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Ethical governance implementation in MENA countries: institutional frameworks, cultural dynamics, and performance outcomes in the post-2021 era

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Abstract

Purpose – This study explores how ethical governance frameworks operate in environmental, social and governance (ESG) areas in Middle East and North Africa (MENA) nations. This study focusses on present systems, cultural changes and outcomes since 2021. This study examines how traditional governance aligns with modern ethical values to promote accountability in the region.

Design/methodology/approach – This study employed a mixed-methods research design, combining quantitative analysis of governance data from eight MENA countries (UAE, Saudi Arabia, Qatar, Bahrain, Jordan, Egypt, Morocco and Oman) with a qualitative institutional framework assessment. The study used data from the World Bank Governance Indicators, Transparency International Corruption Perception Index and Refinitiv ESG scores for 2022–2024. It analysed 248 randomly selected companies.

Findings – The findings show that Ethical governance varies significantly across countries. Gulf Cooperation Council (GCC) countries have stronger frameworks, but struggle with transparency.

Research limitations/implications – This study shows some temporal limits. It covers data from 2022 to 2024 and focusses on eight countries. The numbers may not precisely outline informal governance procedures in MENA nations. There are also challenges with data reliability because the corruption records cover 2023–2024, while other governance indicators cover 2022–2024.

Practical implications – This study shows that traditional cultural values can enhance modern governance rather than hinder it. It highlights inclusive governance methods that maintain cultural authenticity while meeting international expectations, supporting sustainable economic development in the MENA region.

Originality/value – This study presents the first comprehensive post-2021 comparative analysis of the implementation of ethical governance across diverse MENA institutional environments. This study develops a novel framework, "Cultural-Institutional Complementarity", that explains how Islamic ethical principles enhance the effectiveness of governance.

Keywords Ethical governance, MENA countries, Islamic finance, Institutional theory, Stakeholder engagement, Corporate accountability

Paper type Research article

1. Introduction

Since 2021, the global business setting has firmly focussed on ethical governance and has played a significant role in creating lasting value. Environmental, Social, and Governance (ESG) frameworks have shifted from rules to becoming crucial in winning stakeholder trust and legitimacy (Khamisu and Paluri, 2024; Rahat and Nguyen, 2024; Masud *et al.*, 2025).

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The Middle East and North Africa (MENA) regions are unique places for studying how ethical governance is implemented. It is marked by rapid economic changes, changing regulations, and a mix of traditional Islamic governance and modern international standards (Farah *et al*., 2021; Elhabib, 2024; Mohammed *et al*., 2024).

Recent governance challenges in emerging markets focus on frameworks that respect local cultures and are internationally credible (OECD [1], 2024; Barbar, 2025; Labban and Roussel, 2025). Governance in the MENA region is changing in a complicated environment shaped by government-led development, family businesses, Islamic finance, and different levels of regulation. This leads to special situations that require careful examination (LSEG [2] Islamic Finance, 2024; Karsh and Mahareeq, 2024; Zunaiba *et al*., 2024).

The current challenges in implementing ethical governance in the MENA region show the complexity of changing institutions for effective stakeholder capitalism (Elhabib, 2024; Elidrisy, 2024; Mashali and Eltantawy, 2024). The variety of governance frameworks in a region makes it difficult for multinational companies (MNCs) to work across borders. At the same time, it provides opportunities to create new methods that combine cultural values with modern governance requirements (Aljughaiman *et al*., 2024; Khamisu *et al*., 2025).

Unlike Western countries, where governance changes are administered through stakeholder capitalism, MENA countries update their governance systems while honouring their religious and cultural identities (Bouteska *et al*., 2025; Polzer, 2022; Casanova and Miroux, 2022). The governance systems in MENA countries involve more than board oversight and rules but focusses on important matters. These matters could be legitimacy, engaging stakeholders, or reaching ethical decisions that mix universal best practices with local cultural values (Schaumann and Tarnovskaya, 2023; Qazi *et al*., 2024; Balzano *et al*., 2025).

