

THE POLITICS OF HYPOCRISY AND CHANGE: THE RHETORIC, REALITY AND REFORM OF THE WORLD BANK

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Abstract

Charges of organizational hypocrisy – the “disconnect” between talk and action - are a recurrent theme in the Bank’s history. Yet polemic charges of hypocrisy fall short in answering two critical questions. First, what or who is responsible for the observed hypocrisy of the Bank? Second, why is hypocrisy sometimes so difficult to resolve, especially after such hypocrisy is exposed and becomes a critical threat to the legitimacy of the Bank? In this paper I seek to construct a model of IO hypocrisy and change based upon a rich theoretical and empirical understanding of the Bank’s external and internal environments. Theoretically, I draw primarily from sociological organizational theory as well select insights from rationalist principal-agent models to understand why and how IOs decouple their talk and action. I then turn to the more critical questions of how and why hypocrisy tends to persist even when that hypocrisy is revealed and targeted for reform. This fundamentally requires a *dynamic* understanding of patterns of organizational hypocrisy that rests upon not only a sophisticated understanding of the complex political environment in which the Bank maneuvers, but also how internal bureaucratic politics and organizational culture affect behavioral change within the Bank.

Note: I originally planned to present my analysis of four distinct reorganization programs implemented in the World Bank between 1972 and 2001. Due to difficulties in attaining access to key archival materials, specifically the special permission needed to access the internal correspondence files of the Bank managers central to the reform periods, the empirical research for this paper has been pushed back to January 2007. Comparative research on IMF reform is planned for the summer 2007.

This paper is based upon a chapter in my current book manuscript on World Bank hypocrisy. My primary reason for rehashing this paper at the IPE Society conference was to solicit specific feedback on some essential concerns expressed by the external reviewers. These concerns almost exclusively focused on the utility of principal-agent model to this question of IO hypocrisy, and subsequently suggested paring down and clarifying the shortfalls of the PA analysis while simultaneously enhancing the sociological institutionalist explanation for the external factors shaping Bank hypocrisy and change. I have just started this work, and thus the paper here is very much a work in progress. I would great appreciate comments and concerns on the resulting theoretical framework.

~ In modern society, there are many popular ideas of what is generally rational, just, or good. Such ideas tend to be general, vague, and simple, making them attractive as ideas, but more difficult to translate into concrete, specific actions in a way that is as attractive and uncontroversial as the ideas. Organizations are systems that are supposed to act, so for them the tension between attractive ideas and the limits and specificities of practice becomes acute. They are easy victims for the criticism of having perverted our ideals. Modern organizations are squeezed between ideology and practice. (Brunsson 2003, 204)

~ Our Dream is a World Free of Poverty. (Official Motto of the World Bank)

It would shock very few close observers of the World Bank to assert that the preeminent global development agency often appears to say one thing and then does something quite different. Charges of organizational hypocrisy – the “disconnect” between talk and action - are a recurrent theme in the Bank’s history, the favorite fodder of activist critics, and a source of great frustration for reformers within and outside the organization. There is a wealth of critical scholarly literature that documents the persistent contradictions and gaps between the Bank’s proclaimed development beliefs, goals and policies and the daily operations of its highly trained pool of in-house experts and practitioners. Yet the concept of organizational hypocrisy itself is neither well defined nor explained. Even for academic scholars, discussion of Bank hypocrisy borders on the polemic. Instead of asking trenchant, incisive questions about Bank behavior, scholars rely on overgeneralizations and overblown rhetoric. In my view, the biggest questions surrounding hypocrisy and the Bank have not yet been thoroughly explored. First, why does the Bank engage in organizational hypocrisy and under what conditions might we expect the Bank to decouple its rhetoric from behavior? Second, once hypocrisy is exposed, how can it be resolved? More specifically, what is it about the understudied process of *change* in large international governmental organizations that confound the efforts of even the most well-intentioned reformers to reduce the gaps between Bank talk and action? In the end, organizational hypocrisy and change are indelibly intertwined. Awareness of hypocrisy can propel change, and yet the processes of organizational change can easily perpetuate and even cause new hypocrisy.

This paper, which is part of a larger study of the World Bank, does not seek to substantiate in great empirical detail the evidence of Bank hypocrisy.¹ Rather, I tackle the underlying theoretical question of how it is that we can understand the very concept of IO hypocrisy in a manner that allows us to get at these very difficult questions. At heart is a deep suspicion, informed by a rich body of organizational theory, that hypocrisy is an endemic feature of IOs. We should not be the least bit surprised that the World Bank exhibits hypocrisy even at the same time that its strongest critics use such charges to advocate the reform, reinvention or demolition of the institution.

¹ The rest of the book contains the empirical testing of the model proposed in this chapter, in the case of the Bank’s good governance and anti-corruption agendas and its attempt to reform in the Strategic Compact reorganization of 1997-2001.

Hypocrisy plays a paradoxical role in IO life, particularly in multilateral service organizations like the World Bank.² Organizational hypocrisy is a double-edged sword. On the one hand, hypocrisy serves a critical, positive function for IOs, shielding these international bureaucracies from the inconsistent and conflicting demands of their complex political and task environments. It is lip service employed as a strategic survival tool. On the other hand, hypocrisy can easily become a liability. As evident in the onslaught of NGO “whistleblower” campaigns against the Bank over the past two decades, hypocrisy often cannot stay hidden. In instances where an IO is caught in the act of hypocrisy, it can become a source of dysfunction, undermining the organization’s legitimacy and moral authority, its political and financial support, and ultimately its ability to pursue its mission and ensure bureaucratic survival. At such critical junctures, the IO is called to task and is compelled to try (or at least appear to try) to rid itself of hypocrisy. Yet aligning talk with action in a large multilateral organization is not a straightforward task. Resolving hypocrisy is not merely a matter of political will, but rather an arduous process of organizational change that is subject to the same environmental and bureaucratic constraints that compelled the IO to engage in hypocrisy in the first place. In this sense, hypocrisy can disappear in some areas while persisting or surfacing in other areas of IO life.

In this paper I seek to construct a model of Bank hypocrisy and change based upon a rich theoretical and empirical understanding of the Bank’s external and internal environments. Theoretically, I draw primarily from sociological institutionalist theory as well recent hypotheses proposed by rationalist principal-agent models to understand why and how IOs may decouple their talk and action. I then turn to the more critical question of why and how hypocrisy tends to endure even when IO principals or management specifically identify and seek to eliminate hypocrisy through targeted reform efforts. The answer to this question fundamentally requires a sophisticated analysis of how the Bank’s complex external environment and internal bureaucratic politics and organizational culture affect behavioral change within the Bank.

WHAT IS IO HYPOCRISY?

The hypocrisy of an organization is, at heart, the disconnect between its talk, decisions and actions.³ In the case of the World Bank, hypocrisy embodies the frequently cited

² One key distinction between my approach to explaining the hypocrisy of the World Bank is my focus on *bureaucratic* hypocrisy. In other accounts, such as the hypocrisy in United Nations peacekeeping (Lipson 2004) and the WTO agricultural trade regime (Bukovansky 2005), hypocrisy is largely behavior exhibited by the member states, not the bureaucracies per se. I argue that bureaucratic, or organizational, hypocrisy (as opposed to *organized* hypocrisy) is more characteristic of large IOs that have sizeable bureaucracies with permanent (as opposed to seconded) staff and service-oriented missions. Cox and Jacobson (1973) make this key distinction between service and forum organization, arguing that service IOs (like the World Bank, other multilateral development banks and the IMF) are more likely to attain higher degrees of autonomy and develop over time distinct organizational cultures that lead the IOs to develop preferences and actions that cannot be directly explained by reference to the interests of their most powerful member states. As such, when discussing organizational hypocrisy, I make the explicit non-realist assumption that IOs are actors, rather than merely structures, whose dynamic preferences and behavior merits explanation.

³ Brunsson 2003.

conflicts between what the Bank as a collective actor ‘says’ - its espoused goals, ideals and policies – versus what the Bank does. In other words, organizational hypocrisy is the clear “disjuncture between word and deed, or between publicly-accepted norms and behavior;”⁴ a disparity that in part reflects the inherent inconsistencies between what IOs are expected to say and do in an idealist world, versus what the IO is actually able to accomplish within the confines of its political, financial and cultural environments. Such hypocrisies can be observed in the IO’s selective pursuit of mandates, the weak enforcement or compliance with rules and half-hearted or thwarted efforts to operationalize or ‘mainstream’ of new agendas.⁵

There are two distinct types of organizational hypocrisy I identify in the case of the Bank. The first type of hypocrisy is the most blatant and observable: the outright contradiction or violation of specific organizational mandates and policies. Evidence of this hypocrisy can be found in well-documented instances of the Bank’s violation of its own environmental and social safeguard policies in its infrastructure projects. This is in fact the target of most NGO watchdog campaigns, exposing where and when the Bank fails to comply with its own rules and regulations in lending operations and project management.

