

Introducing the Humanization Hypothesis: A Framework for Measuring the Behavior of Institutions

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Abstract

How important are institutions for the development of nations? Are there any existing measures which quantify the behavior of institutions? Is there any theoretical justification for measuring their behavior? This paper introduces a framework influenced by Plato's needs theory to provide justification for measuring the behavior of institutions. This involves introducing the humanization hypothesis which states that the behavior of institutions can be measured as they, similar to human beings, are living entities with similar hierarchical needs which are essential for their survival. The paper employs an explanatory and descriptive research design which is highly theoretical in nature.

Keywords: Bad Behavior; Institutions; Heterodox Economics; Development.

1 Introduction

Since the 1980's, there has been increased interest on the role and impact of institutions on economic development (Chang, 2011). Institutions are broadly categorized as either formal or informal institutions. Formal institutions refer to those developed by the political authority. North (1991) defined them as "the humanly devised constraints that structure political, economic, and social interaction". Informal institutions on the other hand are unwritten and socially shared rules such as culture and norms (North, 1990). North (2005) makes a distinction between institutions and organizations. Whilst the former refers to formal and informal constraints such as "the rules of the game", the latter are a group of "individuals bound together by a common objective function" (Ibid, 2005). Olson (1993), Knack et al. (1995), and Robinson et al. (2012) are some of the scholars which emphasize the importance of formal institutions on economic development, with the latter positing that the primary reason why some nations fail is due to the presence of 'extractive institutions', i.e., institutions which are controlled by the few, and the absence of 'inclusive institutions', i.e., institutions which distribute economic and political power to a larger

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audience. Regarding the importance of informal institutions on economic development, Weber (1958), Ibn Khuldun et al. (1967), Fukuyama (2001), Iyer et al. (2005), Greif (2006), among others, emphasize the positive impact informal institutions such as culture, religion, and social capital have on development.

The relation between, and the impact of, institutions on development is not as straight forward as it seems. Whilst one might reasonably assume that development is dependent on the quality of a country's institutions, Chang (2011) argues that "the causality running from development to institutions" is often neglected; in other words, the relationship between institutions and development is seen as a causal one-way relationship, i.e., development is dependent on institutions, when it could be the other way around.

The objective of this paper is not to discuss the polarity of the relation between institutions and development, nor is it to discuss whether formal or informal institutions are more important for development, the purpose of this paper is to discuss how members of the formal and informal institutions, i.e., the employees of the institution and a country's constituents, can impact the quality of the formal institutions, i.e., the country's various economic, political, and social institutions et al. The purpose of this objective is to develop a better understanding of how individual and institutional behavior can impact a country's level of development through an aggregated effect. This aggregated 'bad' or development hindering behavior can spread through society and subsequently affect a country's institutions if no deterrents are in place, and if the culprits are not reprimanded.

This paper does not seek to address what are the drivers for 'bad behavior', as it is simply any behavior which hinders development – i.e., including but not limited to: any actions or behavior which restricts economic freedoms (Scully, 1992; Doucouliagos et al., 2006; Williamson et al., 2011; Piatek et al., 2013; Hussain et al., 2016; Brkić et al., 2020; Gezer, 2020), any behavior which leads to corruption (Mo, 2001; Akçay, 2006; Popova et al., 2014; Absalyamova et al., 2016; Wahyudi et al., 2021), any behavior which leads to political instability (Olson, 1982; Yamarik et al., 2017; Uddin et al., 2017), any behavior which hinders the application of the rule of law (Rodrik et al., 2004; Rigobon et al., 2005; Luong et al., 2020), any behavior which leads to social dissension (Max Weber, 1958; Ibn Khuldun et al., 1967; Fukuyama, 2001; Iyer et al.; 2005), any behavior which leads to poor knowledge creation (Solarin et al., 2016; Pinto et al., 2020), and any behavior which leads to a high environmental footprint (Azam et al., 2016; N'Zue, 2018) – among others.

What this paper seeks to address however is how can one quantify and measure the development hindering behavior of individuals and institutions. As even if one is to develop a quantitative measure, i.e., a composite index, of the development hindering behavior, with the purpose of studying how such behavior influences a country's level of development, how can one measure the behavior of formal institutions which are non-living entities? What theoretical justification exists for doing so? To address this problem, this paper introduces what it refers to as the 'Humanization Hypothesis'. The upcoming section elaborates further upon this concept.

