. A former CFO with GreenlandAir compared his role to that of the current CFO:

> *“I have never personally been involved that much in the use of the management accounting systems... My job as CFO was and has always been different from that of the current CFO nowadays, because I was more into other organizational things, as he now is more into accounting and financial management”. (Former CFO2)*

The CFO was more involved in “organisational things” than accounting and financial management, which was seen to by KGH's accounting division. In the mid-70s KGH was responsible for all accounting functions, regardless of origin, including payments and financial accounts. KGH performed the central planning of all flight operations and decided the flight schedule.

In sum, Greenlandair was subject to (post-) colonial rule in a state capitalistic system and was dominated by KGH. KGH handled all financial and operational aspects of business on behalf of the Danish government. The system functioned through cross-subsidisation and Greenlandair had few resources (allocative and authoritative) and a ‘non-accounting style’ is apparent.

Politicised state capitalism and soft budget constraint (1979-1990)

In April 1978 the Home Rule Commission issued a report arguing that Greenland should be given increased independence and on 1, May 1979 the Danish Parliament passed the Home Rule Act (Det Juridiske Laboratorium, 1977).

The regulation of SOEs changed with the Home Rule Act. One of the main objectives of the Home Rule Act and the new Greenlandic government was handling – “*the transition to a capitalist market economy based on the development of efficient private businesses”*. Greenlandair however continued to be dominated by state and government activities (Harhoff, 1981). A commercial controller working with flight planning back in the 1980s, argued:

> *"Management's primary focus was basically to accommodate politicians. So in that sense, were we more or less controlled directly by the government - it was hopeless… [We should] think more in terms efficient operations and to make it a little more rational when it came to the infrastructure… We flew four times a week to Nanortalik in South Greenland with an S-61 helicopter, which had an occupancy rate of 40 or 50 per cent…. My first thought was that we could cut a departure or two. As I did it, it didn't take long before my manager stood in my office quite troubled. I asked what was wrong: "Well, yes… this perhaps wasn't that smart. The subject of cutting flights to Nanortalik had been discussed in the Parliament and they wouldn't approve it, because the mayor of Nanortalik had called the Prime Minister, which then told the Parliament that we should reinstate the flights". (Chief Commercial Controller)*

The controller discusses how operational data (occupancy rate) and not cost or profit data was used to make decisions and how political interference in operations was widespread. The objective to be more efficient was circumvented by frequent political intervention.

Operation with a block grant

The management accounting system at that time (1985) was not very developed. It could not measure the cost and turnover of individual routes and budgets were highly inaccurate and decision making was not informed by management accounting. A controller was asked if it was simply a matter of a block grant that was given the organisation:

> *"… yes, it was just put into the company ... Well, of course, budgets were made and we tried to use it best possible, with no accuracy, but to calculate the profitability of things, that wasn't possible". (Chief Commercial Controller)*

A former accounting executive supports the argument:

> *"We had an external and an internal accounting system… the internal accounts were not well made, but we were just happy that we got a check" (Chief Accountant)*

The internal accounts were made for state subsidization of losses and were not comprehensive and did not allocate overheads. The executive however reckons that "profitable routes" subsidised loss making routes:

> *"They used the concept of cross-subsidization within the organization. This meant that the earnings on the profitable routes in Greenlandairs traffic system - approx. DKK 40 million (5 Mill EUR) - was allocated to operate the lossmaking routes [e.g. Helicopter routes]".(Former CFO 1)*

This cross-subsidisation was installed to ensure that all parts of the country had equal service. Basically, the same price per kilometre on all routes was charged. In practice, this led to a cross-subsidisation between what they considered to be profitable and unprofitable routes. Their estimation was based on the overall cost of helicopters with low occupancy rates to isolated part of the country compared to airplane routes with higher occupancy and frequency of flights. The differences in cost are of such a magnitude (while the price is more or less the same) that detailed calculations were not necessary to reach a conclusion about the overall profitability – though the accuracy of the specific estimate can be questioned.

