



PERFORMANCE MANAGEMENT OF CULTURAL EVENTS

THE CASE OF AARHUS EUROPEAN CAPITAL OF CULTURE 2017

rethinkIMPACTS REPORTS:

Evaluation and research in Aarhus 2017, no. 17 2018
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Colophon

Series title and number	rethinkIMPAIRCTS reports. Evaluation and research in Aarhus 2017 nr. 17
Title	Performance management of cultural events
Subtitle	The case of Aarhus European Capital of Culture 2017
Author	Jacob Liboriussen, Hanne Nørreklit and Mihaela Trenca
Publisher	rethinkIMPAIRCTS 2017
URL	http://www.projects.au.dk/2017
Year of publication	September 2018
Editing	Louise Ejgod Hansen
Secretary of editing	Julie Langdal Andersen
Organization	rethinkIMPAIRCTS 2017 is a strategic partnership between Aarhus 2017 and Aarhus University, which is responsible for the research based evaluation of Aarhus as European Capital of Culture in 2017. As part of the evaluation rethinkIMPAIRCTS 2017 will publish research and evaluation reports, which together will illustrate the social, cultural, political and organizational, image and identity, and economic impacts of Aarhus 2017.
Subject heading	Performance management; Cultural events; Aarhus 2017

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Preface

This paper investigates the Aarhus 2017 Foundation's approach to the performance management of the financial aspects of their cultural productions. Performance management includes processes of formulating organizational goals and ensuring that goals are being met in an effective and efficient manner. The Aarhus 2017 Foundation was created in connection to the European Capital of Culture (ECoC) designation of the Danish city, Aarhus. The Foundation is responsible for the application, organization, monitoring, and reporting of the programme. The ECoC event is evaluated by RethinkIMPACTS 2017, which is a partnership between Aarhus University and Aarhus 2017 that invites researchers from various disciplines to investigate and evaluate aspects of the event (RethinkIMPACTS 2017, 2018). The Foundation established a Grant Payment Team (GPT) whose responsibility it was to account for the grants given to the projects that were chosen to be a part of the ECoC event. To provide insight into 'the Aarhus 2017 way' of doing performance management, this paper takes its point of departure in this team.

Our analysis shows that the contractual relationship of Aarhus 2017 Foundation to the project managers is one based on trust. They believe in the project managers' ability, benevolence and integrity both to create projects that meet the artistic objectives outlined and to account for their use of financial resources. Accordingly, they do not, as in conventional thinking of principal-agency theory, perceive the project managers as opportunistic agents, who are motivated to act in the interest of the Aarhus 2017 only if the action is within their self-interest. However, this does not mean that Aarhus 2017 and the GPT employees have blind

faith in the project managers. Indeed, they observe and monitor both the cultural content of the projects and the project managers' use of financial resources.

The Grant Payment Team applies a simple accounting system to detect patterns of deviation. Further, trust is established through an interactive process of questioning and a reflective learning process with the participating projects of the ECoC event in Aarhus. Through the learning process, the actor(s) undergo(es) conceptual development to continuously improve the level of insight and diagnostic certainty in order to establish a pragmatic truth on trust, enabling the actor(s) to deliver more trustworthy accounting reporting.

1.0 Introduction

In 1985, EU's Council of Ministers founded the European Capital of Culture program. The purpose of the program is to facilitate the creation of a shared cultural identity within Europe (European Parliament, 1999). Six years in advance, cities that want to become an ECoC city must submit an application. A panel of independent cultural experts selects the cities that become European Capitals of Culture based on a set of established criteria. The cities are designated formally four years before the culture year to give them time to plan the event (European Capitals of Culture, 2018).

In 2007, Aarhus Municipality decided to compete for the ECoC, and in August 2012, the City of Aarhus and Central Denmark Region were selected to be the European Capital of Culture in 2017 (Aarhus 2017 Foundation, 2018). The commercial foundation 'Aarhus 2017' was established in November 2012. The Foundation is in charge of compiling the program for the European Capital of Culture event and make sure that the projects deliver the artistic content indicated in their application to be a part of the ECoC event. The whole project is concluded at the end of 2018, and the organization will be wrapped up (Aarhus 2017, n.d.). In the period 2013-2016, a wide range of both small and large cultural organizations and individual artists applied for funding for projects aimed at delivering artistic events in 2017 in the City of Aarhus and the municipalities in Central Denmark Region. The artistic program director of the Aarhus 2017 Foundation and a qualified program team assessed the quality of the artistic content proposed. Subsequently, contracts, including project descriptions and financing frames, between the Aarhus 2017 Foundation and the people in charge of the projects were drawn

up. As a result, the ECoC Aarhus 2017 event ended up comprising 442 decentralized and independent cultural core projects (Aarhus 2017 Foundation, 2018). The size of the projects and the experience of the project managers and the organizations involved vary, as some of the project managers are totally without experience and others are accomplished and work in large cultural institutions.

The Aarhus 2017 Foundation must account for their investments in cultural productions, and the project managers must account for both the content and the financial aspects of their project to the cultural foundation during the stages of project realization. Accordingly, the Aarhus 2017 organization established a performance management approach enabling them to monitor and manage that the project managers spend the grants as indicated. This paper investigates 'the Aarhus 2017 way' of undertaking performance management of the cultural event projects and the grants these projects received from Aarhus 2017.

The remainder of the paper is structured as follows: First, we outline two conceptual approaches to performance management. Second, we explain the methodological basis of our data collection and analysis. We then conduct an analysis of the performance management approach applied in ECoC Aarhus 2017. Finally, we discuss our findings and offer concluding remarks.

2.0 Principal-agent vs. trust-based performance management

Dominating accounting literature offers two different methodological approaches to performance management – the principal-agent approach and the trust-based approach. Below, we describe these two approaches leading to our theoretical, profound research question.

2.1/ The principal-agent approach

A dominating approach to make lower-level managers and employees accountable for their actions to higher-level managers in the organizational hierarchy is the principal-agency approach. The principal-agency theory looks at the other as an opportunistic agent with more information about alternative actions and their consequences than the principal (the so-called problem of asymmetric information), which constitutes the agency problem of moral hazard, i.e. the question of how the agent is motivated to act in the interest of the principal. Due to the problem of moral hazard, the principal requires information about the performance of the agent. The visibility of performance measurement ensures that agents are held accountable for their performance and the agent's motivation pursues decision alternatives that are not only in his/her self-interest but also in that of top management.