2 Methodology

2.1 The Humanization Hypothesis

One of the obstacles of developing an index which measures the development hindering behavior of individuals and institutions is the challenge that the data representing the proxies for bad behavior are in fact accurate and truly representative measures of such behavior. To elaborate, one of the proxies which can be utilized to measure the bad behavior of individuals is the 'Money Laundry Incidence', i.e., the AML index, or in other words, 'do people of the country in question engage in money laundering?' That said, how is money laundry incidence a measure of the bad behavior of individuals which can lead to public harm and subsequently hinder development? After all, are financial institutions such as the anti-money laundry unit at banks, the central bank, the ministry of interior etc., not responsible for the incidence or prevalence of money laundry? Is not the failure of the members of the formal institutions responsible for developing a system to prevent and apprehend those who engage in money laundering a form of bad behavior? How is it possible to aggregate the action of the individuals engaging in bad behavior? Is it fair to attribute the bad behavior of the few on the entire population of the institution or even the country? These are some of the questions which show the limitations of aggregating individual behavior to reflect the bad behavior of an entire society, institution, or country, and therefore this paper introduces the humanization hypothesis – to address the limitations of aggregating the bad behavior of a country's constituents, i.e., members of the informal institutions, and shifting the focus to formal institutions, who are culpable as well for the development hindering behavior of individuals. To reiterate, for money laundry incidence to be considered a measure of bad behavior, one must operationalize this proxy to reflect the behavior of not only individuals, but institutions as well. In other words, it is not only the individuals who are money laundering engaging in bad behavior, the institutions

responsible for ‘policing’ money laundering are engaging in bad behavior as well by not meeting their duty of care, i.e., even though the act has been performed by members of the informal institution, formal institution are culpable as well for failing to prevent such behavior.

2.2 The Humanization Hypothesis & Plato’s Hierarchy of Needs

“But the first and the greatest of our needs is the provision of food to support existence and life...The second the provision of a dwelling-place, the third of clothing, and so on”
(Plato, 1969).

According to Plato (1969), society “springs from our needs”. Whereas Aristotle states that it is what “holds everything [in the city] together” (Aristotle et al., 2011; quoted from Springborg, 1984). Marx et al. (1976) posit that society is born in the realm of necessities. The forestated philosophers discuss the relationship between needs and society, and how the former is a prerequisite for the latter. Even though the aforesaid positions do not specifically comment on how needs is what makes us human, one can argue that they support the position that needs is what gives life to an entity. Plato’s needs theory has influenced modern scholars such as Maslow (1943) who developed a hierarchical structure of needs to achieve happiness and well-being. Islamic scholar Al Shatibi also proposes a hierarchical pyramid which visualizes the three necessary steps for mankind to achieve well-being or ‘Maslaha’ (Al Raysuni, 1997). Regarding happiness, Adam Smith (1759) states that it is the purpose of our creation. Whereas Butler (1736) opines that seeking happiness, pleasure, and self-love is part of our human nature. The takeaway from the forestated positions is that achieving happiness and well-being is central to what makes us human. And to achieve happiness and well-being there are needs which must be met.

Similar to Al Shatibi and Maslow’s hierarchy of needs, this research opines that institutions, like human beings, require a combination of needs in order to achieve well-being. To elaborate, human beings have physical, mental, material, environmental, & structural needs which must be met if they are to become functional members of society. Based on the aforementioned, this research opines that institutions as well in all their forms, i.e., profit/non for profit, government, private, health, financial, political et al., require similar basic needs for them to achieve well-being. As such, and given both individuals and institutions have similar basic needs, a rationale for measuring the behavior of institutions by aggregating the behavior of the individuals

within the institution has now risen. The hierarchy of needs of institutions, and how they compare to Maslow (1943) and Al Shatibi’s (1997) hierarchical structures, are presented as follows:

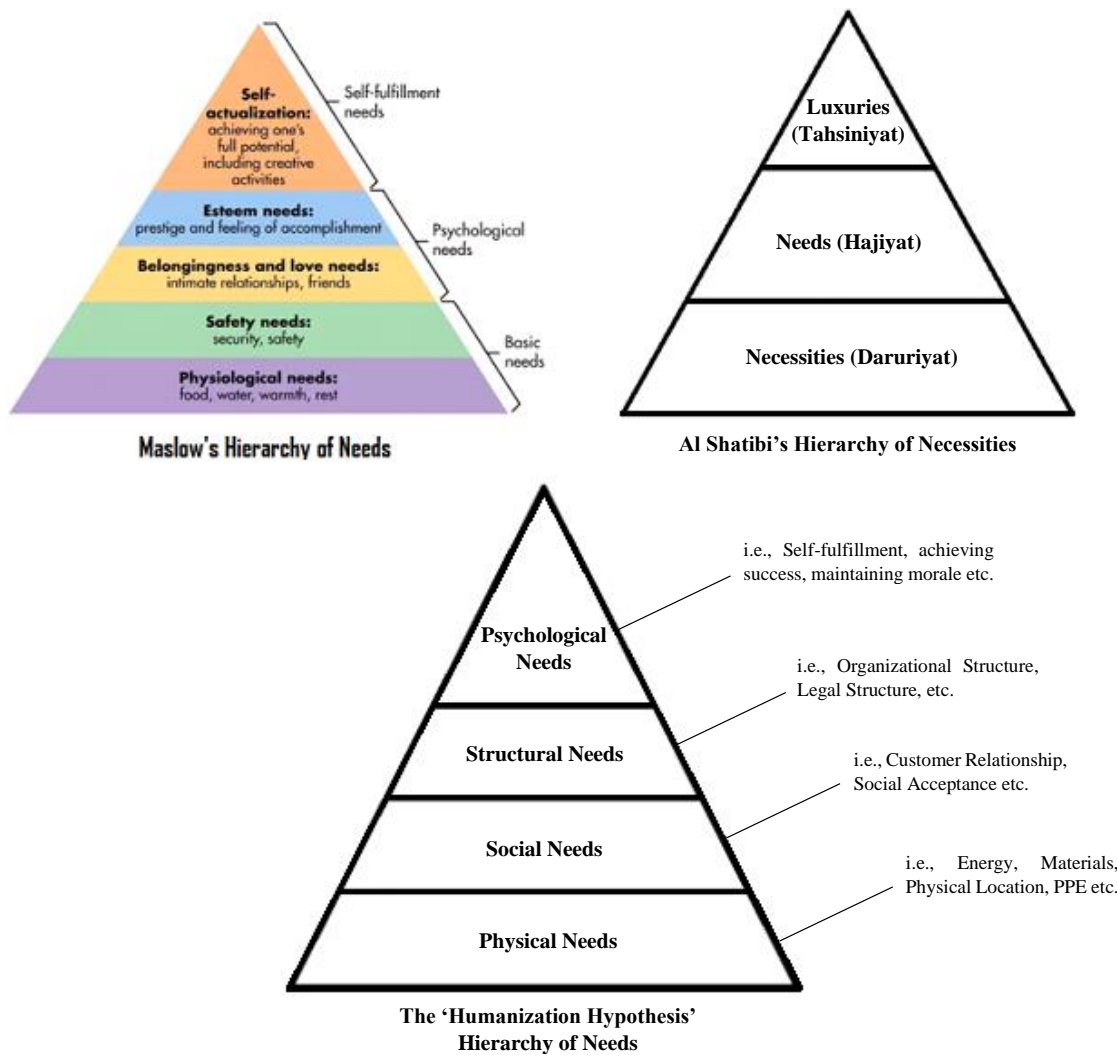
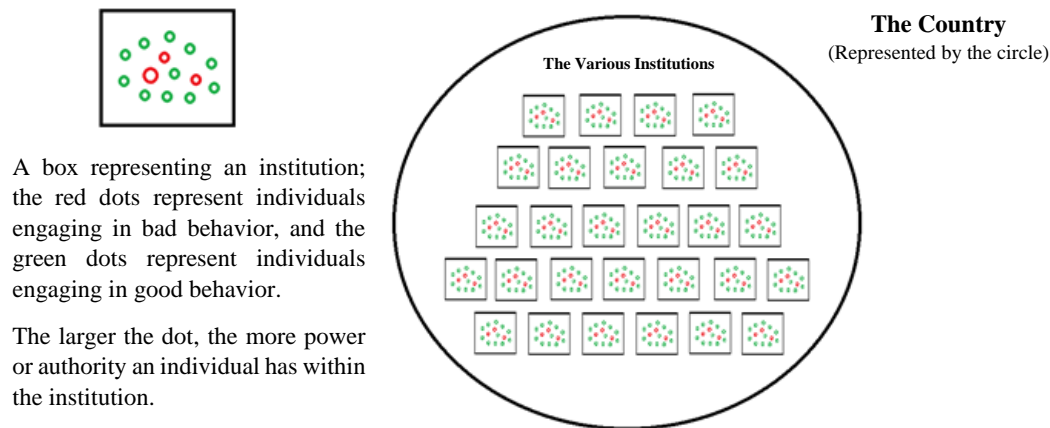


Figure 1 An Illustration comparing Maslow’s Hierarchy of Needs (McLeod, 2020), Al Shatibi’s Hierarchy of Necessities (translated from Arabic), & the ‘Humanization Hypothesis’ Hierarchy of Needs.