The fight for transatlantic routes and domestic subsidies

The division of labour between Greenlandair and its largest shareholder SAS was that GreenlandAir was responsible for the mainly loss-making domestic flights, whereas SAS was responsible for the profitable transatlantic route. The Danish parliament had awarded SAS the concession to fly the transatlantic route between Kangerlussuaq and Copenhagen. However, a new concession was given to GreenlandAir in 1985 to operate a route between Narsarsuaq and Copenhagen making up 20% of the transatlantic market.

At this juncture, management within Greenlandair didn't have the capital to acquire assets of this magnitude. Therefore, planes were leased from Icelandair in 1986 and later from Maersk Air. This meant that Greenlandair was competing against its own shareholder SAS and cooperating with one of SAS's strong domestic competitors, Maersk Air. SAS, however, retaliated by diverting all traffic from Narsarsuaq to Kangerlussuaq. SAS had a strong position on the transatlantic route, resisting change and attacks on the monopoly on the transatlantic route.

In sum, the period is characterised by the change to home-rule signalling the end of (post-) colonial rule and new signification structures of independence were developing but GreenlandAir was, however, still dominated by SAS that handled ticketing and parts of financial accounting. Furthermore, the legislative level sought to increase competition and market-based reforms, but also continued to assert pressure for higher service levels on routes considered unprofitable. The regulative level was contradictory focusing on both efficiency and social welfare. GreenlandAir was not successful in getting the transatlantic route. At end of the period the subsidies changed from covering deficits to a fixed subsidy and accounting was at the end of the period developing with the hiring of the first four controllers in Greenlandair that was placed decentrally in the departments.

Politicised market capitalism and increased budget constraint (1990 – 2000)

In the beginning of 1990s the national economy was in a bad shape and resulted in a de facto bankruptcy of the Greenland Treasury. In the period 1993-1997 the national economy reached a satisfactory profit of DKK 1.1 billion (147 Mill EUR), with a deficit again in 1998. In the 1990s there was increased focus on competition and transparency and Neoliberal ideas were strong in the 1990's (Naalakkersuisut, 2011; 11). In the 1990s several of the larger organisations were divided into smaller more focused organisations e.g. energy, telecommunications, and fishing organisations. Most of these were also changed to privately held public companies with the majority being 100% owned by the Greenlandic state.

However, this position was contradicted by a government report from the Greenlandic Parliament: "*Overall, the government ownerships have to be seen as a strategic shareholder position in state owned enterprises, which ensure that the companies are vested in Greenland. This position gives the opportunity to uphold vital societal tasks, where there is no commercial basis*" (Government report). In this way, there was a push for increased transparency and competition but government continued to be highly involved in operations in order to meet social ends. Due to the financial crisis and the changing governance of public companies in Greenland, the budget constraint was getting harder.

Hardened budget constraint

By 1997 pressure had increased on GreenlandAir. A former employee of the executive staff explains:

> *"We had a comprehensive cost cutting round… where we reduced staff by 150 employees…We had to cut everything that was possible, even in the department of finance. There was virtually no management accounting staff left".* *(Former CFO 1)*

The budget constraint was hardened as a response to the financial pressure and reduction of organisational slack reduced cost. This also meant a centralisation of the accounting function and firing of accounting staff (interview station-manager). Management went to great lengths to improve budgetary management and execution by improving transparency and by strengthening audit procedures. The firm also implemented activity based costing in collaboration with Arthur Andersen, this however with limited success:

> *” we experimented with ”activity-based costing” and cost allocation and I don´t know what. But it never really worked… we used some very expensive consultants, it was called the “Donald duck accounts” (chief commercial controller)*

GreenlandAir had a long history of taking an engineering, operational perspective that was changing to a more financial view of operations. For management, new signification and legitimation structures emerged, especially accounting measures of success, such as profit and shareholder value were new ways of understanding the business. However accounting was limited by the fact that SAS handled financial accounts:

> *”We were part of SAS accounting system, where all data originated, and then we got some very long lists that tried to check and balance. They were sent by mail… we didn´t even have computers back then”. (General Manager Charter)*

Open skies and Greenlandair’s first transatlantic route

During the 1990s a new increased national consciousness brought about by the home-rule government, criticised SAS’s monopoly on the transatlantic route, which was beginning to bear the semblance of colonial times. Expert panels wrote several reports criticising the monopoly. The transatlantic route was potentially highly profitable, especially given its situation as a natural monopoly. In an article published 17, April 1997 the Travel Magazine (1997) states that “…it has frequently been argued that SAS has a profit of approx. DKK 75 million per year on its transatlantic route”.

