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Macro and Micro-level Indicators of *Maqāṣid* al- Sharī‘ah in Socio-Economic Development Policy and its Governing Framework

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Abstract

This paper sets macro-level and micro-level operational indicators for socio-economic development through a Maqāṣid al- Sharī‘ah *framework. It also sets forth six broad recommendations and nine specific initiatives within a four-dimensional framework for institutional governance, particularly for socio-economic development policy.*

A lattice of multidimensional indicators and multipronged initiatives are proposed to address the multifaceted dimensions of institutional governance and the various transmission channels that influence socio-economic policy.

While empirical studies have demonstrated the importance of institutions and ethics in socio-economic development, the pressing issue remains how deep Maqāṣid al- Sharī‘ah *understanding in human decision-making can be developed to influence behaviors that are efficient, inclusive, moral, and trustworthy that leads to peace, prosperity and progress. This paper attempts to address this concern.*

Keywords: Applied governance, operational indicators, performance measures
JEL Classifications: Viewpoint, conceptual paper
KAUJIE Classifications:

1. Introduction

The *Maqāṣid* al- Sharī‘ah framework is basically the structure that govern choice within the basis of permissibility set forth by the Qur’ān and *Sunnah*. Modifying human behavior requires sagacious understanding of how people make choices.

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There are inconsistencies between how Muslims behave in real-life situations measured against what Islam prescribes to them as rules of conduct, and how people behave according to real-life situations as opposed to socio-economic theory. Standard economics assumes that people are perfectly informed (know all of the alternatives) and that they act on the basis of pure logical calculus. However, human actions are also influenced by a certain belief system (learned or unlearned) that determines what incentive structure is fair and just. For Muslims, the rules of prescribed conduct to attain maximum reward (hence utility) has been defined in broad terms (through the Qur'ān and *Sunnah*) but the extent of the expected outcomes may be limited due to the non-compliance with these rules — knowingly or unknowingly.

Measuring institutional performance requires clear understanding of social norms, like the accepted behaviors of a particular society, and social rules of conduct according to the Qur'ān and *Sunnah*. Broad improvements can happen through optimizing rules that govern institutions. Furthermore, underperforming institutions do not just disappear the way undesirable genetic traits disappear in evolutionary species. They do not simply fade away but instead need to be removed or modified. A multi-dimensional framework points to new tools for achieving development objectives, as well as new means of increasing the effectiveness of existing interventions. It provides more entry points for policy and new tools that practitioners can draw on in their efforts to reduce, for instance, disparate poverty and increase shared prosperity. The framework shows how impediments to people's ability to process information and the ways societies shape mindsets can be sources of development disadvantage but also can be changed. Adherence to the prescribed rules of behavior (religious or regulatory) and the regard for the Rule of Law regardless of religiosity ensures a social order that results in an organized, cohesive, just and prosperous social system.

The interaction of institutions and individuals is more complicated than is often recognized; yet the potential for temporary interventions and changes in institutions to alter long-standing patterns is greater than has been recognized. Many government institutions can benefit from applying insights from academic research in Islamic economics and *Maqāṣid* al- Sharī'ah to public policy and social reform. Given the limited application of *Maqāṣid* al- Sharī'ah in socio-economic policy, there will be more discussions upon more findings in the near future. Undoubtedly, Islamic principles can be applied as institutional rules and has great contribution to managing behaviors.

This paper establishes macro-level and micro-level operational indicators for socio-economic development through a *Maqāṣid* al- Sharīʻah framework. It also sets forth six broad recommendations and nine specific initiatives within a four-dimensional framework for institutional governance through a socio-economic approach, particularly for the Islamic financial institutions. The four-dimensional framework comprises dimensions of principles and core values, implementation of prescribed & proscribed behaviors, strict enforcement of regulations, installing institutional incentives, as well as managing perceptions and reputation through enhancing transparency, openness of practices and reinforcing self-regulating behaviors. The lattice of multidimensional indicators and multipronged initiatives that is mutually reinforcing is proposed in section 7 (and summarized in Table 3) considering the multifaceted dimensions of institutional governance and the various possible transmission channels by which the *Maqāṣid* al- Sharīʻah framework can influence socio-economic policy. Section 2 discusses the *Maqāṣid* al- Sharīʻah framework and its evolution through the history of Islam, and how it provides a better more realistic measure of socio-economic performance. Sections 3 & 4 describe and lists the dimensions as well as the operational indicators of macro-level and micro-level indicators for *Maqāṣid* al- Sharīʻah framework. Section 5 differentiates between a rule-based and principle-based system in designing a well-functioning model for socio-economic development in its implementation and Section 6 details its governance. Finally, section 5 lists socio-economic approach applications and some beneficial findings related to the financial world.