A second form of the Bank’s hypocrisy is much more subtle and difficult to observe and measure, and yet far more pervasive. Here hypocrisy emerges in the form of a ‘mainstreaming gap’. This occurs, for example, when the Bank publicly proclaims its commitment to ideas such as sustainable development, gender, and good governance, but does not follow through by committing the human and financial resources or creating and enforcing rules necessary to fully integrate these ideas into organizational routines and practices. In another sense, according to Michael Lipson in his work on the United Nations, hypocrisy is the failure to act in accordance to the ideals espoused by the IO.⁶ The result is an observable separation or even overt contradiction between the proclaimed priorities and goals of the Bank versus the reality of Bank activity.

Mainstreaming is a process of closing the gap between organizational talk and action and is not merely a matter of reallocating resources or rewriting formal rules. It is often a matter of changing mindsets, shifting expectations, and disrupting the behavioral habits of organizational staff. Robert Picciotto, former Director General of the Operations Evaluation Department of the World Bank (now called the Independent Evaluations

⁴ Bukovansky 2005, 5.

⁵ Critically, I do not equate organizational hypocrisy with an IO’s failure to achieve desired results. Performance failures are often shaped by factors outside of the organization’s control (such as corruption in borrowing countries, external shocks in global price systems, or natural disasters). More importantly, my concept of organizational hypocrisy is subtly distinct from Gutner’s (2005a) understanding of the “gap between mandate and performance”. In Gutner’s account, the primary focus is on the unwillingness or inability of Bank staff (as the principals in the lending relationship) to reign in the errant behavior of client governments (the agents). (See also Killick 1997 for a similar approach; see Nielson and Tierney 2005 for a critical assessment of Gutner’s application of PA models to Bank-client government relations). My focus is less on the results of Bank projects on the ground and more on the institutional processes within the bureaucracy that produce contradictions between the way development ideas are theorized and publicly articulated versus the way they are translated into operational routines and lending priorities. Thus, hypocrisy is not an instance of when the Bank says a development program will work and then it doesn’t.

⁶ Lipson 2004.

Department) provides this interesting definition of mainstreaming in the context of the Bank's operational work in anti-corruption:

[T]he mainstream is 'the principal course of activity' or 'the major current of opinion.' Mainstreaming, on the other hand, indicates 'a perturbation in the natural order of things,' and therefore implies the subversion of old order in order to initiate change. In the mainstreaming process, vested interests will be challenged, and support for a new order must be solidified. At the same time, traditions may be broken and stakeholder loyalty weakened. In this light, mainstreaming a concern for anti-corruption should be seen as a difficult process that will take a lot of effort and a long time to fully implement."⁷

In both instances of policy non-compliance and mainstreaming gaps, organizational hypocrisy is not a binomial variable, present or not. Rather, hypocrisy is matter of degree: a critical amount of observable policy non-compliance or failure to mainstream agendas contributes to an overall perception that the Bank is behaving hypocritically. The important underlying question is what combination of factors lead to relatively large or small gaps between talk and action that characterize hypocrisy? And to what extent is this hypocrisy intentional and strategic behavior by Bank management (who "talk" for the organization) versus how much of it is attributable to the inability of organizational management to transform the rules, incentives structures and underlying organizational norms quickly enough to reorient the expectations and behavior of staff away from old ideas and routines towards new policies and agenda priorities?

GREEN OR GREENWASHED? A BRIEF ILLUSTRATION OF BANK HYPOCRISY

In the past three decades, the Bank has espoused a strong rhetorical commitment to the environment in its development theories, adopted sophisticated environmental impact assessment and safeguard mechanisms for lending operations, and dramatically increased stand-alone environmental lending. Why do critics then still conclude that the Bank is hypocritical when it comes to its commitment to the sustainable development agenda and policies? What does this hypocrisy look like, and what explains the persistent patterns of policy non-compliance and mainstreaming gaps that undermine the perceived legitimacy of the Bank's work in sustainable development? In other words, what has over time shaped the incomplete and uneven "greening" of the Bank?⁸

The devil here lies in the details of the evolution of the Bank's environmental agenda - a story that captures the complex external and internal political environment in which the agenda emerged. Environmental issues in the context of Bank activities actually surfaced quite early in the Bank's history. In 1970, in reaction to shifts in development thinking

⁷ World Bank Operations Evaluation Department 2004, 20.

⁸ There has been a plethora of recent studies on the evolution and problematic mainstreaming of the Bank's sustainable development agenda, both from external and internal approaches. For excellent in-depth accounts, see especially Wade 1997, Fox and Brown 1998, Miller-Adams 1999, and Gutner 2002.

and growing concerns about the ecological impact of the Bank-sponsored large infrastructure projects, Robert McNamara (then Bank President) created the position of Environmental Advisor. This quickly proved to simply be a symbolic gesture. At that time, environmental concerns lacked strong external and internal advocates willing and able to closely monitor and continually push for integration of environmental issues into the core of Bank research and operations. More importantly, the agenda faced resistance from Bank senior management and client governments who viewed environmental concerns as costly ‘luxuries of the rich countries’ ill-afforded by the developing nations still struggling to industrialize their economies.⁹ As a result, Bank management backed the tiny environmental unit with few staff or budget resources. This unit further lacked any real decision-making authority within the organization that would have allowed it to make any impact policy and operational decisions. In the following twenty years, the Bank fell far behind other multilateral and bilateral aid organization in adopting environmental policies and practices such as environmental assessments.¹⁰

In the early 1980s, however, several high profile projects drew critical public attention resulting in external pressure for reform of the Bank’s environmental policies. This included the disastrous Northwest Region Development Program in Polonoroeste, Brazil.¹¹ The \$443.4 million road-building and agricultural colonization scheme across a 1500 kilometer section of the Amazon forest was intended to attract settlers who would raise trees and grow cocoa and coffee for exports. However, the Bank-financed project failed to anticipate the scale of migration to the regions and the massive ecological damage. The project resulted in the highest rate of deforestation in the Brazilian Amazon to date as well as the spread of devastating diseases such as malaria and tuberculosis to the indigenous populations of the region. Environmental activities and NGOs seized on the project to start a global public campaign, bringing political attention to the issue by directly appealing to the U.S. Congress during a critical point in the 1983 negotiations over the replenishment of funds to the International Development Agency.¹² Engaging the Bank’s principal member state’s “power of the purse” proved decisive in linking enough external critics and a small group of advocates within the Bank to push for serious reform of the Bank’s environmental agenda when Barber Conable became president in 1987.

Conable’s massive reorganization of the Bank in 1987-1988 brought in a number of sweeping changes, including the creation of a new Environment Department and four regional environmental units to act as watchdogs over the projects in the four defined regional operation departments.¹³ The number of environmental staff increased by from

⁹ Caufield 1996, 178.

¹⁰ Wade 1997, 635 and World Bank OED 2001.

¹¹ For details accounts of this and similar projects, such as the Arun III dam project in Nepal, the Chixoy Hydroelectric Project in Guatemala, and the Chad-Cameroon petroleum development project, see especially Rich 1994, Wade 1997, and Fox and Brown 1998, Rich 2002, and Gutner 2002.

¹² The International Development Agency (IDA) is the “soft-loan” or concessional lending arm of the World Bank. It lends only to the poorest countries of the world at near 0% interest rates. It depends upon the triannual contributions of the Part I (donor) member states. See chapter three for more details.

¹³ These regional departments in 1987 included Asia, Africa, Latin America and the Caribbean, and Europe and the Middle East. Current Bank structure divides the regional classifications into six units: Latin

70 to over 300 by 1990 (250 by the year 2000). The Bank launched a series of environmental papers, plans for increasing stand-alone environmental projects, and greater budget allocations to environmental research.¹⁴ In theory, these new environmental units were intended to possess greater authority, autonomy and resources to supervise projects. In reality this authority was very limited and real decision-making power continued to rest in the hands of recalcitrant country directors who remained far more attuned to the interests of resistant borrowing governments.