This study looks at important gaps in the understanding of how ethical governance frameworks work in different MENA environments. This study examines how Islamic ethical values impact governance effectiveness and how to create governance that respects local culture while being recognised globally. This study focussed on the following three main questions.

Q1. How do institutional frameworks affect the effectiveness of ethical governance in MENA countries?

Q2. What roles do cultural and ethical factors, especially Islamic governance principles, play in moderating governance outcomes?

Q3. How can MENA nations create governance frameworks that balance international standards with cultural authenticity and that meet stakeholder expectations?

2. Theoretical frameworks and literature review

This study uses a multi-theoretical framework that combines Institutional Theory, Stakeholder Theory, and Islamic ethical principles to analyse governance in different MENA contexts. This approach shows that understanding effective governance involves looking at formal structures, stakeholder relationships, and the cultural and ethical values that influence how organisations act in the region.

2.1 The Institutional Theory and governance implementation

Institutional Theory describes how governance is distinct in MENA countries. New studies show how corporations manage difficult regulatory encounters in emerging markets (Schaumann and Tarnovskaya, 2023; Rahat and Nguyen, 2024; Dodds and Smith, 2025). This theory shows that governance behaviour is shaped by a mix of official rules, informal norms, cultural beliefs, and stakeholder expectations (OECD, 2024; Barbar, 2025). The

Institutional Theory in MENA countries expounds on how organisations adjust their governance systems to be accepted in environments with varied levels of regulations, cultural norms, and implementation (Khamisu and Paluri, 2024; Masud *et al*., 2025).

The new Institutional Theory enhances institutional entrepreneurship. This theory argues that businesses intend to change their business settings with newly introduced governance systems. These objectives challenge existing norms, confirm further standards to engage stakeholders, and support ethical judgements (Polzer, 2022; Balzano *et al*., 2025; Bouteska *et al*., 2025). This perspective is useful for identifying how MENA countries build governance frameworks that associate Islamic ethical values with international principles. These hybrid models serve many participants while supporting their legitimacy (Elhabib, 2024; Mohammed *et al*., 2024).

Novel studies on Institutional Theory in emergent markets show that organisations work with institutional challenges, needing novel strategies to reach a balance between local cultural potentials and international stakeholder demands (Elhabib, 2024; Elidrisy, 2024; Labban and Roussel, 2025). In MENA nations, business institutions must study business environments in which religious beliefs, common governance procedures, and novel principles overlap. This is because these areas often face conflicting challenges. This involves thorough strategies to maintain legitimacy from multiple resources (Zunaiba *et al*., 2024; LSEG Islamic Finance, 2024; Karsh and Mahareeq, 2024).

2.2 Stakeholder Theory and governance effectiveness

The Stakeholder Theory explores how businesses collaborate with various stakeholders in different environments. New research demonstrates the importance of culturally important measures for engaging stakeholders in emerging markets (Qazi *et al*., 2024; Mashali and Eltantawy, 2024; International Finance Corporation, 2025). This theory shows that stakeholder implications and power dynamics vary across MENA countries. Cultural values, levels of commercial development, and governance approaches have influenced this theory. This specifies that organisations need to modify policies that fit the requirements of each region (Schaumann and Tarnovskaya, 2023; UNFCCC [3] PCCB [4], 2024; WHO [5] EMRO [6], 2024).

Modern Stakeholder Theory demonstrates the importance of stakeholder capitalism and shared values, demonstrating that governance systems aim to benefit from many stakeholder groups simultaneously, rather than just one (Bhat *et al*., 2024; Khamisu *et al*., 2025). This approach is critical in MENA countries. MENA organisations typically focus on community, family, and social obligations beyond formal organisational ties (Aljughaiman *et al*., 2024; Elhabib, 2024; Elidrisy, 2024).