2. *Maqāṣid* al- Sharīʻah and Measures of Institutional Strength

In our opinion, the objectives of the Sharīʿah could be summarized as the set of divine laws that when followed will maximize the utility of mankind on Earth whilst also maximizing rewards for them in the Hereafter. Most of the writings and conceptualizations of *Maqāṣid* al-Sharīʿah during the classical and contemporary period have always emphasized on the preservation of certain essentials to allow for growth and development of human well-being. Al-Ghazali, for instance, formulated that, "*The objective of the* Sharīʿah *is to develop the wellbeing of all mankind, through safeguarding their faith (*din*), their intellect (ʻāql), their human self (*nafs*), their progeny (*nas'l*) and their wealth (māl)*". Ibn Taymiyyah believed that "*Islamic law came to realize and enhance human well-being, and to minimize and neutralize sources of harm and corruption ...*". Ahmad al-Raysuni (2006) suggest that the fundamentals of Islamic jurisprudence are definitive in nature and beyond dispute. He quotes Al-Shatibi "*The Muslim community — and, indeed, all religions — are in agreement that the Law was established to preserve the five essentials, namely, religion, human life, progeny, material wealth and the human faculty of reasoning.*"

With that, an effective set of balanced metrics has to be designed. This would enable for the necessary growth and performance measurements that will now include all the dimensions based on the *Maqāṣid al*-Sharīʿah which includes social responsibility and ecological sustainability, on top of the pursuit of self-interest. In terms of socio-economic progress indicators like shared prosperity and financial inclusion, it is a means to capture the progress in a more holistic terms, besides merely measuring productivity and output where the current dominant standard metric of economic performance is GDP. A report by leading economists, *Mis-measuring Our Lives: Why GDP Doesn't Add Up* (Stiglitz *et al*, 2010), concluded that too much focus on GDP could send policy makers in the wrong direction — for example, expanding their financial industries and ignoring more basic things such as access to education or health. They concluded that if nations had the wrong metrics, they will strive for the wrong things. The *Maqāṣid al*-Sharīʿah framework will provide a better way to reflect socio-economic reality, and its operating indicators will be the new metrics to measure performance towards creation of a Socio-Economic Development Index tying the *Maqāṣid al*-Sharīʿah with observables.

Currently there seems to be no widely acceptable measure of multidimensional socio-economic development. Indeed, debates are still on-going on the use a single-composite multidimensional development index (such as the MPI) or a multiple composite development indices (such as health development index or education development index). One view argues that a single-composite index is powerful in directing attentions of policy makers regarding socio-economic conditions of nations (e.g. Alkire and Santos, 2011). However, others argue that a single-composite index cannot give sufficient information for policy makers to direct their resources and solve the dimensional socio-economic problems (e.g. Ravallion, 2011). While both methods have their strengths and weaknesses, it appears that the most suitable method for aggregating such measure is determined by the objective and purpose of constructing such index, and the problem and issues that it is trying to address.

Our previous game-theoretic investigations into compliance to prescribed behaviors (Mohamed et al, 2017) have shown that the aggregate macro-behaviors may be different from micro-behaviors. Also, further analyses found that outcomes from individual nations are the result of the strength of institutions and civil service that govern and regulate the behaviors of the society, and this in turn, is attributed to the enforcement levels of such institutions in regulating behaviors. For instance, a country that performs poorly at the macro-level (e.g. on the Islamicity Index) can perform well at the micro-level where good individual behaviors are coerced to unethical aims through morally charged concepts like loyalty, trust, and duty to an unjust ruler or corrupt CEO. As such, we wish to propose operational indicators for both macro-level as well as micro-level for the *Maqāṣid* al- Sharī‘ah framework. In relation to the technical model, it is argued that a simple linear model with equal weight amongst the dimensions/indicators is preferable than the others. This is particularly due to its simplicity and ease of calculation. Perhaps once the framework with its operational indices are in order, we can explore more sophisticated weightage assignment in the future.

3. Macro-level Indicators for *Maqāṣid* al- Sharī‘ah Framework

The macro-level dimensions of this framework encompass the broad scope of governance that appear as institutional policies that shape the overall desired outcome of the political entity that drives the vision and decisions of the nation. This can be broadly categorized as socio-economics, governance, human/political rights and international relations. Its operational indicators under each dimension attempts to encapsulate every aspect of that dimension. For instance, in the Socio-Economic dimension, its operational indicators cover economic opportunity, freedom, justice and prosperity, access to education and healthcare, job creation, property rights and sanctity of contracts, corruption prevention, poverty levels, provision of aid and basic human needs, taxation and social welfare systems.

Some well-known examples of macro-level issues that can arise out of, for example, poorly-defined and policed property rights are over farming and overfishing. Free-riding (e.g. tax evasion) results from imperfect information, and environmental pollution and global warming seems to be a combination of macro-level tragedy of commons and free-rider problems where nations, not individuals, act to pursue their own national self-interest. Furthermore, weakly enforced property rights can also result in the tragedy of the commons; e.g. the poorly-policed territorial waters of Somalia resulting in overfishing and piracy. On the property rights, economist Hernando de Soto daringly claimed that: "*not only are stable, secure and well-defined property rights incidental to growth, but they are necessary for it*". Likewise, Acemoglu and Johnson (2005) discovered that among these institutions, well-defined and enforced property rights are most important in shaping long-run economic growth and thus prosperity. Additionally, the breakdown of trust and cooperation as well as the failure of institutions to govern effectively can be seen as one of the critical causes of market failures and can result in global crises.

