

## Culture, Leadership, and Independent Evaluation

This chapter discusses the concepts of culture, cultural change, and leadership, and how these can be related to independent evaluation. This is relevant because the culture of an organization is an important determinant of how people within the organization react to different circumstances, and hence how the organization as a whole evolves and adapts to changing circumstances. In IFIs, the concept of organizational culture becomes even more relevant when related to the role and function of independent evaluation offices within these institutions. Leadership is relevant since it plays an important role in promoting change within an organization, and thus in transforming an organization into the ideal of a learning organization.

The concept of organizational culture has traditionally been linked to firms in the private sector and has been related to those less tangible and less obvious elements that are more powerful than market factors in determining a firm's success (Cameron and Quinn, 2011). While some of the literature has addressed organizational culture in public sector organizations (see, for example, Mahler, 1997; Schraeder, Tears, and Jordan, 2005; Junge, Kelleher, and Hadjivassiliou, 2010), the concept is less developed in the analysis of international financial organizations.<sup>1</sup>

Our objective here is to understand what culture means for an organization, and the challenges that it entails for current and future activities. For example, does the organization's prevailing culture obstruct or slow the attainment of certain objectives? Does it impede the functioning of the organization? Or does it promote learning, adaptability, and flexibility to new situations?

These questions are particularly pertinent for every evaluation office within an organization. This is because evaluation tends to examine the organization's activities from a different perspective from that used by

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<sup>1</sup> IEO (2011) offers evidence on some cultural elements of the IMF—such as groupthink and lack of incentives to work across units or raise contrarian views—that hindered the Fund's ability to correctly identify the mounting risks in the run-up to the financial and economic crisis that began to manifest in mid-2007 and reached systemic proportions in September 2008.

other stakeholders of the organization. In the case of the IEO, its reports analyze IMF policies and operations through the lens of independence that allows it to “speak truth to power.” Thus, the IEO may address specific IMF activities from a different angle from that of management and staff or reveal problems or concerns that management or staff do not share. As such, the office runs against the prevailing culture. It is the prevailing culture in the IMF—which is shaped by the constraints the organization faces and conditions its behaviors and its responses—that we must consider if we are to better understand the challenges the IEO faces when producing its reports and when challenging the IMF’s underlying beliefs and assumptions. This is important if one expects the IEO to play its part in the promotion of a learning IMF. First, however, we briefly review theories of organizational culture.

## Organizational Culture Theory

While the concept of culture in an anthropological sense has been around for several centuries, the understanding that “culture” has something to do with organizational performance dates from the 1930s. The studies that were conducted with the workers at the Hawthorne plant of the Western Electric Company in the late 1920s and early 1930s (the Hawthorne studies) marked the first systematic attempt to use a concept of culture to understand the work environment. For example, among these studies, Roethlisberger and Dickson (1939) realized that the most significant variable behind the performance of a firm was the culture of the work group. However, it was not until the beginning of the 1980s that organizational scholars in the United States began paying serious attention to the concept of culture. Interest in organizational culture is credited largely to the economic conditions of the 1970s when international competition had heightened and more foreign companies were operating factories in the United States. Specifically, the success of the Japanese in many industries sparked curiosity about whether their differing corporate values, attitudes, and behaviors were responsible for their often superior performance. Hence, corporate culture was offered as an asset that could be managed to improve business performance (Ouchi, 1981; Pascale and Athos, 1981; Peters and Waterman, 1982; Deal and Kennedy, 1982).

For many decades, managers and scholars paid little attention to the role of organizational culture in organizational performance. This was basically because organizational culture is not readily detectable most

of the time, being the product of the assumptions, values, collective memories, and expectations of the organization and its members.

While there are many definitions of organizational culture (see, for example, Lundy and Cowling, 1996; Hellriegel, Slocum, and Woodman, 1998; Smit and Cronje, 1992) the one that has served as a pivotal point of departure for future work, and encompasses most of the other definitions, is Schein's 1984 definition:

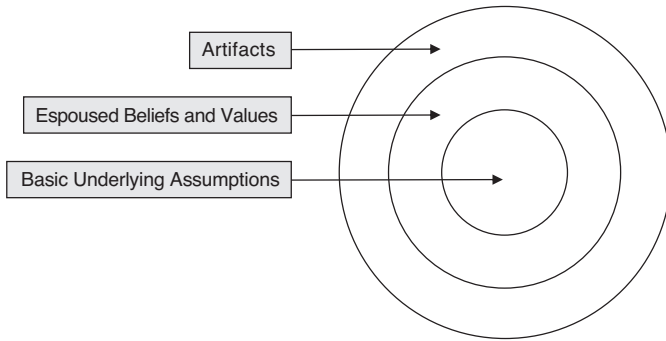
Organizational culture is the pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid, and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems (Schein, 1984: 3).