Performance measurement is seen as an instrument to govern principal-agency relationships. In particular, measuring the financial performance that is controllable by the agent and linking results to reward are suggested to be effective in motivating employees to work toward the specific targets set. In order to provide non-distorted incentives, the performance contracts should be constructed in such a way that the agent is aware of the desirable results and that the results are controllable and

measurable in a quantitative and unequivocal way (Merchant, 1985). However, in practice this is a challenge. First, accounting performance measures tend to be distorted by non-controllable factors and hence it becomes impossible to provide performance measures that consist exclusively of factors controllable by the agent. Furthermore, results cannot be measured objectively. Also, financial accountability controls may induce non-goal-congruent behavior and management myopia (Merchant, 1985).

It is also a problem that the principal-agent approach mostly addresses the extrinsic aspects of human motivation consequently neglecting to account for, and perhaps even diminish, intrinsically driven motivation that can be a stronger cause of work commitment (Driver, 2017; Ryan & Deci, 2000). Thus, extrinsic motivation means that primarily an individual's activities are driven by external variables, such as organizational incentives and rewards, whereas an individual is intrinsically motivated if his or her energy and attention are driven by variables within himself or herself. Extrinsic rather than intrinsic motivation can result in a situation where individuals do not become responsible, active and innovative problem-solvers. This situation can be rather damaging in culture and arts as this sector is characterized by intrinsically committed actors and creative productions (Nørreklit, 2011; ter Bogt & Tillema, 2014) rendering the principal-agent approach questionable.

In that light, there is a need for developing alternative methods for the performance management of agents in the cultural sector.

2.2/ The trust approach

While the principal-agent approach takes its starting point in a discourse of distrust, the trust-based approach is founded in the belief that people are honest, trustworthy, and care about doing a good job. Organizations

that base their practice on a trust-based approach will therefore design and utilize their accounting systems in a different way than organizations applying a principal-agent approach, as their underlying assumptions about people are fundamentally different. Understanding the trust-based approach requires an elaboration on the concept of trust and its (dis)advantages.

Trust is related to the expectation that another party in a relationship will not act against one's interests: *"The adoption of a belief by one party in a relationship that the other party will not act against his or her interests, where this belief is held without undue doubt or suspicion and in the absence of detailed information about the actions of that other party"* (Tomkins, 2001, p. 165). Trust can exist between both a human-to-human relation and a human-to-system relation and hence one might distinguish between trust in people and trust in systems (Baldvinsdottir, Hagberg, Johansson, Jonäll, & Marton, 2011; Busco, Riccaboni, & Scapens, 2006). Below, we explain the notions of trust in people, trust in systems and trust built through reflective learning.

2.2.1/ Trust in people

Regarding trust in people, Mayer et al. (1995) propose two central concepts: perceived trustworthiness of a trustee and the trustor's propensity for trust. A trustee's trustworthiness should be seen as a continuum rather than an either-or concept and is influenced by the trustee's perceived ability, benevolence towards the trustor and integrity (Mayer et al., 1995).

Ability *"...is that group of skills, competencies, and characteristics that enable a party to have influence within some specific domain"* (Mayer et al., 1995, p. 717). A person can, for instance, be perceived as highly skilled within the technical domain of accounting, but poorly skilled in

the domain of communication. Benevolence is the *“...extent to which a trustee is believed to want to do good to the trustor, aside from an ego-centric profit motive”* (Mayer et al. 1995, p. 718), while integrity means that the trustee *“...adheres to a set of principles that the trustor finds acceptable”* (Mayer et al., 1995, p. 719). Some examples of a trustee's principles could be to always act with confidence, honesty, or passion. A principle need not be positive but can be negative such as always to lie. However, the trustor would most likely find this an unacceptable principle. Integrity can be expressed and revealed through *“...the consistency of the [trusted] party's past actions, credible communications about the trustee from other parties, belief that the trustee has a strong sense of justice, and the extent to which the party's actions are congruent with his or her words all affect the degree to which the party is judged to have integrity”* (Mayer et al., 1995, p. 719).

It should be noted that trust is related to the trustor's perception of the trustee's ability, benevolence and integrity rather than the actual trustworthiness of the trustee and that the three concepts: *“...are not trust per se... [but they can] ...help build the foundation for the development of trust”* (Mayer et al., 1995, p. 717). Another important aspect of trust is that it will develop with experience in the course of time (Johansson & Baldvinsdottir, 2003; Mayer et al., 1995). A trustor, dealing with a new trustee, will have some degree of propensity for trust towards the trustee. This propensity tends to vary as some people are more trusting than others, for instance due to incidents they have gone through in their lives (Mayer et al., 1995). The propensity for trust is stable. However, it may change over time as in their lifetime, people go through new experiences that can change their propensity for trust.

When a trusting action has a positive outcome, and the trustor perceives the trustee as trustworthy, trust will develop, and in future, less control

might be exercised in the relationship, while the opposite outcome may increase control exercised in the relationship (Johansson & Baldvinsdottir, 2003; Mayer et al., 1995). The need for a high level of control often leads to higher costs in an organization because of more administration and monitoring in the trusting relation, i.e. collecting information and creating processes to ensure that no one is cheating (Tomkins, 2001; Wicks, Berman, & Jones, 1999). Furthermore, Wicks et al. (1999) show that *“...building mutually trusting relationships creates flexibility, commitment, durability within the relationship, creativeness, and strong social ties.”*(p. 109). These benefits of trust could also explain why individuals' intrinsic motivation seems to rise in a high-trust environment (Cho & Perry, 2012; Ryan & Deci, 2000; Wicks et al., 1999). Also, trust can have implications for the construction and practices of management accounting systems and the expenses involved, i.e. if people are perceived as dishonest and selfish, it would most likely lead to a need for more formal control and extrinsic rewards such as performance bonuses (Johansson & Baldvinsdottir, 2003; Langfield-Smith, 1997; Malmi & Brown, 2008).

In particular, it is relevant to discuss the concept of trust in people in the arts and cultural sector, as this sector is characterized by some of the benefits that trust can provide, i.e. creative productions and intrinsically motivated actors (Nørreklit, 2011; ter Bogt & Tillema, 2014). Distrust in cultural and art organizations leading to more resources spent on control, administration, and documentation may therefore not only reduce the amount of resources towards value-added activities but also obstruct the creativeness of the cultural actors and reduce their intrinsic motivation (Adler & Chen, 2011; Christiansen & Skærbaek, 1997; Nørreklit, 2011).