Table-1
Macro-level Dimensions and its Operational Indicators of the *Maqāṣid* al- Sharī‘ah Framework for Socio-Economic Development

Dimension (Macro-level)	**Operational Indicator**
Socio-Economics:	1. Adherence to Islamic Finance Principles (rule-compliance to Qur’ān and Sunnah and risk-sharing) 2. Economic Justice 3. Economic Prosperity 4. Economic Opportunity and Economic Freedom 5. Equal access to Education and Healthcare 6. Job Creation and Equal Access to Employment 7. Property Rights and Sanctity of Contracts 8. Prevention of Corruption 9. Poverty levels, Provision of Aid and basic Human needs 10. Taxation and Social Welfare 11. Supportive Financial System
Governance:	1. Legal Integrity 2. Management Index a. Government Management b. Management of Natural and Depletable Resources 3. Government Governance 4. Perceptions of the Government 5. Voice and Accountability Indicator 6. Political Stability and Absence of Violence Indicator 7. Government Effectiveness Indicator 8. Regulatory Quality Indicator 9. Rule of Law Indicator 10. Control of Corruption Indicator
Human / Political Rights:	1. Human Development 2. Civil and Political Rights 3. Women’s Rights 4. Global Democracy 5. Perceptions of Well-Being
International Relations:	1. Globalization a. Economic Globalization Indicator b. Social Globalization Indicator c. Political Globalization Indicator 2. Militarization Index

From the social justice standpoint, the framework has to include Islamic finance principles that is essentially rule-compliance to the Qur’ānic rules and operationalized in the *Sunnah* within a supportive socio-economic system, and the implementation of risk-sharing, including mitigating known and projected risks by adopting a shared risk approach as opposed to the transfer of risks, as well as consideration for sustainable development for future generations.

4. Micro-level Indicators for *Maqāṣid* al- Sharī'ah Framework

The micro-level indicators involve measures with regards to the availability and access of specific rights and needs pertaining to the individual which are split into five dimensions:

1. Economy: The access and ability to earn income and sustain a living including resources to be better skilled.
2. Education: The access and availability of education and resources to become more knowledgeable and better informed.
3. Faith: The adherence to the tenets of the religion and provision of accessibility to practice one's religion
4. Health: The ability, access and availability to meet basic needs and become (physically) healthy.
5. Social: The incentives for marriages and births, the ease to manage and support a family that is Islamic and well-functioning in society

5. Rule-based versus Principle-based Systems

To design a well-functioning regime for socio-economic governance, the desired behavior needs to be defined within the context of the overall moral conditions present and management reform approaches. To begin, we can pick two conditions to illustrate what needs to be differentiated at different moral conditions, e.g. high and low levels of deception :

- High levels of deception imply a greater need for rules-based management, with controls and restrictions, than low levels of deception. High deception situations imply low ethical standards and a high tolerance for wrongdoing. It is not sensible, when people are actively doing the wrong things to reform the system by moving into results-based organization with the decentralization of authority through discretion, and empowerment. Empowering ethically bankrupt people (or institutions) simply leads to corruption more quickly. The appropriate strategy to improve ethics in such situations is strict compliance to rules, with the enforcement of harsh penalties associated with morally-corrupt practices.

– Low levels of deception imply the possibility of using integrity or principle-based management. Where financial sector employees are highly motivated to perform to the best of their abilities, integrity or values-based management is more likely to succeed. Where finance professionals are not motivated or trying to escape responsibility, either by staying passive (not necessarily engaging in deception) or by actively engaging in wrongdoing, such an approach will likely fail.

Table-2
Micro-level Dimensions and its Operational Indicators of the *Maqāṣid* al- Sharīʻah Framework for Socio-Economic Development

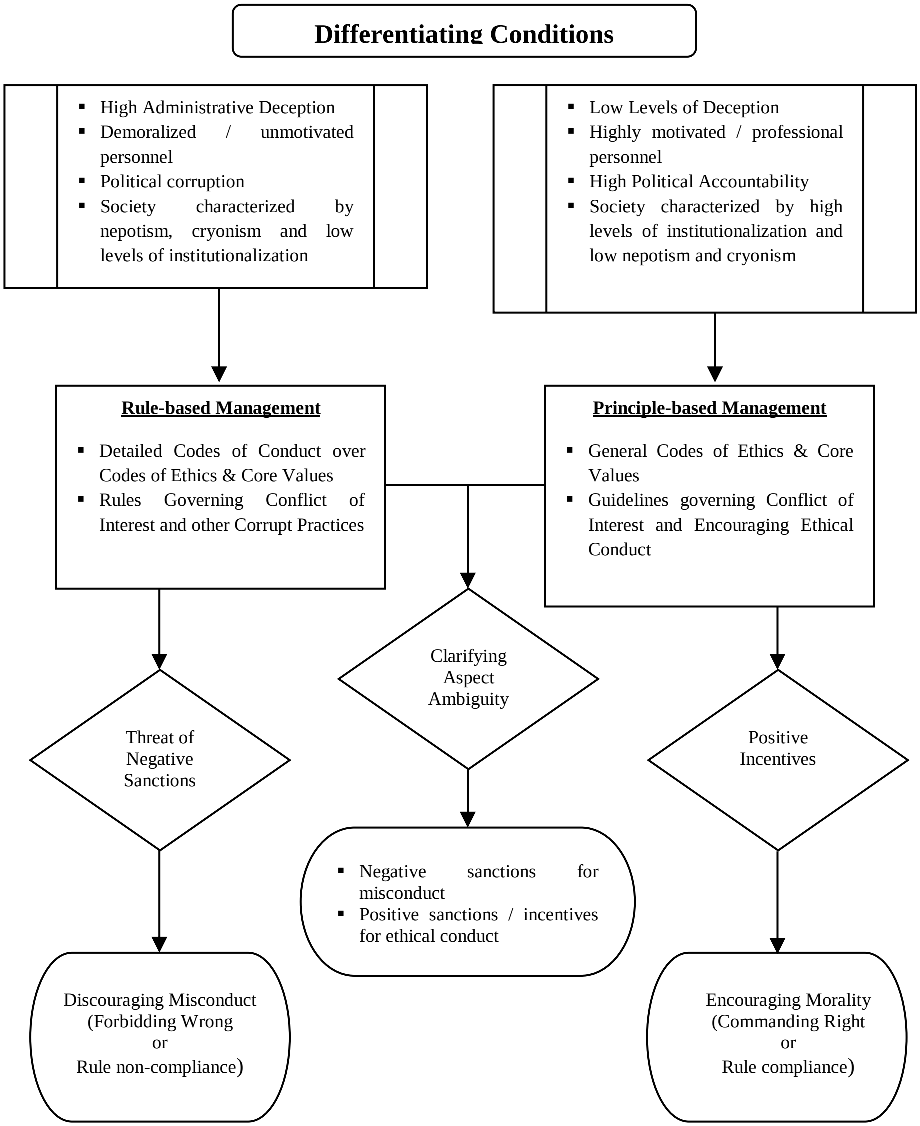
Dimension (Micro-level)	**Operational Indicator**
Economy:	1. Skill
	2. Employability
	3. Income level
	4. Purchasing power
	5. Savings
Education:	1. Access to school
	2. School attendance
	3. Basic knowledge from schooling
	4. Academic/school achievement
Faith:	1. Prayers
	2. Fasting
	3. Islamic/Qur'ānic studies
	4. Zakāt
	5. *Hajj* (The Pilgrimage)
Health:	1. Consumption
	2. Access to healthcare
	3. Awareness of health
	4. Frequency of sickness
Social:	1. Birth-rate
	2. Charity (*ṣadaqah*)
	3. Cooperation
	4. Marriage
	5. Trust and Respect
	6. Participation in community/social activities