How does the humanization hypothesis attempt to provide justification for measuring the behavior of institutions by aggregating the behavior of its members? The research opines that formal institutions, like human beings, require a combination of needs in order to achieve well-being. For example, just as human beings have physical, mental, material, environmental, & structural needs, so do institutions; an example focusing on financial institutions, or banks in particular, will be provided to add emphasis to the foresaid argument. Banks, like human beings, require similar basic needs, i.e., physical, mental, environmental, material, and structural needs.

For example, where human beings have physical needs such as food for energy and nutrition, medication for treatment and prevention, and intimate relations for reproduction, so do banks. To elaborate, banks require energy, in the form of electricity, to power their entire IT infrastructure, their physical locations such as the branches and corporate offices etc. Moreover, banks also require preventative measures such as firewalls, ant-virus protection, and a general security system to prevent any theft or malicious activity to protect their physical and digital assets. Furthermore, banks might also require the occasional 'doctors' visit to IT security companies to 'cure' the bank system – should they decide to outsource this task to rid their systems of any 'viral infections' when, and if, they occur. Lastly, and regarding the final example on the physical needs of banks, reproduction, where humans need to reproduce to ensure the continuation and sustainability of their existence, so do banks. To elaborate, banks need to produce offspring in the form of new products and services to ensure their survival – hence why the product development department, with its various names, has become a necessary part of most, if not all, banks. In short, similar to humans, banks have basic needs as well which are essential for their survival. Some of these needs include but are not limited to: mental needs in the form of emotional support for the employees as well as social acceptance from the public; material needs in the form of assets, i.e., cash, investments, property plant and equipment (PPE) etc.; environmental needs in the form of a healthy work environment to ensure employee safety, satisfaction, and productivity, as well as a healthy and stable economic environment to ensure profitability and sustainability; structural needs such as central banks rules and regulations, an internal employee code of conduct, an internal authority matrix, international financial reporting standards, international bank capital structures based on 'Basel' regulations etc. In summary, similar to human beings, formal institutions have basic needs which are necessary for them to achieve well-being. And due to these similar needs, the paper opines that just as the behavior of individuals can be measured, so can the behavior of institutions.

2.3 A Visual Representation of the Framework



When the behavior of the institution is aggregated by aggregating the behavior of the individuals within these institutions, the real impact of the behavior, whether good or bad, becomes apparent. In the case of the example being presented in the above illustration, the aggregated behavior of the individuals and their respective institutions, leads to a positive effect on society, i.e., positive externality, since the aggregated behavior is more good than bad.

Figure 2 A visual representation of the 'Humanization Hypothesis' framework.

It must be noted that the measures of behavior could differ from one institution to another, and from one measure of behavior to another. For example, bad behavior such as 'corruption perception' could be measured using surveys, as corrupt behavior such as paying or accepting bribes is seldom made in public. For other measures of bad behavior, they are transparent and can be measured either by 1) aggregating the behavior of the individuals within the institution, i.e., days of unjustified and unexcused absence; 2) measuring the actions of the organization such as carbon footprint, i.e., reported CO2 emissions by factories or the lack of charitable giving – which is usually reported in the organization's annual reports. Regarding the former, aggregating the behavior of individuals, this research introduces an illustration to explain this viewpoint, i.e., Figure 2. Regarding the latter, the lack of charitable giving, this sort of behavior could be the result of the decision of the few, the board members for example, so how can such behavior be equated to the behavior of the employees who have no say on this issue? Taking a closer look at the illustration above, one will notice that the box representing the institution has several 'red' and 'green' dots. These dots represent the individuals within the institution, with the red dots representing bad behaving individuals, and the green dots representing good behaving individuals.

Moreover, notice that not all the dots are the same size, the purpose behind this is to illustrate that the individuals do not all share the same authority within the organization, and the larger the dot, the more power or authority the individual has, and the more impact his or her behavior has on the organization, as after all, the impact of the bad behavior of a bank teller does not have as great as an impact as the bad behavior of the Chief Executive Officer.

In summary, what the above illustration shows is that to accurately measure the impact of the behavior of individuals on the development of a country, it is necessary to aggregate not only the behavior of individuals, but also the behavior of institutions as well.