Integrating Stakeholder Theory with MENA cultural values offers opportunities to create governance programmes that prioritise community welfare, social justice, and moral business practices as important goals, not just afterthoughts (Rahat and Nguyen, 2024; Masud *et al*., 2025; Khamisu and Paluri, 2024). Since 2021, stakeholder engagement has become more critical, with organisations under pressure to show a real commitment to creating value for stakeholders through clear communication, meaningful consultations, and responsive governance (UNFCCC PCCB, 2024; IFC, 2025; Mashali and Eltantawy, 2024).

2.3 Islamic ethical framework and governance integration

In MENA, the combination of Islamic ethical principles with modern governance frameworks is a key aspect of the business environment. This blend builds governance measures that are culturally relevant and globally respected while adhering to local values and stakeholder needs (Karsh and Mahareeq, 2024; Zunaiba *et al*., 2024; LSEG Islamic Finance, 2024). Islamic ethical frameworks focus on key principles. Social Responsibility (Maslaha), justice (Adl), consultation (Shura), transparency (Amanah), and stewardship (Khalifa). These values fit appropriately with modern authority needs and help foster trust and tolerance among stakeholders (Farah *et al*., 2021; Elhabib, 2024; Mohammed *et al*., 2024).

Novel studies have demonstrated that Islamic governance values fit well with modern stakeholder capitalism. These values are important for choices regarding liability, social responsibility, ethical choices, and stakeholder discussions (CBUAE [7], 2025; Almubarak *et al*., 2023). The Shura principles focus on involving stakeholders in decision-making. These activities go beyond stakeholder interests and include broader community and social welfare. This builds governance frameworks that exhibit cultural values while also meeting international principles (Zunaiba *et al*., 2024; Karsh and Mahareeq, 2024; LSEG Islamic Finance, 2024).

The concept of Amanah (trust and stewardship) sets ethical duties for corporate leaders. This includes commitments to stakeholders, the ecosystem, and society aligned with modern ESG goals (Elhabib, 2024; Elidrisy, 2024; Rahat and Nguyen, 2024). Likewise, Maslaha (public interest) impacts governance by judging the broader social influence of business decisions. This creates frameworks for adding stakeholder values that extend beyond simply maximising profits, while still ensuring business viability (Farah *et al*., 2021; Khamisu *et al*., 2025).

Combining Islamic ethical principles with governance frameworks has real effects on board composition, decision-making, stakeholder engagement, and accountability. These measures extend beyond important governance actions while adhering to cultural and religious values (CBUAE, 2025; Almubarak *et al*., 2023; Zunaiba *et al*., 2024). Islamic financial institutions have elaborated on the impressive governance structures. These include ethical screenings, Sharia supervisory boards, and stakeholder discussions. These patterns display how to integrate Islamic ethics into MENA governance and retain stakeholder trust and international credibility (Almubarak *et al*., 2023; Karsh and Mahareeq, 2024; LSEG Islamic Finance, 2024).

3. Methods

3.1 Research design and data collection strategy

This study used a mixed method approach. This study examined governance performance and examined the cultural and institutional factors in eight MENA countries: the UAE, Saudi Arabia, Qatar, Bahrain, Jordan, Egypt, Morocco, and Oman. This study follows a concurrent embedded approach, in which qualitative and quantitative data are collected simultaneously. Qualitative perceptions informed the quantitative analysis, and vice versa. This is a popular mixed-method protocol for emerging market research (IFC, 2025; OECD, 2024; Rahat and Nguyen, 2024).

Primary quantitative data sources include the World Bank Worldwide Governance Indicators Database, which provides comprehensive governance assessments across six dimensions: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption, with data coverage spanning 2022–2024 to capture post-pandemic governance developments (World Bank, 2024; Transparency International, 2025). Additional quantitative data drew from Transparency International Corruption Perception Index for 2023–2024 periods, and S&P [8] Global ESG governance ratings and Refinitiv ESG governance scores (Refinitiv, 2024; S&P Global, 2025; Masud *et al*., 2025).