In the beginning of August 1997 the Danish Ministry of Infrastructure announced ‘open skies’ between Denmark and Greenland in order to increase competition on the transatlantic route. The new CEO of Greenlandair submitted an application for the concession of the transatlantic route, with the condition of five years’ exclusivity. The Ministry of Infrastructure concluded that the application’s claim of exclusivity, in no way corresponded with the spirit of the ‘open skies’ initiative. Therefore, the application was rejected. Greenlandic society and businesses were disappointed – there were still no competition or better conditions (Krarup, 1997).

All in all, the combination of a uniform pricing system, financial pressure, cross-subsidisation and monopoly rights – the contradictory institutional pressures, to which GreenlandAir was subjected didn’t just lead to a decoupling but also meant that signification, domination and legitimation structures were changing with an increased focus on reducing costs. The change from deficit guarantee to a subsidy increased pressures for increased knowledge of cost and profits and Greenlandair experimented with cost allocation, though without much success in generating transparent accounts. Accounts and ticketing, though, was still handled by SAS. A comprehensive cost cutting round, where management reduced staff by 150 marked the period and management accounting was centralised. SAS handled ticketing and financial accounting. The contradiction between independence and dependence was evident in the competition for the transatlantic route. Greenlandair failed to get its hands on the transatlantic route, but the bid illustrates the agency of key actors of the company in direct contradiction to at least one of the major shareholders.

Strategy, increased cost and profit awareness within an increasingly pure, market-based system (2000-2010)

In the new millennium the regulative level further pushed for both increased competition and nationalisation of GreenlandAir. Greenlandic politicians were working on a proposition that would make GreenlandAir a 100% state-owned enterprise in order to lower prices:

“The primary purpose for this proposition is to be able to set tariffs, and fare prices politically” (Minister of finance and treasury).

At the same time, the director for Department of Traffic and Infrastructure argued *“…we must examine all options for the provision of all routes in the bidding of contracts, so we can insure competition”*. The Greenlandic parliament also formulated an action plan stating that the home-rule government shouldn’t own any SOE that could sustain itself as a functional and profitable (Strukturpolitisk Handlingsplan, 2000). The contradictions between market and state capitalist ambitions were evident at the political level. The ownership of GreenlandAir remained unchanged.

To increase transparency and competition a number of regulative changes followed. The government worked to achieve more transparent pricing in the air traffic sector in general so both commercial and loss-making routes would reflect actual costs. In order to achieve these objectives the government changed the whole structure in terms of subsidisation and abandoned the uniform pricing system that had operated up until then. Therefore, the prices of flights in remote areas increased markedly.

Based on these developments the government made a service contract system to increase competition and eliminate cross-subsidisation on unprofitable routes. Service contracts removed the need for block grants and provided subsidisation to operate in areas where there was no commercial basis for these services. Roughly speaking, the passenger paid 1/3 of the ticket and the government paid 2/3.

New identity and taking over the transatlantic route

About the time of the millennium GreenlandAir went through a cultural change process. The new CEO had worked as Greenland Country Manager for SAS and was by some characterised as a tough businessman, a mechanic argues: *“…the CEO was headhunted to create results – he was specifically hired to turn the deficit into profits…* This increased financial focus built on the developments from the late 1990s.

The CEO also strove to change the identity of GreenlandAir. This transformation was commenced on 18, April 2002 when the company name changed from GreenlandAir to AirGreenland and a new graphic identity was introduced with the purpose of correcting the tattered reputation and sharpen the profile of the airline: “*The new CEO really turned things around, he started some kind of revolution in the company, with a new name and new graphic design*” (interview former station manager). The newly designed corporate identity should signal a new era. The management team of AirGreenland also deemed it necessary to obtain detailed knowledge of the cost of individual operations to ensure proper use and implementation of service contracts. Due to this the company was divided into a service contract and a commercial part, though with marginal effects on management accounting until later (see below). Airgreenland however did not have “route accounts” due to lack of cost allocation. The high cost and profit interdependence on the different routes in e.g. West Greenland meant that it would be “allocations of allocations” (Chief financial officer). Profitability was therefore relevant for specific geographical areas and for business units such as service contracts.