According to Cameron and Quinn, "most discussions of organization culture agree that culture is a socially constructed attribute of organizations that serves as the social glue binding an organization together" (Cameron and Quinn, 2011: 18).

Schein's definition of organizational culture presents three unifying attributes. One is the concept of shared meaning. That is, the values and the learning experiences are shared by members of the organization, and everyone in the organization is on the same track. Once a set of shared beliefs has come to be taken for granted it determines much of the group's behavior; even if some members of the organization leave, the shared assumptions and values prevail and will be inculcated in new members, thus providing stability to the group.

The second unifying attribute is that the notion of organizational culture is socially constructed and is affected by the environment and history. That is, past experiences, and the resolution of problems by the organization in a specific manner, determine the willingness to continue doing things in the same way and to transfer this knowledge to new members of the organization. Third, organizational culture is "thick," in the sense that it resides at all levels of the organization members' behavior. Thus, organizational culture is a process of social learning, and the outcome of prior choices and experiences. And, as discussed below, it is also at the core of an organization's adaptability and willingness to change—and hence it can either facilitate or hinder organizational transformation.

According to Schein (1984), the culture of any group consists of elements that can be studied at three different levels of awareness or degrees to which the cultural phenomenon is visible to the observer (see [Figure 9.1](#)): (i) the level of its artifacts; (ii) the level of its espoused beliefs and values; and (iii) the level of its basic underlying assumptions.

**Figure 9.1. Levels of Cultural Analysis**

These levels range from very tangible overt manifestations that one can see and feel to deeply embedded, unconscious, basic underlying assumptions. The meanings attached to these elements help members of the group make sense out of everyday life in the organization and are more or less shared by people within the organization.

Though the essence of a group's culture is its pattern of shared, basic, underlying assumptions, the culture will manifest itself at the level of observable artifacts and shared espoused beliefs and values. In analyzing cultures, it is important to recognize that artifacts are easy to observe but difficult to decipher, and also that espoused beliefs and values may not accurately reflect the inner core of the organization's culture.

*Artifacts.* At the surface, the highest level of cultural manifestation is the level of artifacts, which includes all the phenomena that one can immediately see when first encountering an organization. Artifacts include the visible aspects of an organization, such as members' behavior; the way they interact; their work space; their outputs, systems, and procedures; and all the elements that are easy to observe from the outside. As just noted, artifacts may be difficult to interpret. This is because they are only symbols of the deeper and more difficult-to-observe cultural levels, such as the espoused beliefs and values and basic underlying assumptions that Schein defines as the essence of culture.

*Espoused beliefs and values.* These represent unwritten rules of behavior, and guide how members of an organization should behave in particular situations. Beliefs and values basically tell members what is important in the organization and what deserves their attention. Espoused values are conformed by ideals, goals, and aspirations. Beliefs and values often become embodied in an ideology or organizational philosophy, which then serves as a guide to dealing with the uncertainty

of intrinsically uncontrollable or unexpected events. When the group learns that certain beliefs and values “work,” in the sense of reducing uncertainty in critical aspects of the way the group functions, and as these beliefs and values continue to provide meaning and comfort to group members, they become transformed into non-discussible basic underlying assumptions that represent the essence of the culture. Basic underlying assumptions need to be fully understood before one can predict group members’ future behavior.

*Basic underlying assumptions.* The essence of a culture lies in the pattern of basic underlying assumptions that are at the deepest levels of organizational culture, and thus more difficult to unveil. To understand a group’s culture, one must attempt to get at its shared basic assumptions and understand the learning process by which such basic assumptions evolve. Once there is a clear understanding of what these assumptions imply and represent, the others that are closer to the surface—the artifacts and the beliefs and espoused values—become easier to interpret and thus easier to understand and handle.

Basic underlying assumptions serve as a guide for members in an organization on how to perceive, think, and feel about things. They define, for the members of an organization, what to pay attention to, what things mean, and what actions to take in various kinds of situations. Repeated success in implementing actions based on certain beliefs and values may result in taken-for-granted basic underlying assumptions that members of an organization accept as their own way of confronting different situations.