The sample comprises 248 publicly listed companies across eight MENA countries. These were selected through stratified random sampling to ensure proportional representation across the sectors. These included financial services (n = 67, 27%), energy (n = 52, 21%), telecommunications (n = 38, 15%), manufacturing (n = 45, 18%) and real estate (n = 46, 19%). The criteria for selecting companies included several key factors. First, companies need to be listed on leading national stock exchanges and have at least three years of trading history. The second requirement is that their market capitalisation must be over USD 100 million to be applicable to institutional shareholders. Third, governance records had to be available for the entire 2022–2024 period. These requirements are mandatory for thorough analysis. Finally, all disclosure records must be published in English (Khamisu and Paluri, 2024; Elhabib, 2024; Mohammed *et al.*, 2024).

3.2 Variable construction and measurement

The dependent variable, ethical governance performance score, was developed using principal component analysis across five key governance dimensions. These include (1) board independence, measured by the proportion of independent directors; (2) stakeholder engagement, evaluated through consultation practices, transparency in communication, and community involvement; (3) transparency and disclosure, grounded in the amount and quality of voluntary reporting and information accessibility; (4) anti-corruption policy implementation, evaluated by the strength of policies, enforcement, and monitoring systems; and (5) executive accountability, measured by performance tracking, alignment of executive compensation with stakeholder outcomes, and disciplinary procedures. Each factor was assigned equal weight to ensure fairness. The final score ranges from 0 to 100, with factor loadings between 0.72 and 0.89, showing strong internal consistency (Farah *et al.*, 2021; Labban and Roussel, 2025; Bouteska *et al.*, 2025).

Independent variables encompass institutional quality measures derived from the World Bank Governance Indicators, including regulatory quality (measuring government capacity to formulate and implement sound policies), rule of law (capturing confidence in rule enforcement, contract enforcement, property rights, police, and court quality), and control of corruption (assessing the extent of public power exercise for private gain, including both petty and grand corruption forms). These indicators are standardised on a -2.5 to $+2.5$ scale and converted to 0 to 100 scale for consistency with other measures (World Bank, 2024; Transparency International, 2025; OECD, 2024).

The Islamic Finance Integration Index is a novel cultural-institutional variable that measures the extent to which organisations incorporate Islamic ethical principles into their governance practices. The index for measuring Islamic ethical integration is comprised of four equal parts, each accounting for 25% of the total score. These include the effectiveness of a Sharia supervisory board, the existence and enforcement of ethical screening policies, stakeholder consultation practices that follow Shura principles, and community engagement initiatives that consider the public interest (Maslaha). The index ranged from 0 to 100. Upper scores indicate a stronger incorporation of Islamic ethical values, and demonstrates a high internal consistency, with a Cronbach's α of 0.84 (Zunaiba *et al.*, 2024; Karsh and Mahareeq, 2024; LSEG Islamic Finance, 2024).

The control variables include various organisational characteristics. These are company size, measured using the natural logarithm of market capitalisation to control for variability, and the industry sector, classified by the Global Industry Classification Standard (GICS). Ownership structure was considered. This is done by distinguishing between state-owned enterprises (SOEs) (with more than 50% government ownership). The next are family-controlled companies (where a single family holds more than 25% voting rights) and publicly held corporations. Additionally, financial operations are calculated using return on assets (ROA), return on equity (ROE), and the average revenue growth rate over three years. These measures help account for how performance affects governance results (Elhabib, 2024; Elidrisy, 2024; Khamisu *et al.*, 2025).