Only two years later in 1989, however, concern over another Bank project, the Sardar Sarovar dam project in the Narmada region of India, created more heat for the World Bank. The large dam project triggered a protest by 5000 villagers who were threatened by forced displacement, resulting in a ‘long march’ over three weeks during which, under intense internal media attention, 140 people were arrested and many were beaten.¹⁵ The Bank responded by appointing an independent commission to look into the claims that the Bank was violating its own policies. The final 1992 report of the Morse Commission, named for its team leader and former UNDP head Bradford Morse, was a scathing endorsement of critics’ claims about the Bank’s action in Narmada. In addition, the report made a series of recommendations calling for greater accountability measures and informational disclosure policies in the Bank. Picked up by NGOs and the U.S. Congress during the next IDA replenishment negotiation, the report directly led to the 1993 creation of the Independent Inspections Panel. Just two years prior to this, in 1991, the Bank adopted Operational Directive 4.01 requiring environmental impact assessments for all projects classified as having any potential environmental effects. IDA later called for the preparation of National Environmental Action Plans (NEAPs) as a means of including environmental issues in the Country Assistance Strategy Papers.¹⁶ A series of high profile Bank conferences and publications, including the *World Development Report 1992: Development and the Environment*, appeared to signal that the World Bank had finally “greened”. Indeed, lending levels for environmental projects since 1993 have risen, giving the appearance that the Bank had in fact finally made good on its espoused commitment to sustainable development.¹⁷

Despite these significant rhetorical and structural shifts within the Bank, environmental scholars and activists within and outside the organization continue to argue today that the Bank has not fully internalized the environmental agenda, primarily because of obstacles

America and Caribbean, East Asia and Pacific, South Asia, Sub-Saharan Africa, Middle East and North Africa, and Europe and Central Asia. Under the new matrix management system launched in 1996 during yet another reorganization effort, the Environmental Department was integrated into the thematic network of Environment and Socially Sustainable Development (ESSD).

¹⁴ World Bank OED 2001, 6.

¹⁵ Rich 1994, 150-153, 249-254, and Fox and Brown 1998, 8.

¹⁶ The Country Assistance Strategy paper is the primary operational “five year plan of action” for any borrower. It includes a brief overview of the country’s development progress and problems, and then highlights priorities for the next several years that includes the use of development aid. Because the documents are meant to be clear and succinct, they often are very selective in their attention. Traditionally, macroeconomic stability and growth progress and strategies form the core of the report, while all other development issues – such as environmental and social concerns, gender, human development, as so forth – fight over the remaining space.

¹⁷ Nielson and Tierney 2003.

within the Bank's deeply entrenched organizational culture.¹⁸ Gutner suggests, for example, that increased lending for environmental projects does not by itself indicate a significant shift in the way the environmental agenda has impacted Bank thinking and action, and may in fact hide the degree to which the Bank has failed to mainstream the agenda.¹⁹ Critically, these evaluations consistently point to internal variables as explanation for why the Bank's hypocrisy has persisted.

On an ideological level, environmental advocates inside and outside the Bank have waged a constant war with the Bank's conservative macroeconomists on the very meaning of sustainable development. In reaction to Conable's 1987 reform, Lisa Jordan writes, "what was at stake in the battle was not simply the Bank's approach to sustainable development but the entire range of policy advice and project lending which the Bank forwards to developing countries. By 1992 the macro-economists had won the battle squarely, relegating the emerging sustainable development paradigm to the confines of the standard development paradigm championed by the Bank for the past fifty years."²⁰ Fox and Brown add, "according to the World Bank's director of environmental economics, at a basic conceptual level changes have been mainly limited to 'grafting environmental concerns onto business as usual.'"²¹

On an operational level, attempts at "greening of the Bank" ran directly counter to many of the incentives structures, norms and routines that had developed in the Bank over time and were still strongly embedded within the organization's other development agendas. Despite the high profile of the environment in prominent Bank publications, the OED in 2001 noted the absence of environment issues within the Bank's main operational action plans, the Country Assistance Strategy papers, which continued to privilege traditional development issues based on macroeconomic indicators.²² Moreover, the formal requirements of environmental assessments are either neglected or marginalized in the management of projects. Due to fear of being exposed by diligent environmental activists, project managers dutifully carry out EIAs, but often with too few resources and time, little public consultation, and too late in the project cycle to really make any difference on the project design.²³ As Michael Goldman notes, Bank staff are often instructed in staff training seminars on environmental assessment, "Don't get zapped by the Narmada Effect, do your EIAs!"²⁴ Yet in practice, formal compliance with EIAs and NEAPs (National Environmental Action Plans) is not matched by an internalization of their real intent, in part due to organizational structures in which environmental specialists have to "sell" their services to country departments within the operational

¹⁸ See for example, Fox and Brown 1998; Miller-Adams 1999; Thorne 2006.

¹⁹ Gutner 2005a and 2005b.

²⁰ Jordan 1997, 2.

²¹ Fox and Brown 1998, 9.

²² World Bank OED 2002, 3. The report cites a 2000 review by the Bank's Quality Assurance Group (QAG) that found that for projects with significant safeguard aspects, the mitigation actions and arrangement were inadequate in 20 percent of the cases.

²³ Wade 1997, US GAO 1998, Goldman 2000, World Bank OED 2001, and Rich 2002.

²⁴ Goldman 2000, 200. See also Goldman 2005.

division.²⁵ Wade argues that a reputation for being a stickler for environmental assessment rules can greatly reduce a person's marketability, and project managers will not seek out the services of anyone who might hold up the project approval process.²⁶

A 2001 OED internal review of efforts to mainstream the environmental agenda implicates the structure of incentives and the lines of accountability that have resisted the inclusion of environmental issues, hindered effective monitoring and evaluation, and failed to reward compliance or sanction non-compliance of staff with respect to EIAs and supervision requirements. Like a number of other external studies, the OED report notes the consistent resistance on the part of both borrowing governments and project task managers, who see the EIAs and other environmental mitigation measures as an added cost and burden that impedes rapid project appraisal and execution, and thus run counter to the Bank's disbursement imperatives and approval culture.²⁷ The same OED report summarizes the persistent gap between the Bank's rhetoric and reality in a sobering conclusion:

...the translation of this wide ranging agenda into concrete action has proved elusive.... Having identified the pervasive aspects of environmental issues, recorded their importance to poverty alleviation, and confirmed that mainstreaming is essential to achieving its environmental objectives and commitment, in practice, the Bank has done little institutionally to promote, monitor, and otherwise make mainstreaming happen.²⁸

This brief history of the Bank's environmental agenda illustrates the overall dilemma of propelling behavior change in the Bank in a manner that would resolve tensions between the Bank's green talk and action. Critically, the evidence reveals both external and internal pressures leading to policy in compliance and mainstreaming shortfalls. The story also implies at different points where that hypocrisy appears intentional, particularly in the early period when management made little effort to allocate the need resources and authority to environmental staff. But from 1987 onwards increasing resources and staff were committed to environmental research and lending and strict policies were enacted, but with clear evidence that the agenda was not fully internalized and policies were not evenly enforced by the Bank as a whole. Hypocrisy was revealed, and yet conscious attempts to uproot and eliminate hypocrisy proved elusive.

The hypocrisy of the Bank's sustainable development agenda remains one of the most commonly evoked and persuasive examples of Bank's patterns of policy in compliance and mainstreaming gaps.²⁹ Yet it is just that – one example. Missing here is a theoretical framework that explains this troubling phenomenon in a manner that allows us to look for signs of hypocrisy in other areas of the Bank's activity and build a more rigorous and

²⁵ This is the result of the reforms conducted in 1997-2001 as part of the "matrix management" reorganization. Nielson, Tierney and Weaver 2006. See also chapter five.

²⁶ Wade 1997, 717.

²⁷ See Wade 1997, Fox and Brown 1998, and Goldman 2000 for excellent discussions on how EIAs are carried out and the various organizational factors that impede their influence upon project management.

²⁸ World Bank OED 2001, 2 and 18.

²⁹ Gutner 2005a; Bosshard 2004.

generalizable understanding of the causes and manifestations of IO hypocrisy. Thus, at this point, it is necessary to turn to theory to look for clues to the sources, conditions, and reasons for hypocrisy in both the external and internal environments of the Bank.

THE WORLD'S BANK: THE EXTERNAL SOURCES OF ORGANIZATIONAL HYPOCRISY

Organizational theory articulated within the field of sociology clearly indicates that hypocrisy, or discernible gaps between the official 'speech' and actions of an organization, is actually quite common. Form does not always follow function. Structures, codified rules, advertised corporate philosophies and policy procedures adopted by organizations often do not converge with the informal norms and routines that informed daily operations. As a result, organizations often take on a public persona in official speeches and texts that is not perfectly mirrored by organizational output.