The new CEO was focused on winning the transatlantic route from SAS. A manager of AirGreenland argued:

“…The only thing that interested him was to win the transatlantic route from SAS…he was quite focused on generating profits and no decision was acted out, if it was not cleared with the finance department”.(Former CFO 2)

The new CEO focused on profits and winning the transatlantic route that would be an important step to improving the bottom line. An executive and board member reported on the effects on the board:

"…The majority of the board decided that we could take the competition up with SAS. We were at that time only flying on the Narsarsuaq route, as we bought our Airbus 330 and put it into operation only flying those days that SAS wasn't out of Kangerlussuaq. Then it all changed as the majority wanted to fly on the profitable days. This created a dogfight in the boardroom and I must admit that it was one of the worst board meetings that I have ever been part of." (Former CFO 2).

SAS didn't have the support of either government anymore and the majority of the board was also in favour of allowing AirGreenland to increase earnings through the transatlantic route. SAS soon gave up their concession after initialling seeking to stall development. This resulted in conflicts between the owners on the board. AirGreenland was now the only operating airline on the transatlantic route. It now seemed that the strong wish for competition on the transatlantic route, to decrease prices, was less urgent. In this contradictory space new corporate identities were crafted and there was an increased cost and profit focus.

Implementation of AirGreenland's first strategy plan

In 2007 AirGreenland developed its first official strategy, which included the entire organisation. The cardinal impetus for implementing Qarsoq 2012 was that AirGreenland had left its safe position as a protected monopoly on internal routes and was to act as a competitive aviation group creating profits.

With the implementation of Qarsoq 2012 the organisational structure also changed. The organisation was divided into business areas befitting strategy as well as operations. The business operation of AirGreenland was divided into four main areas: Commercial Airline Operations, Capacity Provider Operations, Service Contract Operations, and Other Business Areas (i.e. hotel, incoming, travel agency, shipping, and airline). The different units were controlled via budgets and the CFO only interfered if budgets were not met. Controllers were decentralised.

Values were also about to change. The strategy focused on collaboration and transparency and knowledge sharing should lead to increased competiveness and profit focus. The purpose of the new organisation was to focus on strategic prioritisation and ensure that the operational part of the company increased its commercial focus. The CEO argued:

"We have the last five years trained ourselves to run scenarios and calculations, so we can simulate the outcome, among other things. This is now feasible after the implementation of our business unit system, which is a support system to our regular management accounting system, that have given us the ability to do much more refined calculations and create material for our financial system...The board of directors has been professionalized, which means that anything which passes the board getting approval has been calculated and thoroughly processed".

Increased ability to calculate the effects of various alternatives (e.g. bidding on service contracts, pricing seats to internal and external travel agencies, calculations of larger investments such as new aircrafts) and run scenarios was an outcome of the process. Management accounting calculations were increasingly incorporated in domination and legitimation structures, as suggestions now had to meet a profitability criterion. Uncalculated initiatives were rejected, i.e. the rules for making decisions had changed and management accounting information was becoming a powerful resource for top tier management. Several Interviews with staff, e.g. controllers and management from the financial unit confirmed this:

"…it is my understanding that the employees in AirGreenland think that the company is operated only on the basis of financial and management accounting control… When I started 12 years ago, things were being handled quite strictly in terms of finance and the use of resources,

but this was dependent on the CEO in charge. Today we are more precise and thorough in our calculation, as we now can benchmark both internally and externally." (Former CFO 2)

This statement indicates that the management system was evolving leading to greater emphasis on improving estimates in order to ensure better decision making in terms of investment alternatives and not just cost reduction. The organisation also benchmarked the cost per seat kilometre and compared with other operators such as Jettime, SAS and Icelandair. A chief accountant argues:

"earlier, we were looking at the overall budget and ensuring that we didn't create losses. Today we are very strict on the profitability of each department and project. KPIs are enforced more strictly across the organization, as individual budgets and estimate are challenged and handled more detailed". (chief accountant)

The evaluation of budgets was now more profit than cost focused. Furthermore, the controller function was decentralised, so calculations of business cases could be done onsite within the department. AirGreenland was becoming increasingly profit conscious as a result of cultural changes, implementation of responsibility accounting and strategy development.