However, there are also some disadvantages related to trust. As Rousseau, Sitkin, Burt, & Camerer (1998) note in their definition of trust: *“Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of others”* (Rousseau et al., 1998, p. 395). Trust in people may reduce uncertainty but at the same time, it makes the organization vulnerable, as trust is a matter of willingness to take risks (Baldvinsdottir et al., 2011; Mayer et al., 1995). The extreme case of blind faith in persons can be dangerous, as it makes the organization vulnerable to fraud or dysfunctional behavior of the trustee. Therefore, an organization must introduce some kind of control element – such as an accounting system – to reduce the risk of cheating.

2.2.2/ Trust in systems

Regarding trust in systems, organizational systems, such as an accounting system, are needed. For instance, accounting systems should provide reliable data on the organization's financial state of affairs to enable the person in charge to assess the agent's performance and act on it. Also, organizational systems may be used to establish rules, routines, and procedures that people can refer to thereby reducing uncertainty (Busco et al., 2006). System trust may also strengthen personal trust because of its *“stable and anonymous standards of expertise, together with established rules and procedures”* (Busco et al., 2006, p. 18). This is important as *“the generation of feelings of trust in others, as the deepest-lying element of the basic security system, depends substantially upon predictable and caring routines* (Giddens, 1984, p. 53), which an accounting system might be able to provide. Routinization is also linked to learning and unlearning processes as the process of repetition generates individual and collective understanding and knowledge, which again lead to a higher degree of trust in a relationship between interacting individuals (Busco et al., 2006; Giddens, 1984; Van der Meer-

Kooistra & Vosselman, 2000). If there is no trust in the organizational system, building upon the system may lead to higher distrust between people (Busco et al., 2006). In other words, an organization's system must be reliable to allow building trustworthy relationships through the use of the system. As individuals tend to be the access point to these systems and through face-to-face contact, these individuals may be able to convince potential users to trust the system (Bachmann, 2001). Overall, trust in people and trust in systems are interdependent, and both must be present for an organization to function (Busco et al., 2006).

However, blind faith in systems is dangerous. As mentioned in relation to the principal-agency approach, mechanical use of performance measures can have undesired effects on human behaviour and produce non-goal-coherent outcomes. Unfortunately, as Baldvinsdottir et al. (2011) note *"...trust in systems, such as accounting systems, is often taken for granted"* (p. 407). This is interesting, considering that people create these systems. The question 'why would you have blind faith in systems if you do not want to have blind faith in people?' could therefore be raised. This question leads to another one: 'how can we ensure operational interaction between accounting systems and people, meaning that the organizational purpose and goals are fulfilled?' One approach might be to ensure that trust in people or systems does not disguide the organizational manager; this can be done by ensuring a certain amount of interaction and reflection in relation to people and the system (Cinquini, Mitchell, Nørreklit, & Tenucci, 2013). Thus, there should be reasonable arguments as to why people or the system can be trusted. Allowing actors to challenge human action and the system can improve accounting systems to support rather than hinder the actors' performance. This process is explained in the following.

2.2.3/ Trust building through reflective interaction and learning

As mentioned above, trust is related to an expectation of a party in a relationship and which evolves in the course of time (Johansson & Baldvinsdottir, 2003; Mayer et al., 1995) as a result of experiences and interactions within the relationship. This suggests that a person's trustworthiness has a pragmatic aspect in the way that it is linked to whether the actor expectations will be met in the future (pragmatic truthfulness) (Nørreklit, 2017), i.e. trust in a relationship is linked to whether the trustor's expectations of the trustee hold. However, since no actor has access to the truth of his expectations before events have happened, only a pro-active truth about whether a person or a system can be trusted can exist at the point of decision-making. The difference between pragmatic and pro-active truth information on trust constitutes the truth gap between perceived trust and actual trust and hence a person's or a system's trustworthiness.

Building trust through narrowing the truth gap requires a reflective learning perspective where the pro-active perspective on trustworthiness meets the pragmatic perspective (Nørreklit et al. 2007). From the view of a reflective learning process, the anticipation and assessment of the level of a person's or a system's trustworthiness require an actor to enter into reflective interaction with the phenomenon. Knowledge creation is an iterative and reflective process in which the actor(s) undertake(s) conceptual development to continuously improve the level of insight and diagnostic certainty in order to establish pragmatic truth information on trust. In other words, a trustor can build trust over time through interaction with a trustee as the trustor is provided with a deeper insight of the trustee's trustworthiness (ability, benevolence, and integrity) allowing the trustor's pro-active truth to close in on the pragmatic truth of the relationship of trust. From this perspective, it also makes it possible to build trust through learning, as actors (i.e. trustees) are reflective and

able to act and therefore able to acquire new and important skills that may raise other actors' (i.e. trustors') perception of their abilities.

2.3/ Research questions

On this theoretical background, we raise the following profound research question:

What performance management techniques and processes does ECoC Aarhus 2017 apply at the operational level in the governance of the project grants of the cultural events?

3.0 Method

We applied a within-case study approach to the Grant Payment Team (GPT) of the Aarhus 2017 Foundation. The team consists of three employees. At one point, there was only one employee assigned to checking accounts; quickly, however, the Foundation realized that the task was too large for one person. A decision was therefore made to set up a three-member team to be in charge of checking accounts. The three employees had other tasks besides checking accounts, e.g. one of the employees was also a member of the program team. However, we focus on the GPT's task concerning the accounts in the Aarhus 2017 Foundation and their interaction with the program managers of the Aarhus 2017 Foundation and external project managers.

We collected empirical data for our study by interviewing the GPT employees and an employee who is both on the program team and on the GPT. An opening meeting with the organization of Aarhus 2017 took place between one of the authors and one of the GPT employees. Subsequently, two more focused interviews were conducted in May and October 2017. Two employees participated in each of these interviews, which lasted between 1 and 2 hours. In total, three employees in charge of the grant accounts were interviewed. Furthermore, we got access to information from archival documents, the organization's website, and publications related to ECoC Aarhus 2017.