The *Maqāṣid* al- Sharīʻah framework is a principle-based system and the Sharīʿah provides the foundational rules for its followers as it is directed to mankind. These rules were interpreted and put into practice[1] by the Prophet Mohammad ﷺ in the first Muslim community in Medina. The Prophet Mohammad ﷺ developed the first Islamic state in Medina through the adherence to these rules that turned into laws, statutes and regulations accepted and abided by all within the community, including non-Muslims. Under his guidance, the Medinan community flourished with fairness and justice as its hallmark.

Today, in many of our Muslim communities throughout the world, we see the opposite. These can be attributed to the extremities and imbalances in the standards and precedence that have been misrepresented and misused, knowingly or unwittingly. Perhaps this may be the phenomenon that the esteemed Companion 'Abdullah ibn Mas'ud (r.a.) was cautioning when he said," ... *However, an age is coming in which scholars of jurisprudence will be few, while those who recite and memorize the* Qur'ān *will be many. The words of the* Qur'ān *will be committed to memory while the limits it sets will be lost. Many will be those who ask, but few will be those who have answers to give. Their sermons will be lengthy and their prayers brief, while they show preference for their whims and desires over the virtuous actions they might perform.*" Indeed, there is an inflated emphasis on mastering forms and utterances, while meanings which they were meant to deliver and the basis for rulings have gone astray. As such, it is imperative to redirect priorities, rebuild the original Muslim system of standards and values through the *Maqāṣid* al- Sharī'ah framework in order to restore fairness and justice to its proper place in the modern era.

[1] This practice is the literal process of defining broad principles to make it clearly distinguishable, measurable, and understandable in terms of empirical observations for the extended use in the economic, political and social institutions.

Figure-1
Summary of the Elements and Conditions for the
Rules-based and Principle-Based Systems



6. Key Aspects for a Socio-economic Governance Framework

Although social problems are more than an accumulation of individual woes, they will not be solved through an accumulation of individual solutions. We must include social solutions that take into account how our economic systems really work. This means taking into account our own individual behaviors as measured against the rules of behaviors clearly spelt out in the divine revelation of the Qur'ān and the exemplary actions of the *Sunnah*.

6.1 First Aspect: Broad Principles and Core Values

For corporate development and internal structural reform, broad principles and subsequently the core values of the institution need to be defined and implemented. The major problem for implementing effective 'principles' and 'core values' remains that they will not be of much value if individuals lack the competence to recognize a socio-economic problem for what it is, or if they do not know what values their organization (institution) expects of them. Some may not even consider it to be their responsibility to take a stand for integrity and morality. Here we undertake two tasks; the first primes the individual to act according to the 'principles' and 'core values' of the institution. The second is to create a buy-in such that the individual behaves according to a Code. These can be done not only through monetary incentives but through social inclusion and identity — associating with ethics and morality or success and status. For example, the 'Code of Ethics' is best regarded as a general statement of 'core values' which define the professional role of the financial institution.

(I). Implement Prescribed & Proscribed Behaviors

However, in the example above, the 'Code of Ethics' define 'principles' and 'core values' but are vague on how these principles can be applied in particular situations. By contrast, a set of 'Codes of Conduct' outlines particular principles of conduct expected in a range of practical situations, representing a specific organization's interpretation of the core values or principles which are seen as significant to its work. The implementation of these prescribed and proscribed behaviors will be sustained and preserved by the next key aspect of corporate development and internal structural reform.