Battling nepotism: Contradiction and conflict between AirGreenland and politicians

During 2007 relationships between government and state-owned enterprises were moving towards a more arm's length approach; all decision-making was moved from the political level to the corporate boards and management (Naalakkersuisut, 2011; pp. 13). Despite the fact that an arm's length principle was sought implemented, AirGreenland felt the need to solidify the company's social legitimacy (interview with Chairman). The government was by far the biggest customer for the airline as well as the authority responsible for regulating concessions in various contexts. The government also appointed board members to the SOEs and regulated the pricing structure for the main infrastructural services, moreover being the administrator of funds through the service contracts – producing a complex relationship.

The contradictory structures of an increased focus on profit maximisation and the old system of frequent intervention and political favours were taking their toll and leading to conflicts between AirGreenland and the government, and it prompted the CEO of AirGreenland to publically announce that he wanted to put an end to all forms of corruption and interference in the management of SOEs. He argued that this opinion was not just an attack on the Greenlandic political establishment but also a wake-up call for all Greenlanders. According to the CEO it was a 'huge problem' for Greenland that party members or political friends are assigned central positions for which they are unqualified. SOEs should operate efficiently and governmental shareholders should facilitate this: "*If we have to ensure economic independence, we need to have a professional businesses operating on professional terms. Not after how the political winds are blowing*". He further stated that: "...every time the government coalition has changed … – there has subsequently, in the general assembly of the large SOEs, been replacement among board members to reflect the party colours in the parliament" (Johansen, 2008; 13).

In April of 2009 the potential contradiction between AirGreenland's new focus on transparency and the needs of the political classes turned into a head-on confrontation between politicians and AirGreenland. Chairman Julia Pars was dismissed from the board. This happened despite the fact, that in 2008 AirGreenland had turned a profit of DKK 83.1 million before taxes (approx. 11 Mill EUR), an improvement of DKK 9.9 million (AirGreenland, 2008: 42). Former Prime Minister Lars-Emil Johansen was appointed chairman of the board and according to the Minister of Transportation and Infrastructure "...*Lars-Emil Johansen is chosen and instated because of his long experience in the political system"* (Nyborg, 2009). The appointment did not go unnoticed by the public, as citizens commented on the National TV Station, Kalaallit Nunaata Radioa (KNR) web news:

"…why is it that Greenlandic politicians always have to intervene in things that they absolutely don't have a clue about – I can be so embarrassed of being a Greenlander".

And

"…I despise this! What is next, that the CEO is fired because he has a clear and open opinion about nepotism and corruption".

The change of the chairman was highly controversial. At this point the CEO issued an internal memo regarding the change of chairman:

"…the past 48 hours in AirGreenland's history has been very exciting and challenging… It is incomprehensible that the cabinet has decided to replace our chairman during the last two years, Julia, who so far has stood for innovation and has pushed hard to achieve our five-year strategy….Nevertheless, it's business as usual".

The CEO directly opposes the government selection of board members. Lars-Emil Johansen was appointed chairman on 19, April 2009 but three days later he announced; "… *he didn't want to be chairman or board member because he wouldn't want to be in a place where employees were angry towards him".* Allegedly, the board members appointed by the employees in AirGreenland had opposed the decision to appoint Lars-Emil Johansen.

These reactions lead the Greenlandic Parliament to ask Julia Pars to re-join the board as chairman. The development and change in AirGreenland is drastic, from a non-transparent, non-accounting setup totally subservient to external stakeholders and SAS to an increased profit consciousness and direct opposition to political intervention.

Change of government

Mid-2009 the government changed in a general election. The political party Siumut lost the election in June 2009 after 30 years of complete control of Greenlandic politics. This happened two months after the public debate about the appointment of a board member to AirGreenland, supposedly pegged on the basis of political favours rather than competence.