Based on the preunderstanding obtained at the preliminary meeting, we prepared an interview guide with open-ended questions about their planning and control processes and the production and use of account-

ing measures in relation to these processes. From the interviews, we particularly got penetrating insight into the production and use of the accounting template (see App. 1) applied by the Grant Payment Team as well as the project appraisal questionnaire used to evaluate the project (see App. 2).

The theoretical frameworks outlined above was the stepping stone for analysing the data collected from the interviews. The process was iterative as we went back and forth in the datasets to establish a pattern of how the GPT accounted for the project grants. In this process, we focused on how the Grant Payment Team used the accounting template and the project appraisal in their interaction with the program managers and the project managers. We wanted to uncover whether the interaction was dominated by the thinking of principal-agency theory involving the mechanical production and use of numbers for the monitoring of the contractual objectives or if it was dominated by trust in people, a justified trust in the system and reflective interaction and learning between the parties. Specifically, we focused on identifying where the Grant Payment Team applied the concepts related to validating and building trust to establish a reliable connection to the project managers.

The data collected from the Aarhus 2017 website and the publications from and about Aarhus 2017 were used to get an overview of the organization and its goals. This data was used in the analysis of the interviews to compare and crosscheck the findings, which helped establish a fuller picture of the organization.

As our focus is on the accounting reporting and not the cultural reporting, we did not investigate how the project managers do performance man-

agement of the project's cultural content. However, such additional information might have provided a more holistic picture of 'the Aarhus 2017 way' of doing accounting and performance measurement.

Based on the empirical data, we focus on the Aarhus 2017 Foundation's operational level of work with the various participating projects. We discovered that the KPIs of the Foundation seemed somewhat detached from this level, meaning that these measures take place mainly on a strategical and political level while the operational level does not focus so much on or uses these measures in their operations. Accordingly, we only pay little attention to the Foundation's KPIs as we are interested in how the Foundation accounted for the projects on the operational level.

4.0 A case study of ECoC Aarhus 2017: The grant payment team

This section describes the process of selecting the cultural projects for the ECoC Aarhus 2017 event and the performance management organization including the Grant Payment Team. Also, we describe the accounting system, and how through the use of the accounting system, the Grant Payment Team was able to create a trusting relationship with the project managers by an interactive and reflective approach.

4.1/ ECoC Aarhus 2017- Objectives and KPIs

The overall objectives of the Aarhus 2017 Foundation are expressed through six strategic goals, 'Cultural impact', 'Social impact', 'Economic impact', 'Image and Identity impact', 'Political and Organizational impact' and 'Governance and Funding impact'. The objectives were translated into short-term quantitative KPIs that were measured during the ECoC Aarhus 2017 event. Examples of formulated KPIs include 'Increase in overnight stays' (Economic impact), 'Numbers of volunteers' (Social impact) and 'Citizens' success rating' (Aarhus 2017 Foundation, 2018). The goals for the long-term effects, which also take their outset in the six strategic goals, were reflected in a 'legacy' report. The long-term goal effects include 'Strategic approach to major events' (Program legacy), meaning that Aarhus and the Central Denmark Region should improve their know-how of organizing extensive cultural events as a consequence of the ECoC event. Another example of a long-term goal is 'Systematic documentation and new evaluation methods' (Political and organizational impact), meaning that the Aarhus 2017 Foundation wants to find new and better ways of accounting for and evaluating future cultural productions (Simonsen, 2017).

4.2/ ECoC Aarhus 2017 – Selection of cultural projects

In October 2016, the full program of the event was announced. From 2013, the Aarhus 2017 Foundation had rounds of open calls for project proposals. In their application, project managers were required to explain how and why they were able to live up to the various objectives formulated by the Aarhus 2017 Foundation. Each open call targeted different strategic objectives. The program team aimed at choosing the projects providing the best arguments in their application for meeting and delivering the specific objectives of the ECoC event (Aarhus 2017 Foundation, 2015).

A challenging part of the program managers' project approval work is that they must be able to assess both the financial soundness and the artistic side of the projects when evaluating whether the projects can meet the targets: *"The process of evaluating and assessing the projects – both the budget and the content – is part of being in the program team ..."* (Program and GPT employee). The project budgets were set up during and right after the selection stage. The projects that had received less funding than they had applied for, were told to cut their costs or downscale their cultural productions. Overall, the assessment process requires the program managers to have a situational understanding of the feasibility of both the cultural content and the financial aspects of the projects to be able to judge and decide whether the project managers are able to deliver the objectives stated.

4.3/ The performance management organization

A team of program managers is working with the project managers to safeguard that they will meet the overall objectives of Aarhus 2017. Basically managers of the approved projects are monitor the development of the projects. Monitoring the projects, the Aarhus 2017 Foundation pro-

gram managers do not look at the KPIs as an objective and unambiguous representation of project performance but interact with the project managers to develop the project.

One explanation of this is that on a strategical level, the overall objectives and KPIs are managed through the composition and content of the set of projects approved, while the operational level focuses to make the projects work on a more practical level to ensure completion of the projects. However, this does not mean that the operational level is unaffected by the overall objectives and KPIs. For instance, some of these measures present a pressure to complete all the projects – even the projects that may fall much behind of the artistic content stated in the application; this we will elaborate on later in the analysis.

Thus, the program managers' focus on assisting the project managers to meet their individual goals when the projects are struggling, e.g. to meet their funding targets or to find locations for their project:

"... When last they were meeting, they [employees at a project] called me because they needed help with something. Could we help them find a location for the project? and then we got talking about how they were proceeding with [the project's] fund raising? – They are... struggling [to] meet their fund raising targets. [We then asked:] 'How can we help you?' We want to help the projects – we want them to succeed – that is our main goal." (Program and GPT employee)

However, it is not the program managers' task to collect the accounting evidence of the projects. This is left to the Grant Payment Team of the ECoC Aarhus 2017 Foundation, which was established following the approval of the participating projects. The GPT team is in charge of

managing the reporting of the project grants, meaning that it must check whether the projects use their grants in accordance with their budgets. The Grant Payment Team consists of three employees, who also have other tasks than checking project accounts and as a result the team is under some time constraints.

The team has no tasks or responsibilities regarding the artistic content of the projects. However, they work closely with the program managers who are responsible for checking up on whether the projects live up to the artistic content promised and keep within their financial limits. Below, we explain how the GPT works with the projects and try to ensure that the projects meet their financial objectives.