3 Discussion

How to measure institutions? This is one of the most important questions one can raise in the field of institutional economics. For formal institutions, the common practice in the field is to measure the outcome of the policies formulated by these institutions (Voigt, 2013). This includes utilizing measures such as the World Bank's Governance Indicators (Kaufmann et al., 2011). The limitation of this approach according to Voigt (2013), is the subjective nature of such measures. For informal institutions, it is more complex due to the lack of a defined framework and structure for such institutions. One example measuring informal institutions is to measure social capital through survey data. Another example proposed by Voigt (2018) is to conduct identical experiments in different societies. The bottom line is that measuring institutions is a difficult task which has been occupying the minds of institutional economists over the past few decades.

This research introduces an alternative approach to measuring institutions by introducing a framework which seeks to provide justification for measuring the behavior of institutions. This new approach, the humanization hypothesis, is contingent on properly defining the behavior deemed as development hindering or development promoting, in order to construct a clear and concise theoretical framework. Once the relevant behavior is defined, the next step is to select the individuals who will be included in the measurement protocol – i.e., the stakeholders or agents who influence the well-being of the institution and its functionings. The following step is to identify the process and methods of data collection, i.e., how will the behavior be measured, and the final step is to analyze the data and set benchmarks or thresholds for what is considered minimally acceptable behavior, i.e., instead of simply focusing on the success or failure of the institutions policies, a more holistic and composite measure of the behavior of the institution can

be developed which could include measures such as: productivity, corruption, bribery, environmental footprint etc. It must be noted that this is a novel and purely theoretical idea which needs to be better developed and elaborated upon, particularly as not all institutions are identical, so different institutions might have different variables, units of measurements, standards etc. However, the idea itself, aggregating individual behavior to reflect the behavior of institutions, can be generalized and replicated for a country's various institutions. In summary, this paper posits that just as one would judge a person by their behavior, and hold them accountable for it, so should the behavior of institutions be addressed, measured, rewarded, and reprimanded as the situation sees fit.

3.1 Humanization Hypothesis Limitations

As aforementioned, the primary purpose of the humanization framework is to attempt to provide justification for measuring the behavior of formal institutions by aggregating the behavior of the constituents of the informal institutions. This hypothesis provides an alternative approach to measuring the performance of institutions by quantifying and measuring their behavior instead of measuring the effectiveness of their policies. This approach however has one critical limitation which is 'how to measure the behavior of individuals whose behavior when aggregated is reflected in the behavior of the institution?'. The answer to which is by developing policies which lead to higher transparency and accountability within the institution so that every individual within the institution is held accountable for their actions. Furthermore, this includes not only developing a framework which defines what constitutes bad behavior within the institution, but also assigning alpha values based on the position, power, or authority, the individual holds, as well as alpha values for the bad behavior, i.e., embezzlement should not be on the same level as tardiness. In summary, without the ability to measure the behavior of the individuals and trace the action or the behavior to the individuals, measuring the behavior of the institution based on the humanization hypothesis framework is not possible.

4 Conclusion & Future Research

In the absence of a theoretical justification, and subsequently, a quantitative measure for the behavior of formal institutions, this research introduces the humanization hypothesis which states that the behavior of institutions can be measured as if they are living entities as they are comprised of a group of individuals, and the aggregated behavior of these individuals reflects the

behavior of the institution. This paper posits that institutions should be measured not based on the outcome of their policies, but on the behavior of the institution. To achieve this objective, a framework to properly define what constitutes bad behavior must be developed. Achieving this objective facilitates for the development of a quantitative measure which allow us to visualize and compare the behavior of a country and its institutions.

The aim of this paper is to generate greater interest on how institutional behavior can impact a countries level of development, as higher interest could lead to higher research contribution, which could facilitate for a better understanding of the phenomenon, and subsequently, and hopefully, lead to new measures to quantify the development hindering behavior of institutions. Being able to quantify such behavior is important, as it not only allows us to better understand the impact of institutional behavior on development, but it can also motivate the decision makers to formulate policies which can deter or punish the ‘bad’ or development hindering behavior of institutions or reward them for their ‘good’ or development promoting behavior.

Future research can adopt or build upon the humanization hypothesis to develop a measure of the development hindering behavior of individuals and institutions to better understand why some nations are more developed than others. This quantitative and composite measure could initially rely on secondary data for its construction, but a combination of secondary and primary data such as survey like data can paint a better and more accurate picture.

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