As such, one may find a broad consensus among organization members on the way to address specific circumstances. Members will assume and expect a specific behavior associated with a particular underlying assumption, and will tend to be comfortable with others who share the same set of assumptions. Once a basic assumption comes to be strongly held in a group, members will find behavior based on any other premise inconceivable, and any deviation will be seen with suspicion. Organization members will feel uncomfortable and vulnerable in situations where different assumptions operate.

Given their deep-rooted nature, basic underlying assumptions tend to be unassailable and nondebatable, and hence difficult to change. Any challenge or questioning of a basic assumption will evoke opposition and defensiveness. In this case, the shared basic assumptions that make up the culture of a group work as a defense mechanism that reinforces the prevailing views within the group and rejects views that seem to contradict them, making an organizational learning process more difficult.

For an organization to learn something new—that is, to challenge the innermost part of its culture—requires its members to revisit and modify some of their more stable and assumed understandings, undertaking what Argyris (1977) has called double-loop learning. Such learning is intrinsically difficult because the reexamination of basic assumptions temporarily destabilizes our understanding of how things evolve. Thus, attempts at cultural change, in the sense of changing the basic underlying assumptions in an organization, tend to encounter resistance and defensive attitudes. According to Schein, once our underlying assumptions are challenged, “we tend to want to perceive the events around us as congruent with our assumptions, even if that means distorting, denying, projecting, or in other ways falsifying to ourselves what may be going on around us” (Schein, 2010: 28).

What if some of an organization’s basic underlying assumptions turn out to be wrong? They may have worked well and been valid for long periods, but if circumstances change, and some of the assumptions cease to be valid, defensive attitudes will abound, and the organization as a whole will tend to reject and even ridicule new assumptions or evidence that contradicts the embedded beliefs. If this is the case, only the organization’s leaders and managers will be able to steer the organization in the right direction and force organizational learning to take place such that new values and beliefs start guiding organizational behavior.

Hence, it becomes central for leaders and managers in an organization to understand the deepest levels of culture within an organization, to assess the functionality of the assumptions made at those levels, and to deal with the resistance that is unleashed when those assumptions are challenged. As noted by the World Bank’s Independent Evaluation Group (IEG) in this regard:

The behavior of managers breathes life into the culture and the incentives of the organization, helping to define the scope and the outcome of any reforms, including attempts to nurture a learning culture. Influencing the culture is seen as one of the critical jobs of leaders of any organization. Experience both with successful and failed efforts at cultural change underscores that leading by example is the only way by which leaders can effect cultural change (IEG, 2014: 59).

As mentioned at the beginning of this chapter, evaluation offices address some issues from a different angle from that of the current thinking of the organization. What if the current thinking is perhaps no longer valid and the evaluation office has something to contribute that contradicts this thinking? Understanding the culture of an organization, and the constraints and reactions that it entails, would not only help us

recognize the challenges that evaluation offices confront, but also the responsibility of the leaders and managers of the institution in promoting the required learning and cultural change, and their needed reliance on evaluation to help them guide the required change.

## Organizational and Cultural Change

Culture is an important determinant of an organization's ability to learn from experience and adapt to new circumstances. Culture affects organizational performance and effectiveness through its influence on the organization's ability to implement change. It is important to understand culture so that we can better comprehend how change can take place within an organization, and what impediments to change the existing culture imposes. A deeper understanding of the barriers to change can provide the organization's leaders and managers a clearer path for the steps required to promote the required change, so that the organization is better prepared to face new challenges and remain competitive and efficient.

Much of the emphasis in the 1970s on formulating business strategies shifted to organizational culture in the 1980s as firms discovered cultural barriers to implementing a new strategy. A number of practitioners and academics focused on helping firms implement new strategies by better aligning their corporate culture with their new desired direction. Several studies (for example, Uttal, 1983; Lau, Kilbourne, and Woodman, 2003; Cameron and Quinn, 2011) conclude that the sustained success of many firms had less to do with the traditional "market forces and competitive edge" interpretation than with the implicit, often indiscernible, aspects of organizations, such as core values and consensual interpretations about how things take place within the firm: in other words, organizational culture.