6.2 Second Aspect: Strict Enforcement of Regulations

Acemoglu and Robinson (2012) argue in *Why Nations Fail*, that the main difference between rich and poor countries is their man-made political and economic institutions, not their culture or geography. The book's compelling narrative shows that nations prosper when they enforce and uphold inclusive and pro-growth institutions, and they fail when their institutions benefit the interests of a narrow elite instead of creating economic benefits and political power that are widely shared.

But too often, poorly run institutions and excessive regulation force workers and businesses into the shadow or underground economy where legal goods and services are produced but are deliberately concealed from the authorities to avoid unnecessary taxes, labor standards, or other confining legal requirements. IMF (Singh et al., 2012) research confirms that businesses faced with onerous regulation, inconsistent legal enforcement, and deception have an incentive to hide their activities from the 'watchmen'.

(I). Enforce Mechanisms of Trust, Honesty and Cooperation

From a game-theoretic perspective, in the world under personal exchange conditions, it pays to work together with the other players when you have recurring transactions with them, and there are small number of players. In this scenario, you also know a lot about the other players. When there are no more dealings (or one-off transactions), you will defect, or when the number of players increases to large numbers and you begin to be unfamiliar with the other players. It took the human race many centuries to gradually evolve institutions that made possible impersonal trade — the evolution of the current conventional economic system. The ability to conduct personal exchanges is part of our social psyche, but impersonal trade requires that we essentially alter the way we transact. In the modern world today, there are formal institutions that place rules and mechanisms to enforce contracts across time, space and jurisdictions. Impersonal exchange requires mechanisms for ensuring honesty and cooperation without familiarity, personal links and complete information. In order to successfully do this, we are required to understand the structure of the existing corporate system and the way local establishments work. Only then we are able to change the social rules, unspoken customs, and policing means to ensure effectiveness.

6.3 Third Aspect: Install Institutional Incentives

Real people are fallible, but because real people make mistakes systematically, it is a very useful primer for *Maqāṣid* al- Sharī'ah framework to affect decisions by presenting choices that would allow people to make choices that are beneficial to themselves. The predictability of human irrationality (Ariely, 2008) is good news because awareness of our vulnerabilities is a starting point for improving our business, professional, personal and institutional decision making. According to a research report as much as 80 per cent of the factors influencing behavior do not result from knowledge or awareness. Rather it has to do with automatic and unconscious influences on our behavior such as the impact of social norms, emotions and incentives. Instead of trying to change people's minds it argues that one should focus on the environment within which we make our decisions.

However, not everybody will embrace the popularity of incentivizing strategies. But the successful Islamic institution will be the one that cleverly balances between values that are related to people's pursuit of personal status, wealth and success (self-enhancement) and values that are concerned with the well being of others, such as equality and protecting the environment (self–transcendence). Several researchers have found that when engaging one set of values this has a spillover effect on related values whereas those in opposition are weakened. For instance, people who are reminded of generosity have been found to be more likely to support pro-environmental policies than those reminded of financial success and status (Thøgersen, 1999; Spence et al., 2014). To achieve radical socio-economic change, we need to balance people's self interest and actively engage values that are related to sustainability. In Islamic economics, the two motivations are balanced; one that drives our own interests (that profits and does not wastes, etc.) and one that motivates the collective benefit for all. This should be pursued in tandem to draw contributions from all levels of society.

(I). Encourage People to Do the Right Things

Because people do not always act rationally and according to their self-interest, this explains, for example, the infamous gap between attitudes and behavior, or between what people say and what people actually do. Targeting the conditions that shape people's automatic responses can therefore help people make decisions that are better for themselves, society and the environment. These tools can be used as institutional incentives, to gently push or remind shareholders and stakeholders alike (of a society or any institution) to the right direction which benefits themselves as well as their community as a whole.

(II). Overcome Cognitive Obstacles That Inhibit Action

The cognitive barriers related to decision-making are inherent and persistent barriers that prevent people from making beneficial and efficient choices and behaviors. Decades of research confirming these biases paint a bleak picture of the difficulty of overcoming hard-wired patterns (Thaler and Sunstein, 2008). However, knowing that people act in predictably irrational ways, we can structure choices in several creative ways to avoid predictable hazards in decision making. There is great promise to craft decision-making milieu in ways that pilot choices more sensibly. Based on such choice construction, we propose some examples that can be utilized as tools to overcome the pitfalls of decision biases :

a. The Power of Defaults

An excellent example of the power of defaults was conducted by Eric Johnson and Daniel Goldstein in their investigation of organ donation behavior (2003). Using the difference when opt-in organ donation policies to opt-out policies in European Union countries from those that enrolled all citizens by default, the authors revealed a tremendous difference by how defaults determined outcomes. Those countries with opt-in policies, i.e. that required people to take additional steps to opt-in, had low donor consent rates of 4.25-27.5%, while countries with opt-out policies, i.e. that by default had people opted-in and required people to take additional steps in order to opt-out, had effective consent rates of 85.9% to 99.98% (Johnson and Goldstein 2003). This clearly illustrates that people tend to stick to default options.

b. Desirable Action

In the modern society, people are bombarded with messages that try to influence them in different ways, which we then unconsciously filter out 'unrelated' information and select what is relevant for us at that point. Generally, we are drawn to messages that are easy to understand, that correlates with our values and beliefs and that are presented to us in an attractive way. Furthermore, we are significantly more likely to react to a message when given to us at the right time or framed as a 'call to action'. A box which collects donations (where a clear transparent box is situated in a prominent area) illustrates the power of using a visual and easy to understand reminder of how little contributions can collectively amount to significance. It becomes more obvious, and even more so when other communities (schools, *masjids*, malls), even in other countries, also adopt the same charitable projects with the same transparent boxes.