Hypocrisy is rooted in the organization's need to balance between the demands of its external versus internal environments. On the one hand, organizations are driven by external needs construed from resource dependency or concerns for legitimacy and survival in a competitive market. Public bureaucracies are organizations whose survival is particularly dependent on externally conferred legitimacy (defined as the use of accepted rules and structures) and on public funding.³⁰ On the other hand, organizations strive to maintain internal consistency and stability, which provides staff with a certain level of certainty about organizational missions and allows them to pursue tasks with a sustained level of efficiency. At key stages of organizational life, these needs work in tandem, with internal organizational skills, technologies, routines and cultures evolving to cope with external demands. Yet external and internal environments over time change at different paces and in different directions. When the demands imposed by the external material and normative environment conflict with internal structures and culture, organizations will 'decouple' or 'disconnect', "building gaps between their formal structures and actual work activities" to buffer themselves against the irreconcilable pressures of their external authorizing and task environment.³¹

Nils Brunsson argues that organizations will develop dual roles as 'political' and 'action' organizations:

...[T]wo organizational structures evolve. One is the formal organization, which obeys the institutional norms and which can easily be adapted to new fashions or law, literally by a few strokes of a pen on an organizational chart. A quite different organizational structure can be used in 'reality', i.e. in order to coordinate action. This second type is generally referred to as an "informal" organization.... Organizations can also produce double standards or double talk; i.e. keep different ideologies for external and internal use. The way management presents the organization

³⁰ Meyer and Scott 1983; Lipson 2002, 13; Brunsson 2003, 206-207. Likewise, the world polity model describes IO behavior as a "search for symbolic legitimacy" (Barnett and Finnemore 1999, 717).

³¹ Meyer and Rowan 1977, 340-41; Lipson 2002, 3. See also earlier notions of 'loosely coupled' formal organization in Dalton 1959; Downs 1967; Homans 1950; March and Olsen 1976; and Weick 1976.

and its goals to the outside world need not agree with the signal conveyed to the workforce.³²

Brunsson's distinction between the 'political' and 'action' organization follows from Argyris and Schön's description of organizations' 'espoused theories' versus 'theories-in-use'.³³ Espoused theories employed by the political organization first include the official ideology announcing organizational goals, strategic rationale and justification for the organization's continued existence. Likewise, the espoused theories construct and portray external norms that signal conformity with external expectations about the appropriate behavior of organizational actors. These ideologies and norms are supported by carefully crafted and maintained rhetorical language that attempts to hide internal contradictions or dissent that may blur or undermine the organization's public image and message.³⁴ Finally, the espoused theories also attempt to exhibit conformity with external demands by formally adopting rules, guidelines and procedures, such as new assessment requirements or evaluation techniques. Theories-in-use, on the other hand, reflect the informal ideology (or shared beliefs), internal norms, non-rhetorical language and informal and non-institutionalized routines or 'habits' of the action organization. These theories-in-use comprise the "implicit assumptions that govern actual behavior, that tell group members how to perceive, think, and feel about things."³⁵ Theories-in-use are by nature designed to provide stability and are thus resistant to swift change. Espoused theories, in contrast, may change very quickly to external shocks on the organization's market environment or the demands of its political masters.

Edgar Schein and Nils Brunsson among other sociology scholars thus imply that this 'decoupling' or hypocrisy is an endemic and even acceptable facet of organizational life in the common scenario of conflicting demands and contradictory signals coming from the authorizing and task environment. Brunsson argues:

Hypocrisy...makes it easier to maintain the legitimacy of organizations, even when they are subjected to conflicting demands... Without hypocrisy, one party or interest would be completely satisfied and all others completely dissatisfied. With hypocrisy, several parties and interests can be somewhat satisfied..... An organization that could not deal in hypocrisy would have a more difficult time working in a world of conflict than will one that can.³⁶

The sociological work on organizational hypocrisy primarily focuses on private organizations, with the occasion foray in the public bureaucracies. But the utility of the sociological concept of organizational hypocrisy seems equally or even more appropriate in the case of international organizations. IOs, as multilateral bureaucracies, are expected

³² Brunsson 1989.

³³ Argyris and Schön 1974. See also Meyer and Rowan 1977; Perrow 1991; Dobbin 1994.

³⁴ Wade (1996) refers to this as "paradigm maintenance".

³⁵ Schein 1992, 22. See also Argyris and Schön 1974 and 1978.

³⁶ Brunsson 2003, 206-207.

to talk in a way that reflects not only the interests of their most important principals (foremost the member states they serve) but also prevailing international ideals and norms in the issue area in which they work (e.g. global development for the Bank). Yet this in turn makes IOs particularly prone to the problem of conflicting demands from their multiple member states and the complex material and normative environment in which they work. Not all of these demands and norms can be reconciled or translated into feasible operational goals. In this sense, “in view of the legitimacy requirement, it is acceptable to demonstrate to the outside world conflicts and ideologies which do not actually typify the internal operations.”³⁷ Moreover, talk and action may often be decoupled to placate multiple masters: espoused theories and policies to appease one set of demands and theories in action to satisfy others. And as long as the hypocrisy stays hidden (a rather utopian assumption for high profile IOs), external legitimacy and resources are sustained while internal efficiency needs are met. Hypocrisy is rational, strategic, and necessary for organizational survival.

This naturally leads the study of hypocrisy here to the external environment of IOs and in this case study, the World Bank. Who or what constitutes the authorizing and task environment in which the IO works? Who are the IO’s “political masters” who confer the needed legitimacy, resources, and demand for the IO’s services that are essential to the its very existence? In other words, who or what is contributing to the goal incongruence or conflicting that produces pressures for IOs to engage in organizational hypocrisy?

One naturally begins the search for goal incongruence and opportunities of hypocrisy in the IO’s external environment with its member states. One promising theoretical toolset here can be found in principal-agent (PA) analysis.³⁸ PA theory here appears quite promising, in that it focuses directly on the issue complex principals (here meaning member states of international governmental organizations) and the problems stemming from the heterogeneity (i.e. differences) in principal preferences. In the case of the World Bank, these principals are the 184 member states, represented on a Board of Executive Directors, that collectively approve lending decision, define mandates, and formerly oversee the activities of the Bank management and staff. Of course, not all principals exercise the same authority and influence, as evident in the Bank’s weighted voting system, which strongly favors the donor states and especially the U.S..³⁹ Nonetheless,

³⁷ Brunsson 1989, 21.

³⁸ Drawing from a well-established body of work conducted in American political studies of congressional committee behavior, PA models in general are designed to examine the delegation of authority and tasks from principals (primarily member states) to agents (IOs). Specifically, PA models investigate the scope conditions in which agents attain organizational autonomy, leading to “slack” or organizational “slippage” that enables self-interested, rational and opportunistic IO actors to shirk principal demands. The driving question is what enables agents to engage in deviant or “errant” behavior, sometimes acting in a manner that appears to flagrantly oppose their delegated mandates. Good examples of the application of PA theory to specific IO cases studies include Pollack 1997 and 2003 and Hix 2002 on the European Union, Martin 2002 and Gould 2003 on the IMF; and Nielson and Tierney 2003 on the World Bank. For general discussions of the PA model and theories of delegation in American politics, see for example Calwert, McCubbins and Weingast 1988; McCubbins, Noll and Weingast 1987; Kiewiet and McCubbins 1991; Brehm and Gates 1997; Waterman and Meier 1998; and Whitford 2005.

³⁹ The voting weight is determined by financial contributions. Currently, the US hold 16.39% of the votes on the IBRD Board of Executive Directors, which gives the U.S. Executive Director de facto veto power

these states through their representatives convey directives directly to the Bank management and staff. When these principals disagree, as is often the case within and between the Part I (donor) and Part II (borrowing) states, the Bank often receives conflicting or very complex marching orders. Because the Bank depends on both donors (who supply the funds and dominate decision-making) and borrowers (whose demand for Bank services is essential to the Bank's survival), the Bank feels compelled to adopt goals and policies that appease both sets of actors (see chapter three).⁴⁰

The possibility of severe goal incongruence and contradictory marching orders appears even more likely when we recognize that IOs often have both multiple and collective principals. An IO has *multiple* principals when it has “more than one contract with organizationally distinct principals,” as in the U.S., where Congress delegates via IDA funding and the Treasury Department delegates through directives to the US Executive Director regarding how to vote. The IO has a *collective* principal when it “has a single contract with a principal, but the principal happens to be composed of more than one actor.”⁴¹ This is the case with the Bank's Board of Executive Directors, which is composed of 184 member states who delegate as a single entity, rather than each independently, to the Bank.

The irony here is that divergence of multiple and collective principal preferences not only creates the problem of conflicting demands, but may also create the opportunities for hypocrisy (room for agency slack) if, for example, one or more principals thwart the efforts of other principals to employ control mechanisms to monitor or direct agent behavior. If principals disagree on what they want from an IO, chances are good that the collective action needed to effectively direct IO behavior will break down as well. More pointedly, we may also recognize that “errant” or “shirking” agent behavior is a matter of perception. Action in one area by the IO may be perceived as highly desirable by one principal (e.g. the US push to get the Bank to adopt strict environmental impact assessments in project management) while perceived by another principal as strongly opposed to its preferences (e.g. large borrowing countries who dislike the additional costs, bureaucratic strings and perceived intrusion on sovereignty inherent to EIA procedures). This reiterates a fundamental point raised by Barnett and Finnemore about the complex nature of IO “dysfunction” that is strikingly similar here to hypocrisy. They argue that IO behavior is dysfunctional only *for* something or someone... behaviors that seem self-defeating or undesirable from one perspective might make perfect sense from

over any amendments to the World Bank charter. The other top four countries, in terms of voting percentages, as Japan (7.86%), Germany (4.49%), United Kingdom (4.30%), and France (4.30%).