Notwithstanding the recognition that organizational culture has a powerful effect on the performance and long-term effectiveness of organizations, and the need for organizations to be sustained by a culture that welcomes innovation and promotes learning and adaptation, it has also been acknowledged that cultural change is an extremely difficult and long-term process. Culture is an enduring, slow-to-change, core characteristic of organizations. For cultural change to take place, it must generally be managed consciously, and it requires clear strategic vision, top-management commitment, and leadership. Data from hundreds of organizations and interviews with thousands of managers across the world show that 70 percent of organizational change efforts do not succeed and the main factors contributing to failure include

employee resistance to change and management behavior that does not support the alleged change (Keller and Price, 2011). Again, quoting the World Bank's Independent Evaluation Group: "Employees resist change when the signals they receive from their managers are unclear (for example, when everything is labeled a priority) and when bosses' behavior fails to model the reforms that they are trying to promote" (IEG, 2014: 60).

## How Does the Culture of an Organization Change?

What if the organization's culture inhibits change, and prevents adaptation to changing circumstances? If this is the case, the culture will need to evolve towards a new culture that emphasizes being nimble and innovative and is more welcoming to change.

Schein (2010) divides cultural change in organizations into two broad categories: (i) a natural process whereby culture evolves and changes as organizations grow and age; and (ii) managed change initiated by leaders of the organization when the evolutionary process is too slow or going in the wrong direction.

With regard to the natural evolutionary process of cultural change, Schein categorizes the change mechanism according to the stage at which the organization finds itself. That is, in the founding or early stages of the organization, the organizational culture evolves in small increments by continuing to assimilate what works best over the years. Once the organization is more established, cultural change takes place through the advancement of some of the subcultures of the organization, or by the inclusion of outsiders who bring in new ideas. As the organization reaches maturity or declines, cultural change takes place as a result of a dramatic experience—such as a major accident or a merger or acquisition—that invalidates previous beliefs. These events require an important turnaround, and thus a significant cultural change.

Organizational culture rarely changes just because leaders want to change it. When leaders realize the presence of problems in the organization that need to be fixed, or that new goals need to be achieved, they need to assess whether the existing culture will aid or hinder the change process. If they see that the prevailing culture deters the organization from solving the problems at hand, the culture itself becomes the change target. In these instances, cultural change becomes a clear objective, and the organization gets involved in a "managed" cultural change. In this case, the cultural change requires leaders who are consciously and consistently engaged in the process.



In his book on leadership and management, Kotter devotes a chapter to corporate culture and emphasizes that creating the proper environment “is probably the most important task that management can undertake” (Kotter, 1990: 133). He quotes the CEO from one of his case studies as saying:

Our objectives are to create a culture that: facilitates and emphasizes striving for high goals and high standards, emphasizes developing people and ideas, emphasizes high participation and high involvement between managers and their people, and emphasizes collaboration and close professional association among peers—where rivalries between departments are de-emphasized and instead we focus on the objectives that unify us rather than those that are divisive (Kotter, 1990: 133).

For Kotter, to develop the kind of culture that creates strong leadership and management requires:

. . . first and foremost, providing a vision of the kind of culture that is needed. It also means helping people to understand what leadership is, why it is important, how it is different from management, and how it can be created. It means giving people the opportunity to lead and manage. It means supporting efforts with resources and enthusiasm that are consistent with the desired culture. It means recognizing and rewarding success. In short, it means providing leadership on the issue of culture. . . . It takes strong leadership to create a useful culture. . . . In a sense, institutionalizing a leadership-centered culture is the ultimate act of leadership (Kotter, 1990: 138).

The culture of an organization determines the way the organization responds to different circumstances, and the way it adapts to a changing environment and to new information. Since culture provides a reservoir of organizational meanings that affects every aspect of the organization’s response to any particular development, it exerts significant influence on the organization’s ability to learn from experience and to change. Hence organizational culture may guide and motivate learning, or it can simply obstruct or repress it. That is, culture not only establishes the conditions on how and when organizational learning takes place, but also determines whether the organization has attained the status of a learning organization.

Garvin, Edmonson, and Gino’s three building blocks of the learning organization, presented in [Chapter 7](#) above, represent the culture that needs to be present for an organization to call itself a learning organization. And, as previously said, the three building blocks are precisely what independent evaluation needs to function properly in an organization.