6.4 Fourth Aspect: Manage Perceptions and Reputation

The consequence of the 2008 global financial crisis and its echoes in the real economy, have made a company's reputation matter more now than it has in decades. The perception that some companies, particularly in the financial services, have violated their trust with consumers, shareholders, regulators, and taxpayers, and this has negatively spilled over to other businesses too. In a March 2009 McKinsey Quarterly survey of senior executives around the world, 85 and 72 percent of them, respectively, said that public trust in business and commitment to free markets had deteriorated. The growing importance of web-based participatory media (like social media, blogs, online news outlets allowing comments and views, etc.), the increasing significance of non-governmental organizations (NGOs) and other third parties, and declining trust in advertising have also altered the reputational environment. Collectively, these factors are advancing broader, rapid examination of companies in addressing reputational challenges. Aside from having a solid crisis management plan, it will be concrete actions that build strong reputations — not stories that one spins.

In the financial institutions, finance professionals are expected to maintain and strengthen the public's trust and confidence in finance, by representing the highest values of professional behavior and aptitude by upholding the company's core values at all times. The speed and access available via social media to the public can be a liability or resource to finance professionals depending on their decisions and behaviors.

(I). Enhance Transparency and Openness of Practices

Openness and transparency are key ingredients to build accountability and trust, which are necessary for the functioning of financial institutions and market economies. Openness is one of the key values that guide the OECD vision for a stronger, cleaner, fairer world. The issue of ethical conduct of financial employees received a great deal of focus from international, regional and national organizations, interested in promoting the performance of the financial sector (Ashour, 2004). A consensus has developed world-wide over the importance of reforming financial sector institutions to strengthen integrity, transparency and accountability and to prevent and combat deception. Such transformations are critical to safeguarding economic resources, strengthening financial sector performance, and fortifying the government’s role in coordinating basic services and development.

Within corporations, organizational leaders can create a culture of trust and openness through mechanisms in improvement efforts, open discussion in decision-making, honest feedback policy, and ensuring all organizational procedures are applied equitably across all levels so as to increase fairness and transparency. On an individual level, it is important for leaders to note that people want to know their values, beliefs and what motivates their decisions and actions.

Also, transparency involves voluntary information declaration and dissemination. Leaders who share information willingly within the organization build confidence and trustworthiness with their employees and advocates. In the absence of information, people will make up their own version of the truth. This leads to gossip, rumors, and misinformation which results in people questioning leadership decisions and losing focus on the mission at hand. Typically, when people are given high levels of trust with resources and responsibility to make profitable business decisions, they are more often than not obliged to act dutifully in carrying out the task.

(II). Reinforce Self-regulating Behaviors

Businesses usually self-regulate so that they can reduce risks for their customers, foster public trust, and fight any negative public perceptions. Business associations also harmonizes existing laws by enforcing supporting rules to govern the behavior of deviant firms within their group. Industries have chosen self-regulation in response to both the absence of government regulation and the threat of excessive government regulation. For example, corporate social responsibility (CSR) programs are a great example of self-regulatory programs that forms a means for the organization to engage the financial or other organizations (charitable or otherwise) directly to accumulate social capital and fortify its reputation in the community.

In the governance arena, self-regulation is much sought after, as adding more regulations to comply to increases transaction costs and may suffocate smooth operations and future innovations. This, although a comprehensive review to improve the regulatory system is warranted. Policymakers should bear in mind that self-regulation through cooperative steps is an important tool for governing rapidly changing businesses in the information economy. For example, multi-lateral agreements between the content industry, internet service providers and user-generated content sites have been used to help reduce online piracy. To combat privacy issues, government agencies and other government stakeholders would likely better serve consumers by working cooperatively with existing self-regulatory organizations (SROs) to create robust self-regulatory programs that foster innovation while protecting individual privacy.

From an individual standpoint, the self-regulatory rules specified in the Meta-framework and in the Archetypal Model (Mirakhor and Askari, 2010) are given so that humans can achieve the fullest potential individually and collectively. According to them, the degree of rule-compliance determines the quality of the individual and collective progress. Rule-compliance brings self-development, which, in turn, leads to the cognition of the oneness of humanity as a manifestation of the Oneness of its Creator. And where self-regulation has limits, the divine prescribed rules need to be implemented institutionally.

7. Socio-economic Applications and Findings

By seeking to understand how personal, social, and environmental factors shape human behavior, socio-economic research helps to reveal why individuals do not always act as one would expect or as they themselves intended to, and sometimes not even in the way that might be best for their welfare. Years of experiments conducted by academics and practitioners have identified common socio-economic biases many people face. This deeper understanding of some of the most commonly observed socio-economic biases in emerging and developing markets also helps to identify and test new ways to improve economic behaviors and decision-making, often through relatively small changes in financial product design, localized implementation or over-arching regulations. Datta and Mullainathan (2012) demonstrate cases where a series of minor modifications of channel factors had substantial impact on the effectiveness of economic and social development programs and interventions. The following sections highlight the actual implementation of programs and initiatives grounded in socio-economic applications in three areas.