⁴⁰ This goal incongruence is further exacerbated if the principals differ on the fundamental objectives of Bank activities and seek to delegate new authority and tasks that are not a ready fit with organizational mandates and staff skills. This notion of goal incongruence is different from Gutner's (2005a) concept of antinomic delegation. Gutner defines antinomic delegation as a situation in which “principals [delegate] tasks that do not easily conform to the institution's mission and internal incentive systems, or are simply very complex and difficult to carry out.”⁴⁰ Gutner argues that this in turn can contribute to a problem of mission creep, defined as the “mushrooming of new institutional goals without a corresponding reduction in old goals”. Gutner 2005a, 21.

⁴¹ Lyne and Tierney 2003, 6. See also Kiewiet and McCubbins 1991.

another.”⁴² An espoused theory (commitment to sustainable development norms) is adopted by one part of the IO (e.g. management or external affairs) to attain legitimacy and resources from one set of principals while theories-in-use (lax enforcement of environmental assessment policies by frontline operations staff) are continued to respond to the perceived demands of other principals. The result is an IO saying one thing and doing another: hypocrisy.

For the most part, the member states of an IO are the most prominent and likely sources of the conditions that lead to the goal incongruence or conflicting marching orders that incite organizational hypocrisy. Yet they are not the only external actors that influence the Bank’s ability to attain critical legitimacy and resources needed to ensure bureaucratic survival. In this sense, the more state-centric principal-agent framework can provide only limited traction.⁴³ In the case of the World Bank, we must also recognize the influence of many non-state actors, foremost proliferate non-governmental “watchdog” organizations, epistemic communities of scholars, private capital markets, and other IOs.

For example, as described in the section below as well as chapter three, the Bank behavior has historically been responsive to the perceived demands of Wall Street due to organizations’ dependency on sustaining high ratings for Bank bonds, whose sales on private capital markets constitute a significant addition to the paid-in capital provided by the Bank’s donor states. More recently, however, the Bank has been susceptible to the competitive pressures of private capital markets, whose investment flows to developing countries have in some critical instances dampened borrowers demand for Bank loans. This has taken a direct toll on the Bank’s resources, as the “bread and butter” of the IBRD – the middle income countries such as Brazil and Russia – have turned away from the Bank to take advantage of abundant and relatively “string-free” private capital. What this indicates is that the Bank is influenced not only what organization management perceives may be the expectations and demands of private capital markets vis-à-vis Bank activity. The Bank is also shaped by structural changes in the global flows of private capital that have quite remarkably altered the Bank’s relationship with its most important borrowers. In fact, it would too easy to conclude that the Bank holds all the power and is insulated from borrowing country demands until we recognize that the rapid increase in the availability of private capital to large developing economies (particularly emerging market economies) has given borrowers alternatives to Bank funds and thus led to an ironic obsolescing bargain. As evident in the Strategic Compact reform period (see chapter five) and the recent worried report on the rapid decline of Middle Income Country lending, the Bank management and staff in recent years have been compelled to appear more responsive to perceived borrower demands because of the ready availability of alternative private capital funds.⁴⁴

⁴² Barnett and Finnemore 2004, 36.

⁴³ PA analysis also is limited to the extent that it assumes, rather than explains, both principal and agent preferences. The model as such does not provide insight into why states may place certain demands (delegate tasks) or enact control measures to direct IO behavior. Likewise, we don’t achieve a good sense of where and when the IO may seek to shirk certain delegated tasks and hide such deviant behavior through hypocrisy.

⁴⁴ World Bank 2002.

A second example of the growing influence NGOs is perhaps even more critical here in understanding the extent of goal incongruity stemming from the Bank's external environment. International coalitions of NGOs and civil society organizations, especially in issue areas such as the environment, have become increasingly visible and vocal since the 1980s. While these non-state actors appear quite powerless in terms of their size and material leverage over IOs such as the Bank, IMF and UN, they have proven incredibly adept at attacking the legitimacy of these IOs and in turn engaging principal member states' power of the purse to threaten the financial resources of the organizations. Theoretically speaking, the work on transnational advocacy networks by Margaret Keck and Kathryn Sikkink describes the tactics of accountability, leverage, symbolic, and information politics used by seemingly powerless NGOs to compel IOs to adopt a series of new espoused goals, structures and policies.⁴⁵ Likewise, as described in chapter four, NGO vigilance in monitoring IO activity has also helped to expose patterns of policy non-compliance and mainstreaming gaps that further erode legitimacy.

Empirically speaking it is undeniable that these non-state actors and forces in the Bank's external environment are essential components to our broader understanding of what constitutes IOs' broader authorizing and task environment and in turn what contributes to the goal incongruence and resulting hypocrisy we observe in IOs. Thus far, these non-state variables are theoretically underspecified, thus representing a very promising area of future research. Inductive empirical research on the Bank here is a first step.

In sum, what we end up with here is an arguably complex but persuasive hypothesis regarding the sources of IO hypocrisy. Deriving the basic logic from sociological theory and adding in new insights from principal-agent and transnational advocacy models, we can understand hypocrisy to be "caused" by the goal incongruence stemming from the multiple and conflicting demands of actors inhabiting various roles in the Bank's authorizing and task environment. The key is to unpack the external environment to locate the source and nature of conflicting demands on IOs, and the relative influence each exercises with respect to the IO's ability to sustain legitimacy and resources (see chapter three). This authorizing and task environment will be different for each IO, necessitating careful empirical case study work. The next section summarizes how this approach has been applied to explain the observed hypocrisies of the World Bank.

The World Bank's "Art of Hypocrisy"

The recent work of Robert Wade, a former Bank employee and a world-renowned Bank scholar, best summarizes this external-oriented explanation regarding the sources or causes of IO hypocrisy. Wade likens the Bank to an elephant in a Hindi proverb: "The elephant has two sets of teeth, one to eat, the other to show."⁴⁶ Using Brunsson's theory of organizational hypocrisy, Wade describes the Bank's dual role as an "action" versus "political" organization. As an action organization, the Bank must fulfill its function as a highly specialized and neutral service organization providing development aid expertise,

⁴⁵ Keck and Sikkink 1998.

⁴⁶ Wade 2001, 6.

technical assistance, project proposals and loans. However, as a political organization, the Bank must appear subservient to the wishes and demands of its shareholders and clientele. This includes a complicated set of contributing and borrowing country governments, private capital markets, and an increasing number of international non-governmental organizations acting as watchdog agencies on behalf of developing country civil society and indigenous populations. As an international governmental organization whose members are political entities, the Bank must talk “in a way that reflects back and affirms many of the beliefs and demands of those whose support it needs, even though the beliefs and demands may be inconsistent.”⁴⁷

The current hypocrisies of the World Bank, according to Wade’s hypothesis, are thus the effect of its “necessary unforthrightness” or, in other words, the contradictory signals coming from its complex and changing authorizing environment that compel the Bank to be Janus-faced. On the one side, the interests of its dominant Part I member state, the United States (particularly the US Treasury), and the private capital market on which the Bank depends for its continuous flow of funds, pressures the Bank to embrace what Wade terms the “Finance Ministry” agenda. This prompts the Bank to adopt a development philosophy and lending programs aimed at supporting a decidedly liberal economic viewpoint, conceptualizing poverty alleviation as best achieved through a series of market-oriented policies favoring macroeconomic adjustment, privatization, financial liberalization, export-oriented trade, and institutional reform necessary for encouraging foreign and domestic investment.⁴⁸ This serves the interests of the aforementioned parties by first stabilizing and then opening the developing country economies to northern trade and financial flows.

On the other side, the Bank must tip its hat to the increasingly vigilant NGOs and national parliaments (particularly the US Congress). These groups are pushing a “Civil Society” agenda, premised on the idea of empowerment of the poor through greater participation in the formation of development aid projects and loans and the pursuit of more socially-oriented policies such as socio-economic and human security (social safety nets, education, income equality, access to justice, micro lending programs) and environmental protection. Many of the means and goals of the Civil Society agenda do not merge well with those of the Finance Ministry Agenda. The Bank, faced with the necessity of appearing responsive to both sets of demands, has reacted by rhetorically embracing both agendas in its broad policy paradigms,⁴⁹ leaving the inconsistencies and contradictions to be worked out in its daily operations.⁵⁰

⁴⁷ Ibid, 6. See also a recent discussion of Wade’s thesis of the ‘Art of Hypocrisy’ in the World Bank Staff Association Newsletter, January-February 2005.

⁴⁸ Ibid.