4.4/ The production and use of accounting information

In this subsection, we explain the accounting system implemented by the Grant Payment Team and how they apply the system.

4.4.1/ Accounting system

An accounting system was established to check whether project managers meet the financial objectives of their contracts. In particular, the budgets play an important role in controlling the project grants. The budgets, revised and approved by the program managers, are sent to the GPT; on receipt, the GPT makes 85% of the funding available to the projects. The remaining 15% is released when the project has completed the accounting template (see App. 1) and the GPT has received the program manager's 'appraisal form' (see App. 2). This procedure safeguards that the Aarhus 2017 Foundation does not pay out more than was budgetted.

The accounting template provides the GPT with insight into how the projects have spent their grants. Some of the participating projects run for

only one year or less while other projects may run for four years. The projects that run for more than a year must submit their accounts each year. The accounting template is simple and requires the project managers to fill out their income sources, i.e. grants, ticket income, and sponsors, and a few broad cost categories: 'Salaries/wages administrative', 'Administration', 'Cultural production, salaries/wages', 'Cultural production, other', 'PR and marketing', and 'Reserve'. Thus, the GPT trusts the project managers' ability to enter their expenses into the right categories.

It is notable that the GPT only requires the project managers to fill in the amount spent in the various accounts; no receipts of the projects' spending are demanded as the receipt checking process would be a major administrative task taking up too many resources. The team cannot dig into each project due to time constraints and therefore they choose to trust that the projects deliver trustworthy accounts of their spending. However, projects receiving DKK 100,000 or more from Aarhus 2017 must employ an auditor to fill out the accounting template while projects that receive less need only submit a management declaration from the project manager.

The appraisal form is a short statement of the progress of a project and whether it is proceeding according to the plan. A program manager fills in the appraisal form once a year in conjunction with the project accounts. More specifically, the form consists of one page that outlines whether the project is living up to (1) its content milestones, (2) its financial milestones, and (3) if there are any issues that require attention. When the form is completed, the program manager sends it to the GPT who then uses it to assess whether the project can have its next payment or whether measures need to be taken. Here, the budget is used to check that the accounts received after each period are consistent. The

GPT trusts this document if the program manager has endorsed the project's next payment by checking whether the appropriate box has been ticked (see App. 2), and if the project's accounts appear to be in order. This means that the project will receive its next grant instalment without further investigation. The GPT thus has faith in the system when the documents seem to be in order but also has faith in its colleagues, as it is the program managers who fill out the appraisal form consequently being one of the entry points of the system.

4.4.2/ Detecting patterns of deviation

In its interaction with program managers and project managers, the GPT implicitly checks for patterns in the project managers' behaviour: does the project manager fit the expected behavioural pattern or is there something that does not match the Grant Payment Team's expectations? If there is something about a project that does not seem to fit the expected results or behavioural pattern, this will be investigated by contacting either the program manager incharge or the project manager. Typically, the team first contacts the program manager as this is the fastest and easiest approach and bothering the project in question unnecessarily can be avoided. However, if the program manager is unable to provide an explanation, the GPT contacts the project to get the problem solved. One of the GPT employees elaborated on a project that did not 'fit the pattern' and did not allow the GPT to validate the accounting numbers:

"I have a project [that] got quite a lot of money... and the person in the municipality, who was responsible, quit and someone else took over. I kept asking for the account and I literally got nothing... Eventually, we [the GPT employee and the program manager in charge] went to visit the project... and the new person [the project manager] talked about all these great things he was going to set

up... and I had some issues with the accounts. He finally sent me [the accounts] but [they] were not quite correct: he promised to send new reports, but they never arrived. So, we contacted his managers; we had a meeting, they brought new stuff that was not really correct either – the figures did not add up and some of it was very optimistic, like a website for an amount that was completely unrealistic... and then actually it transpired that he did not do anything – he just talked a lot. He was supposed to fundraise one million [DKK] and he never sent out a single application. Eventually his contract ran out, and they got a person that was much more responsible and competent... We re-configured the project... and downscaled it considerably...”(GPT employee 1)

By cooperating with the program managers and looking for behavioural patterns of the project manager that did not fit the picture, the GPT employee was able to detect that the project was not fulfilling its side of the contract. However, as the quote also shows, in this case the project was not terminated but instead downscaled. In this connection, it is worth repeating that a large proportion of the grant is paid out at the beginning of the project, and that it can be challenging or even impossible to retrieve the money if the project fails. Another problem for Aarhus 2017 is that closing a project can damage some of the overall strategic goals of the event. Thus, each participating project contributes a certain amount of cultural productions which are important for realizing the strategic goal of the Aarhus 2017 Foundation.

Another example of projects that may deviate from the expectations of the Aarhus 2017 Foundation and the GPT is related to the administration and cultural production expense ratio. For instance, in the accounts to the GPT, it turns out that a project has spent more than half of its funding on administration costs despite the Aarhus 2017 Foundation stipulating

that the projects should spend most of their grants on cultural production. However, when the GPT investigates a project with this kind of ratio, often there is an explanation for the deviation:

"...If a project has done a lot of development work in the years leading up to 2017, then there would probably be more project management which would end up in admin salaries, not so much would have gone into cultural production, because that would not begin until 2017."(GPT employee 1)

As we see, the type of project can sometimes explain why the administration and cultural production ratio can diverge from expectations. Often these explanations are easily assessed, as the program manager in charge normally will be able to provide an explanation because he or she has insight into the content and development of the projects that he or she is managing. In these instances, the projects may deviate from the norm but are anyhow accepted as a reasonable explanation is provided.

4.4.3/ Conclusion

Basically, there is trust in the appropriateness of the simple accounting system set up to observe and monitor the projects. The GPT trusts that the system can provide the information needed to detect whether the project is on track or not. Also, trust in the project managers plays a central role in the establishment of the GPT's accounting system. The perception of the project managers' integrity justified that Aarhus 2017 chose to establish a simple accounting system with the aim to avoid spending too much time and money on administration and checking up and instead focus on their cultural production. However, the system is not constructed and used mechanically with the point of departure of

an opportunistic project manager, but used in a process of reflective interaction with the project manager. This is explained below.