3.3 Data analysis framework

The quantitative analysis employed multiple regression models with robust standard errors, clustered by country to account for the possibility of within-country correlation in governance procedures. This analytical approach enables comprehensive examination of direct relationships, interaction effects, and temporal dynamics in governance performance across

MENA countries. The leading analytical model studies relationships between cultural, institutional, and governance performance results while managing organisational and contextual influences (Polzer, 2022; Schaumann and Tarnovskaya, 2023; Qazi *et al.*, 2024).

The primary analytical model used to examine the above relationship is formulated as follows:

$$\begin{aligned}\text{Ethical Governance Performance} = {} & \beta_0 + \beta_1(\text{Institutional Quality}) + \beta_2(\text{Islamic Integration}) \\ & + \beta_3(\text{Company Size}) + \beta_4(\text{Industry Sector}) \\ & + \beta_5(\text{Ownership Structure}) \\ & + \beta_6(\text{Financial Performance}) \\ & + \beta_7(\text{Country Fixed Effects}) + \varepsilon \end{aligned} \quad \text{(Model 1)}$$

Where Institutional Quality represents a composite measure of regulatory quality, rule of law, and control of corruption (equal weighting, Cronbach's $\alpha = 0.91$); Islamic Integration represents the Islamic Finance Integration Index; Company Size is measured as the natural logarithm of market capitalisation; Industry Sector represents categorical classification using Global Industry Classification Standard (GICS); Ownership Structure distinguishes between state-owned enterprises (SOEs with >50% government ownership), family-controlled companies (single family holding >25% voting rights), and publicly held corporations; Financial Performance is measured through return on assets (ROA), return on equity (ROE), and average revenue growth rate over three years; Country Fixed Effects control for unobserved country-specific factors that affect governance performance.

The parameters in Model (1) are defined as follows: β_0 represents the intercept term (baseline governance performance when all independent variables equal zero); β_1 captures the effect of institutional quality on governance performance; β_2 measures the effect of Islamic integration on governance performance; β_3 quantifies the impact of company size on governance performance; β_4 represents the industry sector effects on governance performance; β_5 captures the influence of ownership structure on governance performance; β_6 measures the effect of financial performance on governance outcomes; β_7 represents country-specific fixed effects; and ε denotes the error term capturing unobserved factors and random variation in governance performance.

To examine interaction effects between institutional and cultural factors, a second model was employed:

$$\begin{aligned}\text{Ethical Governance Performance} = {} & \beta_0 + \beta_1(\text{Institutional Quality}) + \beta_2(\text{Islamic Integration}) \\ & + \beta_3(\text{Institutional Quality} \times \text{Islamic Integration}) \\ & + \beta_4(\text{Company Size}) + \beta_5(\text{Industry Sector}) \\ & + \beta_6(\text{Ownership Structure}) \\ & + \beta_7(\text{Financial Performance}) \\ & + \beta_8(\text{Country Fixed Effects}) + \varepsilon \end{aligned} \quad \text{(Model 2)}$$

Where β_3 captures the interaction effect between institutional quality and Islamic integration, revealing whether cultural-institutional complementarity enhances governance effectiveness beyond additive effects, while all other parameters maintain their definitions from Model (1), with β_0-β_2 and β_4-β_8 representing the same constructs with adjusted coefficients accounting for the interaction term.

For temporal analysis of governance performance trends, a panel data model with time-varying covariates was specified:

$$\begin{aligned}\text{Ethical Governance Performance\_}\{\text{it}\} = {} & \beta_0 + \beta_1\left(\text{Institutional Quality\_}\{\text{it}\}\right) \\ & + \beta_2\left(\text{Islamic Integration\_}\{\text{it}\}\right) \\ & + \beta_3\left(\text{Company Size\_}\{\text{it}\}\right) \\ & + \beta_4\left(\text{Industry Sector\_}\{\text{i}\}\right) \\ & + \beta_5\left(\text{Ownership Structure\_}\{\text{i}\}\right) \\ & + \beta_6\left(\text{Financial Performance\_}\{\text{it}\}\right) \\ & + \beta_7(\text{Time Trend}) + \alpha\text{\_}\{\text{i}\} + \delta\text{\_}\{\text{t}\} + \varepsilon\text{\_}\{\text{it}\}\end{aligned} \quad \text{(Model 3)}$$