⁴⁹ The Bank articulates these overarching paradigms, embodying the abstract development theory, rationale and general framework for Bank policy, through its major publications and policy statements. These include the *World Development Reports*, its annual reports, and major organizational declarations such as the Comprehensive Development Framework and the Strategic Compact.

⁵⁰ This is consistent with Pincus and Gutner’s descriptions of the Bank torn between the identities of a development agency versus credit institution. Pincus 2001, 186 and Gutner 2005a, 22.

As a means of coping with this, the Bank has “decoupled” or “disconnected” its role as political organization from its role as action organization. In an effort to please and placate its various masters, the Bank adopted many broad development goals (ranging from macroeconomic adjustment to social and environmental projects) and new policy procedures (such as transparency, openness and participation) that are intended to exhibit external norms that engender support and legitimacy for the Bank’s activities. As Wade argues, “... the point is to display its positively valued structures, processed, goals, ideologies and intentions to the outside world.... Its survival is a function of its ability to reflect and create a symbolic accord with important external entities.”⁵¹ This has led to what many Bank observers describe as “mission creep” or “goal proliferation”.⁵²

Journalist and author Sebastian Mallaby reiterates Wade’s essential argument, with a much stronger critique of NGO watchdog and advocacy campaigns and a forceful statement about the donor states’ own hypocrisy. In an article entitled “Saving the World Bank,” Mallaby prescribes:

...facing down the activists who have forced the Bank to adopt excessive rules on the environment, corruption, and the protection of indigenous peoples... The Bank must not be forced to drop projects because of baseless activist campaign, and it must be given political cover in Congress and in European Parliaments so that it can streamline its safeguards.... Making this happen will take a fundamental shift in the attitudes of rich countries. The Bank’s leading shareholders will have to recognize that they have set institution up for failure. They have declared grand development objectives, then done little to support the Bank in its efforts to achieve them. They have nobly proclaimed utopian goals, then left the Bank to take the blame for not advancing them. Such hypocrisy has set the world’s best development institution on a course of steady but preventable decline.⁵³

Wade and Mallaby provide persuasive reasons for the Bank’s hypocrisy and its persistent mission creep. They do not, however, explain how it is that the Bank gets away with hypocrisy or what happens when principals attempt to reform the Bank to resolve hypocrisy. Daniel Nielson and Michael Tierney (2003), in their case study of the Bank’s environmental reform, come closer. They use the principal-agent model to examine how the Bank’s environmental lending over time has been driven by member state interests. Using statistical analysis, they show that when multiple principal preferences converge and attempt to employ oversight and control, changes in the Bank’s lending behavior directly follow. Specifically, Nielson and Tierney measure and track the degree of preference heterogeneity between the US Congress, Treasury and Presidential Administration with regards to the support of environment lending and the installation of strict environmental safeguard policies in the Bank’s project management rules. They conclude that, prior to 1992, disagreements between the Congress and Treasury on the

⁵¹ Wade 2001, 9.

⁵² Rich 2000; Fidler 2001a; Einhorn 2001; and Pincus and Winters 2002.

⁵³ Mallaby 2005, p?

importance of environmental lending and policies created slack in the delegation chain that enabled the Bank to shirk external pressure to mainstream the environmental agenda. By 1992, however, the preferences of Congress and Treasury converged, allowing the two principals to effectively use the US power of the purse and voting influence in the Bank Board of Executive Directors to exercise considerable influence over Bank's lending decisions. This preference convergence also led to the establishment of the Independent Inspections Panel as an accountability (fire alarm) mechanism to monitor and sanction incompliance with EIAs and other safeguard assessment measures. The result since 1992 has been a dramatic increase in the Bank's stand-alone environmental lending and an overall improved compliance record, leading to the appearance at least of significant progress in mainstreaming the environmental agenda and reducing the Bank's hypocrisy in this area.

CONFRONTING HYPOCRISY IN THE BANK'S WORLD: THE POLITICS AND CULTURE OF IO CHANGE

The underlying presumption of these externally-driven explanations outlined in above is that hypocrisy is engaged as an *intentional* and *strategic* act by Bank management and staff to dupe the organization's many political masters and external critics. It is a short-term and rational response to the contradictory demands of an exceedingly complex environment. This is consistent with an intuitive understanding of hypocrisy. After all, the dictionary definition leads us to believe that all hypocrisy is a conscious choice to engage in "false claims" and "pretense". In the case of the Bank, hypocrisy may easily be viewed as rational survival tactic. The Bank must maintain the appearance of responsiveness, effectiveness, and legitimacy necessary to sustain the political and financial support of its many unlike-minded principal members states and to cope with the persistent attacks of 'Lilliputian NGOs'.⁵⁴ The Bank thus strategically commits itself to new agendas and policies to appease the diverse preferences of its various masters. At the same time, Bank management has little or no intent to follow through on these rhetorical commitments. It purposely disconnects talk from action. The objective is to deceive, and thus "unintentional hypocrisy is an oxymoron."

Yet this argument is flawed in that it conflates individual hypocrisy with organizational (collective) hypocrisy. The notion of individual hypocrisy is inescapably tied to intentionality, insofar as we can reasonably expect a rational individual to be able to consciously decide whether to deceive or to make true on his or her word. But when we think about organizational hypocrisy, we're tackling a completely different beast. To argue the IO hypocrisy is always intentional and strategic is to assume that those that control the 'talk' of the organization can also effectively control the actions of the organization and can consciously choose when or whether to connect or disconnect the two. In reality, organizations consist of multiple individuals and units that talk and act on their own. As such, Brunsson warns, we should not have such high expectations for consistency between organizational talk, decisions and actions.⁵⁵

⁵⁴ Mallaby 2005.

⁵⁵ Brunsson 2003, 214.

IOs such as the World Bank are incredibly complex bureaucracies. The President and senior management can more easily shift the rhetoric and formal structures of the Bank than they can change the norms, routines and mindsets of staff that drive daily operations. After all, it is not easy to compel 10,000 staff members to fall into line with new mandates, to internalize new goals, and reorient their behavior. This is all the more difficult if new mandates and goals are inconsistent or if they clash fundamentally with preexisting policies and procedures or entrenched interests favoring the status quo. In this instance, reform efforts intended to translate new talk into action may be thwarted by old fashioned bureaucratic politics. New talk or decisions declared by an individual or group in one part of the organization can provoke resistance from others elsewhere in the organization, preventing “the implementation of action and caus[ing] them to be less anxiously engaged in ensuring that the decision is actually implemented.”⁵⁶

Thus, if we approach IOs not as unified rational actors, but rather as complex social organizations whose process of change is subject to the influence of bureaucratic politics and culture, then we can discern patterns of unintended (or at least unanticipated) hypocrisy quite distinct from conventional notions of individual hypocrisy. In doing so, we can also uncover persuasive reasons for why hypocrisy, once revealed, is apparently so difficult to resolve.

And of course, organizational hypocrisy cannot always stay hidden even under the most optimal conditions for organizational slippage and shirking. When exposed, it can have significant reputational repercussions for the IO, this ironically undermining the very reason for hypocrisy, which is to secure legitimacy. Especially in high profile public organizations dependent on political and financial support, revealed hypocrisy can be devastating. Watchdog groups and internal whistle-blowers will seek to expose the gap between the rhetoric of the organization’s espoused theories and the reality of its theories-in-use. Hypocrisy ceases to become a survival tool and may become a liability in the organization’s search for external legitimacy and resources. In such situations, organizational leaders may be forced to recognize and compelled to realign the organization’s espoused theories and theories-in-use. Accomplishing this realignment, however, is not a simple matter of fixing the internal principal-agent delegation chain, wherein in the IO leader and senior management (the internal principals) employ control mechanisms to realign staff (agent) behavior. Instead, resolving hypocrisy becomes an arduous task of organizational reform that at its heart involves the difficult process of organizational learning and change that must confront bureaucratic politics and transform deeply rooted elements of organizational culture.

This boils down to a sophisticated explanation of the process of change within IOs: one that hinges not just on the analysis of external pressures for change, but more importantly on the investigation of the internal bureaucratic politics and culture. My driving argument here is not that change does not occur in IOs. Quite the contrary, change is a constant. Rather, the key point here is that bureaucratic politics and culture are notoriously difficult to manipulate or ‘reengineer’ in a targeted manner, particularly in large and mature

⁵⁶ Ibid, 210.

organizations.⁵⁷ Thus, attempts to realign talk and action – to reorient staff expectations and behavior around new policy mandates and goals -- will be very difficult if those new tasks run up against entrenched material interests or entail new ideologies, norms and routines that clash with the existing culture. What does it take shift organizational behavior in a way that resolves the patterns of policy incompliance and mainstreaming gaps that constitute hypocrisy?