4.5/ Trust in project managers' ability to produce accounting information

Trust in people is the foundation for the GPT performance management approach, but it does not mean that the Aarhus 2017 Foundation and the GPT have blind faith in the projects. The GPT is in close interaction with the program managers who help the team establish a picture of the project managers. When problems with accounts arise, the Grant Payment Team contacts either the program managers or the project managers to solve them. During our interviews, it became apparent that the GPT implicitly evaluates whether the three notions of trust are present. Furthermore, we witness that when detecting patterns of deviation, the GPT enters into an interactive process of questioning and a reflective learning process that facilitates trust building. These processes are further explained in the following.

4.5.1/ Evaluating the trustworthiness of project managers

In the accounting process, the GPT is able to draw on input and experience from colleagues from Aarhus Municipality, who used to work with some of the project managers in projects before the ECoC Aarhus 2017 event:

"...At Aarhus Municipality we have a colleague who has much experience in the cultural life in Aarhus – she has been in the business for more than 25 years... If there is something we don't know – we can always ask her – so it is a really good thing that we have these support people." (GPT employee 1)

This allows the GPT employees to get an impression of the project managers early on in the accounting process thereby developing a pro-active truth of the projects' trustworthiness based on entrusted and knowledgeable people. However, in the accounting process, the GPT also makes its own assessment of the projects' trustworthiness to close the truth gap between the pro-active and the pragmatic truth thereby obtaining a more truthful image of the project managers.

The GPT checks the degree of trustworthiness both as regards cultural content and accounting reporting. The GPT employee's perception of the content is mainly built on interaction with the program managers, while their propensity for trust in the accounting reporting of the project managers they had not yet talked to, evolves during their experience from interacting with other project managers.

More specifically, the GPT believes that the project members have the appropriate skills to provide good content; this is validated by examining the appraisal form that states whether the project is on the right track regarding the content, or by consulting the program managers. However, the GPT's perception of the projects' ability to provide accurate accounts is rather mixed. The Grant Payment Team trusts the project managers' ability to enter their expenses into the right cost categories or at any rate, that they will contact the GPT when in doubt. However, based on experience gained through its contact with the project, the GPT has doubts about the project managers' ability to follow the form of the accounting as the accounting process has made the team realize that some of the project managers seem challenged when it comes to de-

livering all of the accounts and providing the accounts using accrual accounting rather than cash-based accounting¹. As further explained below, this implies that the Grant Payment Team spends much time on teaching the projects to account for their cultural production.

In addition, the project managers are perceived as showing a high degree of benevolence towards Aarhus 2017 from both a content and an accounting perspective:

“Some projects just want to live up to whatever they believe 2017 expects from them... They think they must meet all of [the goals of Aarhus 2017] – all those kinds of things we never really told them to do. So, for some projects, it is just a matter of reassuring them that: ‘what you are doing is actually OK, and it is what we want, and if you concentrate and focus on the core of your project, then you are on the right path.’” (Program and GPT employee)

We witness how some of the projects want to deliver content to cover all of the objectives of the Aarhus 2017 Foundation. Aiming to fit their projects into all objectives, the project managers exhibit benevolence towards the Foundation that is higher than requested.

From an accounting point of view, the GPT also believes that the projects want to do ‘right’ by Aarhus 2017 when submitting their accounts:

¹ Cash-based accounting recognizes revenues and expenses when payment is made or received. Accrual accounting is based on the principle of matching revenues and expenses. It recognizes revenue and expenses in the income statement when the sales transaction occurs.

"I think a lot of them actually are overachieving, but it's quite simple [filling in the accounting template], and I... think a lot of them are bewildered of how simple it is." (GPT employee 2)

Some of the project managers perceive the accounting template as too simple; therefore they want to deliver a complete accounting picture of their project to justify how they have spent the grants they have received from the Aarhus 2017 Foundation. This can be interpreted as a reflection of the project managers' benevolence towards the Foundation, seeing that they want to make detailed accounts to assure the Foundation that they are spending the grant wisely.

Finally, many of the project managers are perceived to adhere to the principles of being intrinsically committed to their project's content (i.e. by providing a large number of volunteer hours) and being honest about what they have spent their grant on:

"The [micro] projects do not pay themselves any income. They are completely honest about whatever money they spend. They tend to send me receipts, things like 10 pencils and stuff. So sometimes I even fill out the form and say 'this is it, do you agree?' And sometimes the expenditures do not add up – that is, most of the time they pay a lot themselves." (Program and GPT employee)

The purpose of the micro projects of the ECoC event was to activate young and creative people in the region. To bring such ideas to life during the event, the micro projects receive small amounts of money. Because of the aim and the limited sums, the Aarhus 2017 Foundation requires less accounting reporting from the micro projects. However, some of these micro projects want to fully disclose their expenses by sending

receipts for even petty sums,; the GPT therefore has to reassure the micro projects that they do not have to submit receipts. The quote also points towards the project members being more concerned about the content than the spending of the grant and their own pay cheque. The perceived honesty of the projects came up several times in the interviews:

“I don’t think I have ever encountered anyone really dishonest – where I felt they were dishonest about the money, but maybe about ‘I will send you the accounts next week’ – and then it is six months. They are rather nice and a lot of them are backed by organizations, so they were not able to [send the accounts on time]”(GPT employee 1)

Overall, we see that the GPT employees pay attention to the project manager’s ability, benevolence to Aarhus 2017, and integrity. Interacting with the project managers, the team oversees that the project managers have the benevolence and integrity to provide good accounting reporting, but their ability to provide good reporting is rather mixed as the project managers’ level of experience differs a lot.

4.5.2/ Trust building through dialogical interaction and reflective learning

During their interaction with the project managers, the GPT develops a reflective learning process that helps to build trust in the relationship.

In particular, when the projects do not deliver their accounts or provide numbers that do not meet expectations, the GPT deals with the problem by contacting the program manager in charge or the project manager to obtain insight into the project activities. There was one project that had major problems; the GPT was considering a shut-down of the pro-

ject from a financial viewpoint but not content wise. The project manager did not submit the accounts despite having obtained an extension and having had meetings, etc. However, when the GPT pitched into the project manager and the problems of the project, through persistent questioning, they found the reason for the problem and helped the project solve it:

"We helped them out and told them what they needed to fix. They did not deliver on the co-funding but with a good explanation, it would not be a problem; in this case, it was a question of them having a lot of volunteer hours, and if you do auditing accounts, you cannot add the volunteer hours because they do not have an actual monetary value. But you can add a note: 'the reason for our limited co-funding is that our members are all volunteers and we do not get paid.' So the combination of them not really knowing how to enter it into the account and not submitting the accounts kind of overwhelmed them... It made me worry about the project. When we met with them, we found that the project was actually doing quite well, but they just did not have the knack for reporting and also they did not understand [what they had to do]. They knew that it was important but they were somewhat overwhelmed and did not know what to do. So I gave them a hand. They did not need any assistance on the content side. They knew what they were doing." (GPT employee 1)

The quote demonstrates the inability of the project to collect funding for their project; however, the project members were putting many volunteer hours in, which the GPT recognizes as valuable. Acknowledging the problem, the GPT was able to solve it. Finding the solution, we see the outline of a learning process in relation to understanding the report-

ing system. In response to the shortcomings of the project managers' accounting abilities, the GPT provides the projects with explanations of how they should complete the accounts.

