

How does Political Stability Affect the Performance of Shariah-Compliant Firms? Financial vs Non-Financial Firms Analysis

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Abstract: This paper examines the relationship between political stability and firm performance in the Middle East and North Africa (MENA) region over a 22-year period from 2001 to 2021. Furthermore, this study aims at exploring the impact of Shariah compliance on MENA based companies on mitigating the influence of political instability on their performance. Utilizing a Panel regression methodology, the presence of a significant negative relationship between political instability and company performance is demonstrated. While Sharia compliance and nature of the company's activity were not relevant to MENA companies performance, this research unveiled sensitivity of MENA based companies to political risk regardless of their activity or Sharia compliance. The main contribution of this research is to reveal the political stability's impact on business performance in the under-explored MENA region. Policy makers are expected to deepen institutional quality and country level governance to enhance investment farmwork and business-climate monitoring for a better financial performance in the region.

Keywords: Political Stability, Financial Performance, Shariah-compliance, MENA Region

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