Resolving Hypocrisy: On Organizational Culture and the Internal Politics of Change

From a sociological perspective, the starting point for understanding the process and outcome of organizational change is organizational culture, which in turn sets the stage on which bureaucratic politics – the battle over the ideas and resources that shape organizational talk and action – is played out. But what is organizational culture and how does it influence bureaucratic life and the process of organizational change?

Culture emerges or is created within organizations out of the basic human desire for stability, consistency and meaning in an uncertain world.⁵⁸ The prevalence of uncertainty and “bounded rationality” in decision-making in a complex bureaucratic environment drives actors to construct routines that provide predictable means of responding to daily tasks as well as unforeseen problems.⁵⁹ Over time, actors within this bureaucratic environment come to recognize and internalize not only codified rules but also the unstated norms, standard operating procedures and shared understandings about ‘how things are done’ that govern much of the mundane bureaucratic activity. Bureaucratic actors respond to these formal and informal rules from habit or a sense of appropriateness as much as from an individual strategic calculation of consequences.⁶⁰ These sets of routines become embodied as organizational culture, which affects staff behavior by setting formal and informal rules and monitoring and sanctioning behavior. Culture further shapes staff behavior by constructing symbolic systems and meanings that clarify how staff view the organization’s very identity, goals, and purpose.⁶¹

Organizational culture is thus simply and broadly defined as the set of “basic assumptions” that come to affect how organizational actors interpret their environment, select and process information and make decisions in a way to maintain a consistent view of the world and the organization’s role in it.⁶² These basic assumptions encompass the ideologies, norms, language, and routines that comprise the meaning of organizational

⁵⁷ Selznick 1957; Nelson and Winter 1982; Hannan and Freeman 1984; Levitt and March 1988; Hatch 1997; March, Schulz and Zhou 2000; Burke 2002.

⁵⁸ Schein 1992, 11.

⁵⁹ Simon 1956; March and Simon 1958.

⁶⁰ Simon 1956; March and Simon 1958; and March and Olsen 1998. Often this worked on a ‘garbage can model’, wherein organizational staff do not come to the table with preset motives or interests, but rather discover them during a process of sorting through and deliberating potential options and come to make decisions through a ‘quasi-random’ matching of problems with pre-existing solutions. See Cohen and March 1972.

⁶¹ Scott 1995, 3.

⁶² Schein 1992 and Nelson 1995.

culture. Organizational *ideology* is defined as the underlying belief system or shared meanings specifying and justifying the primary goals of the organization as well as the rational strategies for allocating resources and fulfilling core missions. *Norms* include the explicit and implicit principals, values and underlying incentive structures that shape bureaucratic staff's expectations of what constitutes both instrumental and acceptable behavior and the overall 'rules of the game' within the organization. The culture also embodies a distinct set of vocabulary or bureaucratic *language* which enables the organization to create a common and efficient means of communicating the shared meanings of ideology and to consistently identify, categorize and apply standards solutions to tasks. Finally, culture also encompasses the standard operating procedures or *routines* that integrate the ideologies, norms and linguistic practices of organizations into behavioral regularities that reduce uncertainty and anxiety among staff by triggering stable and predictable responses to environmental stimuli including external shocks in the market or the changing demands of the organization's political masters.

Much of the inertia or internal resistance to attempts to reform the talk and action of an organization can be explained from the vantage of cultural dynamics. Organizational leaders may symbolically adopt new rhetoric and structures to appease external principals and attain needed legitimacy and resources. But enacting real behavioral change amongst staff across the organization is very difficult. Past the point of "birth", organizational culture becomes deeply embedded and reinforced as new staff members 'learn' the culture through a process of socialization. As cultural elements become 'taken-for-granted', the assumptions underlying them cease to be questioned or debated and can become 'cognitive defense mechanisms'.⁶³ As an organization ages, this culture becomes more inert, staff can become slavishly devoted to routines, and those seeking change from within become considerably more limited in their ability to manipulate or reform culture in efforts to transform the organization's way of doing things. This culture becomes 'solidified' as the organization matures, and as a result organizational preferences and behavior are easily predicted from knowledge of these embedded norms and routines. We can thus predict when hypocrisy – the disconnect between talk and action will occur – by analyzing the conflicts between new demands and existing culture. Where new talk requires radical change in the underlying ideologies, language, norms and routines governing action, we can expect hypocrisy to surface and be fairly resilient.

This depiction of an overly-socialized staff within a tenacious organizational culture gives little credence to the possibility of rapid organizational change that would enable well-intended reformers from realigning organizational talk and action. Consisting of the taken-for-granted assumptions and internalized modes of thinking and acting, culture is rarely confronted or debated, and hence is extremely difficult to change.⁶⁴ An internal document written after the dismal 1987 reorganization of the World Bank likened attempts to change the deeply embedded organizational culture to trying to move an iceberg: one can change the visible formal structures and rules that make up the small tip of the iceberg, but little can be done to strategically and quickly transform the hidden

⁶³ Argyris and Schön 1978 and Schein 1992.

⁶⁴ Schein 1992, 22. See also a similar argument by North (1990, 91) on 'tenacious survival capacity' of culture that impedes change in the underlying informal institutions.

assumptions, incentives structures, and habits that inform that majority of decisions and actions that happen ‘beneath the surface’.⁶⁵

Depicting such cultural tenacity and socialization inevitably overdetermines the effect of that culture has on perpetuating organizational hypocrisy. Indeed, culture-based accounts run the real danger of depicting organization actors that are so socialized into their immediate bureaucratic environments that their thoughts and actions are fully determined by the values, norms, and ideologies that they inevitably internalize over time as their tenure within the organization lengthens.⁶⁶ Actors in this sense are ‘cultural dupes’ who become completely habit-driven and shaped solely by the ‘logic of appropriateness’ that impels norm- or role-conforming behavior that is “locked in.”⁶⁷ It is an entirely static notion that leaves little room for strategic agency within the bureaucracy and the possibility that, through open debate and direct engagement of culture, change in organizational talk and action can be engendered.

The essential insight here on where strategic agency plays into culture-based accounts of IO change is offered by Bebbington et al.’s “actor-oriented approach”.⁶⁸ In their work on the evolution of the social capital debate within the World Bank, the authors describe in fascinating detail the manner in which key actors and groups (including two of the authors themselves) engaged in what we might call “policy advocacy’ and ‘norm entrepreneurship’.⁶⁹ These actors directly confronted and engaged the dominant economic and technocratic culture of the Bank to introduce the concept of social capital into the Bank’s development discourse. The strategies they employed to ‘get their ideas onto the table’ demonstrate the very nature of bureaucratic politics. The first front was a battle over *ideas*: grappling with resistant economists who did not see the value of ‘squishy’ social concepts that did not fit well into their prevailing models or methodologies. For the social development advocates, the strategy became one of convincing these powerful economists of the compatibility and utility of the concept, framing the concept (including using the language of ‘capital’) in a manner that would resonate and adapt to, rather than directly challenge, existing ideologies – a process which would actually change the way in which social capital and development was articulated in the Bank.

Once embraced more or less on an ideological level, however, the second battle centers on mainstreaming the concept into Bank operations – a process of translating the social capital talk into action. This, in turn, is a struggle involving the disruption of previous

⁶⁵ World Bank 1987.

⁶⁶ Bourdieu 1990 and Powell and DiMaggio 1991. See Checkel et al 2005 for a discussion of the “socialization” effects of the EU; although here we must make an important distinction between the various EU institutions that are more “forum” organizations or organizations with seconded staff versus the Bank, which is a more autonomous service bureaucracy with permanent (non-seconded staff). I would argue that the possibilities for socialization of staff within the Bank are far greater than the potential for state socialization into European institutions.

⁶⁷ March and Olsen 1989, chapter 2; Barnett 2002.

⁶⁸ Bebbington et al, 2004 and 2006.

⁶⁹ On policy advocacy within IOs, see Kardam 1993. On ‘norm entrepreneurs’, see Finnemore and Sikkink 1998.

operational incentives, norms and routines, which affects the manner in which scarce resources are allocated, including the hiring of new social development staff and integrating social development programs more centrally into Bank lending projects.

The strategic agency approach is invaluable here, insofar as it avoids the false assumptions that all organizational staff are ‘cultural dupes’ and that organizational culture, once embedded, will be impossible to uproot. In other words, the approach carves out space for rational, strategic agency as a driving force for organizational change while simultaneously not overlooking essential sociological insights on organizational culture. In the context of explaining hypocrisy, this is culture-based model of bureaucratic politics is absolutely essential. The battles over ideas and resources are often fought on different fronts with different outcomes. We come away with a much better understanding of who shapes organizational talk and action and how, and more specifically what enables or constraints these change agents from *connecting* the emerging talk and action.