If the prevailing culture of an organization is seen as stifling learning, then a cultural change will be required in order to transform the organization into a learning organization. Chapter 7 concluded that independent evaluation is a powerful tool to promote learning in an organization, and to move an organization closer to the ideal status of a learning organization. We believe there is a virtuous circle that encompasses organizational culture, learning, and independent evaluation: that is, independent evaluation promotes learning within an organization, and this learning promotes a “natural” cultural change that is needed to help the organization become a learning organization. Furthermore, the learning organization, as an aspirational concept, is one that welcomes independent evaluation. Hence the circle that goes from independent evaluation to learning, to cultural change, to the learning organization, and back again to independent evaluation is completed:

Independent Evaluation → Learning → “Natural” Cultural Change → Learning Organization → Independent Evaluation

This sequence of events can be marred by difficulties if the organizational culture does not favor learning through independent evaluation. In these circumstances, learning from independent evaluation (the first link of the chain) is constrained and thus cannot contribute to the rest of the phases.

What if the leaders of the organization realize the value of independent evaluation, and thus “force” a cultural change towards a more open and receptive culture that welcomes independent evaluation? This could take place through a “managed” process of cultural change towards openness and learning, which would in turn move the organization closer to a learning organization and thus provide more fertile ground for independent evaluation to flourish, and to offer its full potential. Independent evaluation would sequentially foster learning, and thus a “natural” cultural change that feeds back into a learning organization and independent evaluation.

“Managed” Cultural Change → Learning Organization → Independent Evaluation → Learning → “Natural” Cultural Change → Learning Organization → Independent Evaluation

## Effective Leadership and Independent Evaluation

Up to now we have simply defined “managed” cultural change as the leaders’ response to a change that they believe is needed in the organizational culture.

The recognition of leaders' or managers' role in the promotion of cultural change in an organization is not new (see, for example, Humble, 1973; Lloyd, 1990; Senge, 1990; Senge and others, 1994). Senge and others, referring to the role of senior managers in the culture of an organization, note that "Every aspect of their performance, every conversation they hold, and every action they take demonstrates what values they believe are important to the organization. That is why a learning organization cannot exist without its senior managers' commitment and leadership" (Senge and others, 1994: 66). Members of the organization, seeing how significant the change is to the leadership, tend to accept the change more easily.

A report by the Global Agenda Council on Institutional Governance Systems identifies ways in which leadership makes a positive difference in the performance of international agencies, and highlights some of the best practices across 11 international organizations (one of which is the IMF) that facilitate good leadership. According to that report:

Leaders influence their agencies' operational and strategic direction. They work with member states to identify priorities and set strategy, and translate this into operational goals, which in turn are monitored and evaluated as progress is made towards them. Leaders direct a bureaucracy and see that it has sufficient staffing, expertise and financing to carry out mandated tasks. They also must consult and work with other stakeholders. While their room for maneuvering is limited, their actions and behavior are vital to their organizations' success (Global Agenda Council on Institutional Governance Systems, 2015: 7).

The same report identifies seven indicators contributing to effective leadership that the organization's members, through their boards, and their senior management, are collectively responsible for making sure are in place:

- Selecting and re-electing leadership on merit
- Managing performance
- Setting and evaluating ethical standards
- Developing and retaining talent
- Setting strategic priorities
- Engaging with a wide range of stakeholders
- Evaluating independently and effectively

While all seven indicators are important, we focus here on the last: the importance of effective and independent evaluation. On this, the report emphasizes the need for the evaluation office to report directly

to the organization's board, and for the management of the organization to respond to evaluations. On this, the IMF, along with other international organizations, scores favorably, since it long ago established the basics of what is expected of an independent evaluation office from an accountability point of view.

We take the view that international organizations and their leadership should not be satisfied with establishing an independent evaluation function as an accountability device but should also:

- ensure that independent evaluation keeps on functioning as an important determinant of the organization's effectiveness;
- continuously promote open communication and nurturing from the evaluation function to the organization and vice versa, and to encourage understanding and respect between evaluator and evaluatee; and
- ensure that ultimately independent evaluation serves also as a learning mechanism.

To conclude, through its role in accountability, independent evaluation is an important determinant of effective leadership in international organizations—and effective leadership is needed to understand and benefit from the learning afforded by independent evaluation. Successful leadership works to develop the culture that provides an appropriate environment for the organization to assimilate the lessons from evaluation and fully benefit from the presence of its evaluation function. [Chapter 10](#) provides some ideas on how the management of the IMF can take the lead in encouraging or enhancing such a culture.