In sum, the home-rule government was formulating economic policy and control with more and more focus on commercialisation and liberalisation. The service contracts increased competition and created impetus for more detailed responsibility accounting, allowing for the calculation of cost and profits of business units and geographical areas. AirGreenland took over ticketing and accounting systems. AirGreenland increasingly had a focus on profits and competition as illustrated in the successful procurement of the transatlantic route. Strategic planning and long term investment plans were gaining ground and marked changes in signification and legitimation structures. Managers now had to measure potential investments against economic, social, environmental and internal priorities. When politicians in contradiction to the new legitimation and signification structures in AirGreenland sought to elect board members allegedly for political favours, AirGreenland went on to fight politicians. Following this the government lost the election. This was part of greater societal changes but AirGreenland played a significant role in fuelling this movement.

Discussion

The developments in the case are summarised in the figure below:

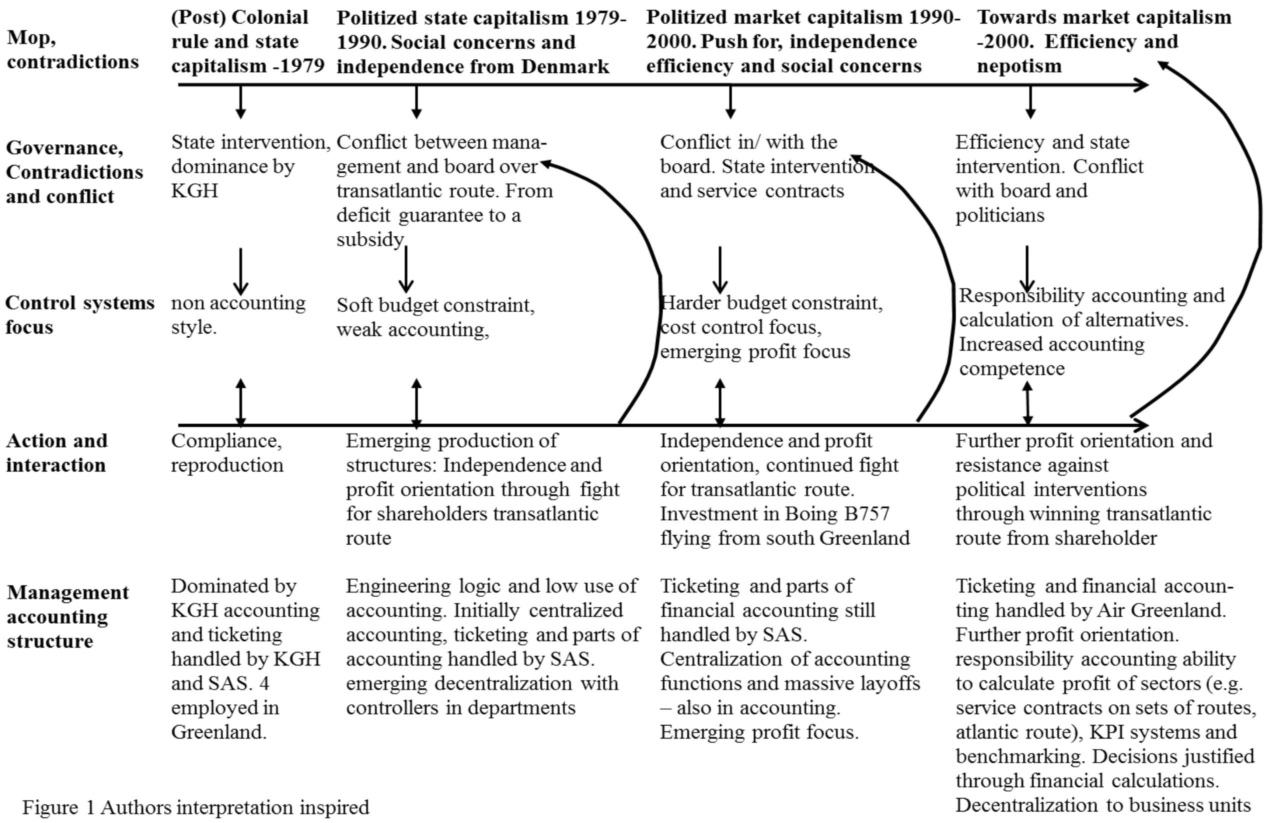

Figure 1 Authors interpretation inspired by Burns and Scapens, 2000

By and large, the figure mirrors Uddin and Hopper's model moving from colonial rule to state and market capitalistic forms that, as predicted, are politicised. However, the paper introduces a number of extensions to this development pattern and in relation to our understanding of development and management accounting change.