As some of the projects struggle to understand the reporting of accounts, the learning aspects are important tasks of the GPT. Thus, when the project managers have to split costs into categories, the GPT experiences that some project managers cannot work out which costs belong in which categories and therefore they contact the team. The GPT tries to explain it in everyday language as illustrated in the following quote on the distinction between administration costs and cultural production costs:

"When [the projects] ask, I usually say that admin is like stationary, postage, phone bills, office rentals, and stuff like that, whereas cultural production can be anything from coloured paper for decorations to venue rentals, costumes or props depending on the type of project. So, it is pretty much up to the project to discern what is cultural production and what isn't." (GPT employee 1)

In addition, some project managers might find it difficult to fathom the simplicity of the accounting system, and consequently the GPT needs to reassure them that filling out the overall cost categories of the accounting template will be enough to get the last 15% of the grant. However, one of the biggest problems that the GPT must handle, related to the accounting process, is the issue of cash-based vs. accrual accounting:

"... Many of the projects submit cash-based accounts... We don't want them cash-based [we want it to be accrual based] because they won't get their last payment until they have submitted their final report, and we need the entire amount of the grant to appear in the report." (GPT employee 1)

It adds to the confusion that project managers usually account for their spending using the cash-based approach, because the municipalities, which some of the projects also have to present their accounts to, do their accounts following the cash-based principle. This implies that these project managers lack the ability to do their account reporting 'the Aarhus 2017 way'. Therefore, the GPT must illuminate the problem to the project managers explaining how to account for their projects using the accrual accounting approach.

Overall, when figures do not seem to add up, the GPT discusses this with the program managers and the project managers to figure out whether the accounting numbers in their system are trustworthy, what the problem might be, and how it can be solved. Thereby, the GPT validates the numbers of their accounting system interacting with the project managers and the phenomenon. Also, the GPT spends much time explaining and instructing project employees how to complete the accounting template properly. In the course of time, the accounting ability of the project managers are strengthened as they learn to provide the GPT with the right numbers.

4.5.3/ Conclusion

The GPT does not have blind faith in the project managers seeing that they observe their ability, benevolence and integrity in relation to the production of cultural content and accounting reporting. Here they find that the accounting ability of some project managers is weak. Furthermore, they monitor problems arising in relation to the accounting reporting. This enables the GPT to compare their proactive statement of the trustworthiness of the project managers with the pragmatic truth as revealed in relation to the accounting reporting. Triggered by patterns of deviation in the reporting system, the GPT interacts with the project

manager to obtain deeper insight into how the project grant is used and managed and hence his/her trustworthiness. In addition, the GPT aims to teach the project managers to use 'the Aarhus 2017 way' of accounting reporting. Through this interactive learning process, the project managers may increase their accounting abilities, which may boost the GPT's level of trust in them and thereby reduce the truth gap of trust. Subsequently it is possible for the GPT to adjust their interaction with the project managers based on their perception of each of the project managers.

5.0 Conclusion and discussion

Consequently, we conclude that the Aarhus 2017 Foundation's contractual relationship with the project managers is based on trust. They believe in the project managers' ability, benevolence and integrity to create projects that meet the artistic objectives outlined as well as to account for their use of financial resources. As opposed to the principal-agent theory, they do not look at the project managers as opportunistic agents, who are motivated to act in the interest of the Aarhus 2017 Foundation only if the action is within their self-interest. However, this does not imply that the Aarhus 2017 Foundation and the GPT have blind faith in the project managers. Indeed, they observe and monitor both the cultural content of the projects and the project managers' use of financial resources.

Regarding the governing of the financial resources, there is trust in the appropriateness of a simple accounting system to provide the information to detect whether the project is on track or not. An a-priori perception of the trustworthiness of the project managers to deliver valid accounting information implied that a simple accounting system could be sufficient to solve the task and thereby they could spend time and money on their cultural production rather than administration and control. The 85/15 grant payment system safeguarded that the Aarhus 2017 Foundation did not pay more than was budgetted. Attention can then be directed to ensuring that the approved projects deliver value for money.

The accounting system is used to detect patterns of deviation. However, the accounting system is not used mechanically with the point of departure in an opportunistic project manager as outlined by the principal-agent theory, but in reflective interaction with the project manager. Interacting with the project managers, the GPT assesses whether the three notions of trust (ability, benevolence and integrity) are present and hence whether their assumption of trustworthiness is pragmatically true. When detecting a pattern of deviation in relation to the accounts, the GPT contacts either the program managers or the project managers to investigate the reason for the deviation. The team enters into an interactive process of questioning with a view to understanding the reason for the deviation and make situational judgement of its implication. Finally, we witness that the GPT facilitates a process of learning with a view to making their a-priori assumption of trustworthiness pragmatically true. Through the learning process, the actor(s) undertake(s) conceptual development to continuously improve the level of insight and diagnostic certainty in order to establish a pragmatic truth on trust.

The three processes of observation of pattern deviation, reflective interaction with the actors and an interactive learning approach made up a socializing process of trust building. This might have contributed to the dysfunctional effects of trust in people and systems being dealt with in an appropriate way. Thus, at the operational level the performance management of the project grants seems to function rather productively.

Although, the GPT seems to have been a successful performance management unit, an assessment of its effectiveness requires further examination of the projects and the accounts. A deeper insight into the process of how the Foundation chose, collected, and evaluated their ob-

jectives and KPIs to assess whether the event was successful on a strategic level, must also be gained. As the Foundation's KPIs seem some detached from the performance measurement on the operational level, we only provided a short introduction of these measures. Nevertheless, the (pragmatic) trust approach of the GPT has enabled Aarhus 2017 to reduce bureaucracy instead spending more of the Foundation's resources on valuable cultural productions.