Application I. Financial Contracts and Risk-sharing

Imperfect information about economic variables prevents lenders and borrowers, for instance in a real estate transaction, from achieving the optimal benefit. Under the traditional financing arrangement, borrowers build little equity in the early years of a contract, and therefore, have little incentive to protect (i.e., not forfeit) the asset when faced with financial shortfalls. Lenders are also not insured for such borrower behavior (i.e., foreclosure) and are faced with unexpected losses. These losses, cost of foreclosure and attenuated costs, negatively impact both the lender and the market. Under the risk-sharing model (of *musyarakah muntanaqisah* or diminishing partnership), the lender shares ownership of the property asset and buys insurance against future downturns by offering renegotiated mortgage installment rates; buyers accumulate greater equity sooner than interest-based conventional contracts. This makes the asset relatively more valuable, and therefore the buyer is more likely to engage in positive behavior to prevent forfeiture of the asset. This is an optimal risk allocation that is not achieved in the traditional real estate financing market. The optimal risk allocation agreement reduces ruthless behaviors and lessens the economic loss in the real estate market during periods of economic downturn and financial shortfalls. Such concept of risk-sharing looks into the long-term effects of, not only in the real estate industry, but towards its impact to the whole economy. As evident in Islamic banks, these financial institutions as well as investors must forfeit short-term speculative gratification for long-term stability. This is more congruent to the Islamic vision of healthy, resilient and sustainable economy, where members of society focus on their benefit in lieu of the benefit to society.

Application II. Financial Products, Disclosure and Innovation

Socio-economic experiments to test the possible impact of cognitive biases on decisions pertaining to investments in structured products reveal that, to varying degrees socio-economic biases affect investors (Ofir and Weiner, 2012). As a modern alternative for household investment, structured products contribute to the completeness of financial markets by enhancing alternatives open to investors. The structured products offer the investors a menu of investment alternatives from the traditional financial assets they know. In demonstrating the impact of these socio-economic biases on investors, Ofir and Weiner's results support the idea of specific regulation for structured products to improve investor protection. The proposed regulation can vary and can be shaped in different forms as sale prohibition to unprofessional investors or as different levels of mandatory disclosure.

By focusing on common traits and patterns, socio-economically informed policies can subtly change discrete aspects of current market practices in ways that can change the behavior of many market actors in similar ways, often at a very low overall cost. For example, simple wording changes to (the amount and process for redemption) made a rebate more salient in an offer mailed to customers of a U.K. insurance provider. This resulted in an increased uptake of the rebate offer by these customers (Adams and Hunt, 2013).

The idea that a complex and enormous economic institution such as a securities market might be based on a widespread belief in others' trustworthiness may come as surprising. The investors may not necessarily trust individual securities professionals and corporate insiders to be honest and dependable, but they at least trust "the system". As a result, they are willing to buy trillions of dollars of securities even when not quite sure what they are buying or from whom they are buying. Of course, experienced lawmakers and business people, as well as experienced scam artists such as Madoff, are well aware that trust is a persuasive force in investor behavior.

Much experimental evidence regarding attention shows that people also make decisions automatically based on heuristics, or mental short-cuts, instead of deliberately considering all available information, which often takes up a lot of time. Further, people pay attention to some kinds of information more than others. The evidence on limited computational ability implies that investors will have difficulty making optimal choices when information requires complex processing, such as aggregating risks across investments or time (Lipe, 1998). The implication for investment advisors is that information should be presented in a set up that simplifies best possible choices. For example, individual investments could be combined into portfolios instead of presented separately (Hirshleifer and Teoh, 2003). Horizon specific return projections could be made instead of presenting annual return information (Klos et al., 2005). An advisor could ask for the investor's preferences across efficient portfolio choices instead of expecting investors to build efficient portfolios by themselves (Ibbotson et al., 2007). These observations suggest, for example, that appropriately designed and communicated lifetime funds may improve investor choices.

To make financial advice as effective as possible in helping investors with the asset allocation problem, it should incorporate known pertinent information (e.g., average asset returns, variances and correlations) as well as consideration for how investors use information in making decisions and how information can be best packaged to meet the needs, preferences and biases of investors (McDonald and Rietz, 2010). While experimental economics and socio-economic finance provide some insights, much research still remains to be done to complement quantitative research and innovation in this area.

Application III. Management and Corporate Responsibility

In most companies, only one or a few people make decisions involving millions (even billions) of dollars. Thus, their biases can have a direct impact on corporate behavior that may not be susceptible to arbitrage corrections. Therefore, socio-economic finance is likely to be just as, if not more, important to corporate finance than it is to investments and markets. Shefrin (2007) states that "like agency costs, socio-economic phenomena also cause managers to take actions that are detrimental to the interests of shareholders". Knowledgeable managers can avoid these mistakes in financing, capital budgeting, dividend policy, corporate governance, initial public offerings, and mergers and acquisitions decisions to add value to the firm.