The development of AirGreenland is difficult to comprehend exclusively through a governance perspective focusing on how changes in governance, such as privatisation bring about increased efficiency and development through private sector monitoring or removal of political influence. The composition of the AirGreenland board was stable over the periods studied in the paper and the shareholder composition was a mix of SAS, Denmark and Greenland.

Yet, regulatory and governance changes affected changes. The change from a deficit guarantee to a subsidy and the financial crisis of the 1990s was key in making the organisation more cost focused. The introduction of service contracts facilitated responsibility accounting, which increased AirGreenland's ability to calculate the profitability of business units. These changes affected the development of an increasing profit consciousness and accounting use.

Despite these measures the governance perspective cannot exhaustively explain developments. The regulative level emphasised social concerns and intervened in operations. Priority changes came from management repeatedly seeking to secure the transatlantic route over the years. Thus, management was also an actor actively seeking to change the airline in direct contradiction with the board. Principal-principal problems (Berglöf and von Thadden, 1999) where owners disagree about key issues – such as the transatlantic route – hindered domination by the private shareholder SAS and the board's ability to generate impetus for change was mired.

The paper also extends institutional theory, which argues that changes in organisations and to management accounting come about when an organisation enacts institutions and routinizes institutional changes into practices. For AirGreenland, however, this impetus was sought implemented through a mix of regulations, and Greenland society as well as the board was marked by structural contradictions. Three types of structural contradictions were particularly pronounced. Firstly, the period from 1979 and onwards was marked by a strong push for independence from the Danish state and SAS. Yet, SAS was owner of AirGreenland and later controlled ticketing financial accounts, and Greenland received substantial subsidies. Secondly, the government and society in general pushed AirGreenland to think in terms of efficiency and at the same time AirGreenland was expected to take considerable social concerns into account and politicians reverted decisions that aimed at improving efficiency. Thirdly, there was a contradiction between a drive towards more market-based reforms as evidenced in the call for 'open skies' and the use of service contracts from 2001, which increased competition for AirGreenland while politicians kept intervening in AirGreenland, allegedly for political ends and favours. Thus, the institutions affecting AirGreenland rested on contradictory signification, domination and legitimation structures. Here, a different strand of institutional theory argues that decoupling is the observed response in such instances. While decoupling probably was an important explanatory factor in stalling accounting and organisational change, profound changes, nevertheless, took place as a result of actors seeking to change the organisation.

The paper extends the critical literature in two ways. The critical literature based on Uddin and Hopper's (2001) model, which largely predicts that development, is unsuccessful leading to politicised states of market or state capitalism. It further argues that actors have "low institutional capacity to deliver change" (Hopper et al 2009; 496). The unique case of AirGreenland illustrates different development patterns and the paper's analysis extends the critical perspective in two respects.

Firstly, actors sought to affect the political and institutional level. The contradictions between transparent market-based reforms and political intervention lead to conflict as the modernisation and development of AirGreenland had installed more profit conscious and meritocratic structures within the company. In the 2009 election the attempt by the governing party to install one of their members on the board was hindered by employee representatives on the board, the CEO and public uproar, which eventually lead to the politician's resignation. How much this incidence affected the election, which was in progress at the time, is difficult or impossible to discern. However, it is clear that it was part of the broader social debate about nepotism within society, which was a key factor in the change of government. This finding extends critical research through illustrating how actors may affect developments. It furthermore supports Uddin and Tsamenyi (2005) argument that power is dialectic (ie. That power always is a relation where the weaker part has influence on events) and extends it through illustrating how the SOEs not just may control own management accounting procedures but may also affect the governance structure (choice of chairman) and macro institutional level (fighting nepotism and affecting elections).

Secondly, the case lends some justification to a positive view on development. In the period analysed changes towards more transparent, profit conscious and efficient operations were taken and fight against nepotism was evident. These developments seen from a governance perspective are likely to benefit the Greenland society as they may reduce subsidies and resources allocated to the sector. The development, however, is not clear-cut. Events following data collection for this paper indicate that things haven't changed fundamentally. The former head of the Greenlandic government had to resign due to the misappropriation of public funds and the former CEO of Airgreenland at the time of the fight with politicians had inappropriately improved his CV through listing exams that were not completed. For this reason any developmental optimism is based on the changes to legitimation and signification structures pointing towards modernisation rather than an actual change towards a modern (welfare) capitalistic system.