6.0 Reference

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7.0 Appendix 1 – The accounting template of Aarhus 2017

Income	Accounts 2016	Budget 2017	Total
Grant from Aarhus 2017	-	-	-
Grant from municipalities	-	-	-
Grant from regional authorities	-	-	-
Grant from state government	-	-	-
Sponsors	-	-	-
Grants from Danish foundations	-	-	-
Grants from international foundations	-	-	-
Grants from EU	-	-	-
Ticket income	-	-	-
Other own funding	-	-	-
Other	-	-	-
Transfer from previous years	-	-	-
Total	-	-	-
Expenses			
Salaries/wages administrative	-	-	-
Administration	-	-	-
Cultural production, salaries/wages	-	-	-
Cultural production, other	-	-	-
PR and marketing	-	-	-
Reserve	-	-	-
Transfer to next year	0,00	0,00	
Total	-	-	-
Please use this spreadsheet for budgets as well as accounts			Result Must be 0

8.0 Appendix 2 – The project appraisal form of Aarhus 2017

Project appraisal



Project appraisals must be sent to accounts to initiate a payment

Which project are you evaluating?

Evaluation Date	Project case number (four digits)	Type of contact	Project completion date
<input type="text"/>	<input type="text"/>	<input type="checkbox"/> Email <input type="checkbox"/> Phone <input type="checkbox"/> Meeting	<input type="text"/>

How does the project meet its content milestones?

How does the project meet its financial milestones?

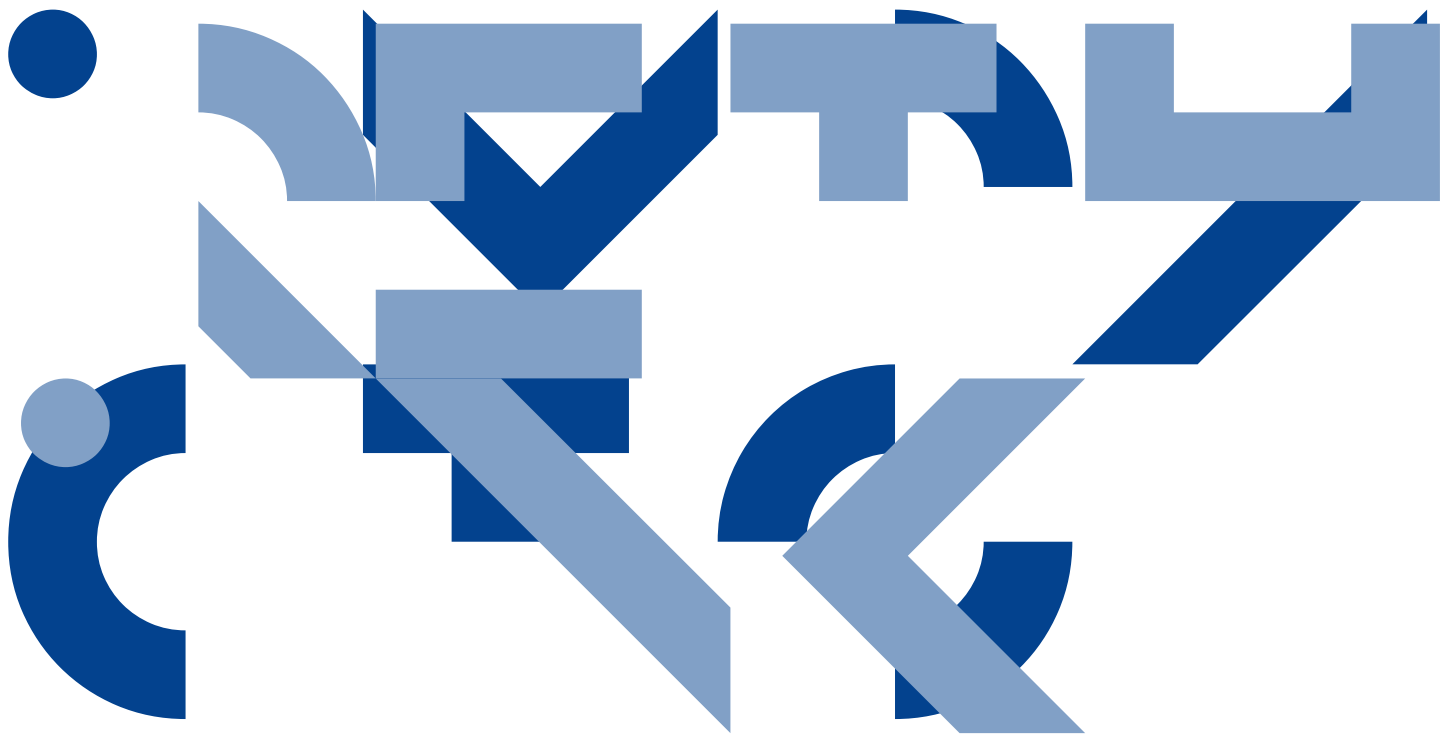
Are there any other issues that require attention? (describe how)

Is the project ready for the next payment?

☐

Today's date

Your name



This paper investigates the Aarhus 2017 Foundation's approach to the performance management of the financial aspects of the multiple projects that was participating in the European Capital of Culture Event. This report takes its departure in the Grant Payment Team, which was a unit within the Foundation, to get an insight into 'the Aarhus 2017 way' of doing performance management. The analysis shows that Aarhus 2017 Foundation has a contractual relationship to the project managers that is based on trust. They believe in the project managers' ability, benevolence and integrity both to create projects that meet the artistic objectives outlined and to account for their use of financial resources. Accordingly, they do not, as in conventional thinking of principal-agency theory, perceive the project managers as opportunistic agents, who are motivated to act in the interest of the Aarhus 2017 only if the action is within their self-interest. However, the trust-based approach does not mean that Aarhus 2017 and the GPT have blind trust in the project managers. Indeed, they observe and monitor both the cultural content of the projects and the project managers' use of financial resources, by applying a simple accounting system to detect patterns of deviations and through an interactive process of questioning and a reflective learning process with the participating projects of the ECoC event in Aarhus. The report contains a deeper analysis and discussion of the practiced approach of the Aarhus 2017 Foundation.

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