A budding literature in financial economics focuses on managers' personality traits such as optimism and overconfidence that are two well-documented biases in the psychology literature on judgment under uncertainty (Stein, 1996; Baker, Ruback and Wurgler, 2007; Hackbarth, 2008). Decision-makers who are excessively optimistic and overconfident tend to predict favorable future events as more likely than they actually are, and also tend to believe that they have more precise knowledge about future events than they actually have. Optimistic managers also tend overestimate the firm's expected earnings (value) and overconfident managers tend to underestimate the riskiness of the firm's expected earnings (value).

In principle, a firm's decision to invest in a new project should be made according to whether the project increases the wealth of the firm's shareholders. For example, the net present value (NPV) rule specifies an objective process by which firms can assess the value that new capital investments are expected to create. Because the estimation of a project's future cash flows and the rate at which they should be discounted is still a relatively subjective process, the socio-economic traits of managers still affect this process. In fact, research shows that professionals from many fields exhibit overconfidence in their judgments and their ability to control risk, including investment bankers (Stael von Holstein, 1972), engineers (Kidd, 1970), entrepreneurs (Cooper, Woo and Dunkelberg, 1988), lawyers (Wagenaar and Keren, 1986), negotiators (Neale and Bazerman, 1990) and managers (Russo and Schoemaker, 1992).

Milgram (1974) suggests human nature includes reflexive loyalty to authority, wherein people recast themselves as agents rather than autonomous decision makers. By this virtue, subordinates and boards tend to support CEOs advancing risky strategies, a socio-economic grounded agency problem of excessive loyalty inflicts economic costs. Its moral implication lets people behave in overtly unethical ways, yet justifies their behavior in terms of morally charged concepts like loyalty, trust, and duty, this type of obedience is resolute. Thus, managers and directors justify acquiescence to corporate fraud as loyalty, trust, and duty to a powerful CEO. But if the core values of socio-economic (including financial) organizations are structured around ethics and Islamic tenets, this loyalty and duty transcends to the Almighty and supersedes corporate leaders who may use their position to induce unethical behaviors. Such socio-economic governance reforms reaches out to distant authorities, dissenting peers, and rival authorities and reinitiate values that are consistent with subjects' rational reasoning.

Table-3
Summary of Recommendations and Implementation Initiatives

Key Aspects	Broad Recommendations	Specific Initiatives
A. Principles and Core Values	1. Implement Prescribed & Proscribed Behaviors.	a. Adopt and implement well-recognized ethical principles, core values of integrity and developmental goals that govern institutional activities. b. Make public declaration or corporate pledge to advocate those values and principles that institutions and firms support.
B. Strict Enforcement of Regulations	2. Enforce Mechanisms of Trust, Honesty and Cooperation.	a. Adopt innovation to tackle the challenges to impersonal exchange in a highly globalized environment, especially in financial institutions. b. Impersonal exchange requires mechanisms for ensuring honesty and cooperation without familiarity, personal links and complete information, e.g. frequent audits, or implementing the blockchain in fintech.
C. Install Institutional Incentives	3. Encourage People to Do the Right Things 4. Overcome Cognitive Obstacles That Inhibit Action.	a. Use people's default tendencies that inhibit action to produce effective policy outcomes. b. Create community network comprising various stakeholders to facilitate coordination and cooperation in desirable actions.
D. Manage Perceptions and Reputation	5. Enhance Transparency and Openness of Practices 6. Reinforce Self-regulating Behaviors.	a. Develop regular and reliable performance indices of public institutions, private firms and reputational intermediaries to serve as a self-monitoring measure. b. Create an environment that enhances responsible behavior and ensures accountability by creating incentives for compliance and clear deterrents for non-compliance regardless of stature, office or position. c. Include experienced and respected people with strong and trustworthy reputations onto the advisory roles, directorship and boards of corporations to improve transparency and navigate stressful situations.

8. Concluding Remarks

Comprehension of human decision-making is at the foundation of the socio-economic approach, in which corporate policy is designed to modify the choice architecture of individual employees. In other words, interventions are designed to modify the context in which a decision takes place without changing the constraints faced and thus retaining freedom of choice. This is the philosophy of “libertarian paternalism” — by not affecting the options available in the choice set it can be deemed to be libertarian, while it is paternalistic in the sense of trying to induce ‘better’ choices (Thaler & Sunstein, 2008). It works with the psychological biases that socio-economic scholars have identified in their critiques of rational choice.

As much as good intentions follow these policy recommendations, there are views that seem to look at socio-economic interventions as making assumption that real world thinking and behaviors are irrational and mistaken. Like all regulations involving human beings, there is no easy solution. Islamic rules or any form of governance policy intervention will impose a criterion against someone’s will (to balance individual and collective benefits) and any true democratic governance requires transparency from the ruling system in terms of the values selected in deciding and designing an intervention; and at least an evidence based justification of choice. Disclosed prompts by ‘incentives’ is arguably better than covert manipulation by those designing environmental and contextual cues.

One suggestion would be to replace the strategies involved (in cases where interventions have been viewed as political manipulation) with a slightly different and 'better' approach — self knowledge. Once aware of these mental processes, people can then do what they will. It may be a subtle but important difference. The first approach nudges people toward a pre-chosen goal; the second informs people about the workings of their own minds, so they can better align their goals to the corporate goals which are necessarily aligned to the Sharīʿah. This would improve the quality of the outputs, imbibe morally upright behaviors, and better manage expectations and inform decisions through better socio-economic governance.

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