These discussions point to change and development being a process that neither flow from the institutional level and then becomes institutionalised nor are change solely dysfunctional or ascribable to actors circumventing and producing structures. Change is rather a complex process where contradictory institutional input creates a space where actors are able to develop and change systems and structures. The development of management accounting thus seems to necessitate that change is analysed on a structural, institutional level as well as through the actions of actors seeking to affect development – i.e. through the duality structure (Giddens, 1984) where both (contradictory) structures and institutions as well as actors' enactment and production of structures are analysed.

Conclusion

The impetus from the institutional level is not unidirectional nor is it unambiguous. Market based reforms and norms of efficiency were contradicted by the simultaneous interference by politicians to keep uneconomic routes and in this way take on social concerns or carry out actions, perceived to be nepotistic and self-serving to the political elite. The contradictory institutional influences created a contradictory space of options, which enabled actors in AirGreenland to affect development. Neither politicians, CEO nor board members controlled the process of modernisation.

In many respects the Greenlandic case is unique. Greenland is a former colony and has independence, but the Danish state has been a relatively benign colonial ruler and Greenland is still part of the Danish realm receiving considerable subsidies and has access to regulation, expertise, the Danish educational system, etc. The contradictions between structures of transparency, efficiency and markets versus political intervention, nepotism and social concerns, however, are also found in extant research (e.g. Uddin and Hopper, 2001; Hoque, Siddiquee and Hopper, 1994) and our findings are not inconsistent with extant research. The uniqueness of the case restricts generalizability but it is our hope that the ability to study relations between action and institutions in the close-knit and small Greenlandic society in more detail will spur interest in analysing how contradictory institutional structures, actors, and management accounting change interrelate over extended periods of time.

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Job title - Company	Date	Duration minutes
Chief System Engineer - Air Greenland	18/04-2012	59:42
Chief Commercial Officer - Air Greenland	20/06-2012	52:50
Chief Lead Mechanic / board member - Air Greenland	28/06-2012	76:38
Station Manager / board member - Air Greenland	04/05-2012	42:58
Hotel Manager - Hotel Arctic	01/05-2012	83:14
CEO - World of Greenland	30/04-2012	66:22
Former CEO Air Greenland / Chairman Arctic Umiaq Line	26/03-2012	85:51
Chief Financial Controller - Air Greenland	26/06-2012	68:15
Chief Commerciel Controller - Air Greenland	24/06-2012	57:44
General Manager Charter - Air Greenland	20/04-2012	47:42
Cheif Operating Officer - Greenland Travel	29/05-2012	78:42
Board Chairman - Air Greenland	28/03-2012	88:07
CEO Arctic Umiaq Line	06/05-2012	55:25
Vice Chairman - Air Greenland	22/06-2012	50:09
Former Chief Mechanic - Air Greenland	06/05-2012	77:29
Post Nominated Holder Operations Air Greenland	17/04-2012	63:19
Sales Manager - Greenland Travel	04-04-2012	57:23
HR Manager - Air Greenland	27-04-2012	61:22
CEO - Air Greenland	24/04-2012	76:16
Deputy Minister - The Government of Greenland	17/11-2012	64:21
Former CFO 1- Air Greenland	29/06-2012	74:48
CEO - Greenlandic Airports	21/06-2012	63:50
Former Station Manager - Air Greenland	21/03-2012	80:11
Former CFO 2 - Air Greenland	22/05-2012	74:11
Minister of Finance and Treasury - Grl. Government	03/07-2012	73:14
CEO - Greenland Travel	22/05-2012	81:53
Chief Technical Officer - Air Grenland	03/07-2012	68:56
CEO - World of Greenland Arctic Circle	31/05-2012	49:11
Chief Accountant - Greenland Travel	24/05-2012	56:32

Distribution Manager - Air Greenland	05/05-2012	89:58
Network Revenue Manager - Air Greenland	22/06-2012	65:09

Appendix1 list of respondents