This sociological understanding of the interaction between organizational culture, strategic agency and change challenges models that focuses far more on the process of altering formal structures and rules as the means of redirecting organizational behavior. The PA model applied to the internal process of change in IOs examines the delegation relationship between organizational leaders (the principals) and lower-level staff. Change in this sense is once again a matter of the principals employing control mechanisms to monitor staff activities and reforming basic incentive structures (through hiring and promotional rules) to reward or sanction staff behavior in desired directions.⁷⁰ The flaw in the PA model is the overly optimistic assumption that external principals and internal organizational leaders can alter staff behavior solely by enacting formal changes to shift underlying logics of consequences. This may be effective if internal principals can collectively and clearly excise preexisting incentive structures and rely upon staff, as fully rational actors, to respond to new incentives. Yet not all principals may agree on the desirability and direction of change nor is it easy to disrupt mindsets about “how things are done at the Bank”. The President of the Bank and his numerous vice presidents, country directors, and managers on down the line are not always on the same page, which may result in senior management as a whole sending mixed signals to lower-level staff about the “real” priorities and rules of the organization. Likewise, staff members, like all humans, possess bounded rationality. Under conditions of uncertainty, they will likely default to existing expectations and behavior.

Indeed, formal rule change incited by revealed hypocrisy may actually *worsen* the gap between rhetoric and reality if it does not tackle to underlying informal rules and structures embedded in organizational culture. Organizational leaders may seek to cope with new environmental challenges by quickly altering the espoused theories (and thus the organization’s external image) by adopting new formal structures, rules, and official ideologies as well as proclaiming ambitious plans for organizational reorganization and culture reform. “If, as the logic of organized hypocrisy holds, decisions by themselves substitute for action consistent with decisions, then attempts to influence an

⁷⁰ Nielson, Tierney and Weaver 2006.

organization's actions through its formal decision-making processes may be worse than futile: they may be counterproductive.”⁷¹ The nature of informal institutional change described above limits the extent to which organizational actors can control the direction, pace and content of such cultural reform, particularly in large, complex bureaucracies where that culture has not been visibly challenged for some time. As a result, hypocrisy – despite the good intentions of reformers – will tend to persist when the changes needed to resolve hypocrisy clash strongly with entrenched bureaucratic interests and organizational culture.

Resolving Hypocrisy: Reforming the World Bank

The above theoretical insights on the nature of bureaucratic politics, culture and change resonate strongly in the case of the World Bank. Consider for a moment prominent environmentalist and NGO activist Bruce Rich's comments on the Bank's hypocrisy:

The key word for understanding the World Bank in the 1990s is “Disconnect” – the disconnect between its alleged purposes and its record, the disconnect between [President James D.] Wolfensohn's proclamations to change the Bank's culture, and the actual internal reforms needed to address the Bank's systemic failures to implement its most basic policies concerning poverty alleviation and environmental assessment. There is a disconnect between the speeding up of loan approval, weakening Bank policies, and claiming to root out the ‘culture of [loan] approval’.⁷²

Rich's comments are directed at Wolfensohn's efforts during the ambitious “Strategic Compact” reform period of 1996-2001, analyzed in detail in chapter five. The reform program was initiated in a response to a systemic crisis in the Bank, which simultaneously faced rapidly changing demands from both donor and borrower states, increasing criticism externally from well mobilized NGO and civil society groups, and internal evaluations demonstrating a dramatic decline in project and loan performance over the past decade.⁷³ One remarkable result from internal evaluations, most notably the now infamous Wapenhans Report from 1992, was a scathing admonition of the Bank's operational culture (defined by its driving disbursement imperatives and Washington-centric approval culture) as the cause of the Bank's lackluster performance and inability to respond quickly to changing environmental needs.⁷⁴ Shortly after taking the Presidency in late 1995, Wolfensohn announced his intention to overhaul the entire organizational hierarchy and incentives structure of the Bank in hopes of disrupting and transforming the underlying culture and behavior of the organization.

⁷¹ Brunsson 2003, 221-222; cited in Lipson 2002.

⁷² Rich 2000.

⁷³ A detailed description of Strategic Compact reform, including background conditions and the substance of the program, are provided in Weaver and Leiteritz 2005; Nielson, Tierney and Weaver 2006; and Weaver (forthcoming), ch.5.

⁷⁴ Portfolio Management Task Force 1992.

Post-hoc evaluations of the Strategic Compact's attempt to align newly espoused theories with theories-in-use reveal a lot of the intertwined nature of organizational hypocrisy and change. One of the most critical findings was the persistence of goal incongruity that significantly undermined the reform process. In an attempt to placate the Bank's many critics, the Compact architects adopted a plethora of reform goals, many of which were mutually contradictory. As a result, as chapter five demonstrates, efforts to enact change in one area to meet one specified goal (such as "improving client responsiveness" by streamlining project approval processes) directly undermined efforts to achieve goals in other areas (such as more vigilant enforcement of costly and time-consuming social safeguard assessments). It seems absurdly clear in hindsight, but is worth stating. Reform intended to resolve areas of hypocrisy fell far short of desired results where it failed to address and alleviate the fundamental goal incongruity that caused the original hypocrisies. This has subsequently led the Bank to openly discuss the need to "be more selective" in its activities, which in more cynical light may be interpreted as "deciding who we can please, and forgetting about the others". For political organizations which depend upon legitimacy and resources from a wide array of sources, that is much more easily said than done.

But perhaps more critically, the evaluations of the Strategic Compact produced skeptical conclusions regarding the ability of reformers or "change entrepreneurs" to enact behavioral change through processes of structural reengineering and cultural re-socialization: a classic dilemma of trying to balance the 'hardware' and 'software' of organizational change. Here we actually get a much crisper picture of where and when reforms work and when they do not. Unsurprisingly, Wolfensohn and his management team appear most successful in meeting the Compact goals where they were able to effectively observe, monitor and reward or sanction staff behavior in line with reform goals. In PA terminology, this refers to the ability of the principals to reduce asymmetric information and reign in errant agent behavior when those agents (i.e. lower-level operational staff) deviate from principal wishes. Likewise, staff members were able to "shirk" reform objectives where management was unable (or unwilling) in some cases to employ control mechanisms.

At the same time, as chapter five will show, assessments of the Compact revealed powerful evidence of the influence of culture. More rapid change was observed where the goals of the reform program appear compatible with the preexisting intellectual and operational culture in the Bank, although the degree of change more adequately demonstrates adaptation more than revolution. Where reform goals clashed strongly with preexisting ideologies, norms and routines, change was significantly more modest or non-existent. This intuitively makes perfect sense. Where newly espoused theories differ greatly from long standing theories-in-use, the sheer complexity of transforming norms, mindsets and habits will at best produce slow and incremental change. Overall, the internal evaluators of the Compact consistently note gaps between reform goals and actual outcomes, which they attribute to the inability of the reformers to use formal restructuring tools as change levers for deeper cultural change within the Bank. And this allows us to speculate a bit further on the prospects for resolving hypocrisy through

organizational reform. Where hypocrisies are the most blatant, they might be the easiest to expose but simultaneously the hardest to change.

CONCLUSION

The empirical and theoretical review offered in this chapter outline the reasons for and conditions under which we might expect World Bank hypocrisy to arise. This is an essential step towards addressing the driving question of how hypocrisy might be resolved, once revealed. At the same time, it questions the assumption that hypocrisy is in fact a fully conscious and deliberate act by the World Bank to navigate the political waters of its external environment.⁷⁵ Indeed, even the most well-intended rhetorical shifts in response to external demands may not be met by a correspondingly swift change in the informal institutions of the organization that governs the daily activity within the bureaucracy. Without transformation in the underlying organizational culture, external norms are not embraced as internal norms. The institutionalization of new rules and structures can quickly be marginalized if they clash with the existing dominant culture and material interests (which may continue to be reinforced by countervailing interests outside the organization). New agendas, goals or ideas may not be automatically taken seriously or integrated fully into existing bureaucratic routines even with the most savvy strategic agents advocating this change. In essence, the new development paradigms and policies that the Bank presents to the world may not be readily internalized in such a way as to truly change the way the Bank goes about its business.

Organizational hypocrisy in this sense may be a consequence of the difficulty that external and internal reformers face in constantly reengineering the organization's research and operational cultures in line with an ever-changing menu of new development theories and tasks. Thus, the behavioral patterns and specific instances of Bank hypocrisy require dual levels of explanation. On the one hand, hypocrisy is caused by contradictory environmental signals that compel the Bank to adopt competing development goals to placate the interests and demands of its multiple political and financial masters. On the other hand, behavior and organizational hypocrisy is rooted in the difference between the substance and rate of change in this external environment and the Bank's internal organizational culture. The mutual constitution and influence of these worlds on resulting Bank behavior must be sorted out to fully understand the dynamics of organizational hypocrisy and change in the Bank.

⁷⁵ For a blunt discussion of the staffs' view of the Bank's political environment, see the World Bank Staff Association Newsletter, January/February 2001.

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