Where the subscript i denotes individual companies, subscript t represents time periods (quarterly observations 2022–2024), β_7 captures the linear time trend effect on governance performance, α_{i} represents company-specific fixed effects controlling for time-invariant heterogeneity, δ_{t} denotes time-period fixed effects capturing common shocks affecting all companies in specific periods, and ε_{it} is the idiosyncratic error term, while β_0-β_6 maintain their substantive interpretations from Model (1) adjusted for panel structure.

To assess sector-specific governance patterns, a hierarchical model with sector-level random effects was employed:

$$\begin{aligned}\text{Ethical Governance Performance\_}\{\text{ij}\} = {} & \beta_0 + \beta_1\left(\text{Institutional Quality\_}\{\text{ij}\}\right) \\ & + \beta_2\left(\text{Islamic Integration\_}\{\text{ij}\}\right) \\ & + \beta_3\left(\text{Company Size\_}\{\text{ij}\}\right) \\ & + \beta_4\left(\text{Ownership Structure\_}\{\text{ij}\}\right) \\ & + \beta_5\left(\text{Financial Performance\_}\{\text{ij}\}\right) \\ & + \beta_6\left(\text{Country Fixed Effects\_}\{\text{j}\}\right) + \text{u\_}\{\text{j}\} \\ & + \varepsilon\text{\_}\{\text{ij}\}\end{aligned} \quad \text{(Model 4)}$$

Where the subscript j denotes sector classification, u_{j} represents sector-specific random effects capturing unobserved heterogeneity at the sector level (assumed normally distributed with mean zero and variance σ^2_{u}), and ε_{ij} is the individual-level error term (assumed normally distributed with mean zero and variance σ^2_{ε}), while β_0-β_6 represent fixed effects coefficients with interpretations consistent with Model (1), adjusted for hierarchical structure.

Additional analyses were performed using several methods. Hierarchical regression models examine how institutional quality interacts with cultural factors. Panel data analysis investigates how governance performance changes over time using fixed effects models. Structural equation modelling examines the relationships among institutional factors, cultural integration, and governance outcomes. To ensure the reliability of the findings, robustness checks were performed to confirm the results. These analyses used different methods to calculate governance scores, test various weighting methods for composite indices, and examine the effects of outlier observations (Masud *et al.*, 2025; Khamisu and Paluri, 2024; Elhabib, 2024).

Qualitative analysis included a careful review of governance frameworks, regulatory documents, and policy guidelines from eight countries. This helps to recognise patterns across institutions, cultural influences, and implementation encounters. A standardised coding framework was built based on institutional theory constructs and Islamic governance principles, with inter-coder reliability exceeding 0.85 for key categories. Interviews with 24 experts, including governance professionals, regulatory officials, and Islamic finance specialists, helped confirm the quantitative findings. These experts also offer insights into governance processes that are not addressed in formal documents (IFC, 2025; Mashali and Eltantawy, 2024; WHO EMRO, 2024).

4. Results

4.1 Regional governance performance patterns

The results showed significant differences in how ethical governance was implemented across MENA countries. Clear patterns have emerged based on the levels of institutional development, regulatory sophistication, and cultural integration. Table 1 presents the comprehensive governance performance indicators across the eight countries, demonstrating significant heterogeneity within the regional governance landscape.

The data shows that Gulf Cooperation Council (GCC) countries have better governance than non-GCC MENA nations. This is mainly because Qatar has built strong regulatory systems that meet international standards, supported by national strategies that see good governance as an advantage. However, a closer look reveals deeper patterns that go beyond the GCC versus non-GCC divide. This supports new research showing that governance practices across the region are highly diverse (Farah *et al.*, 2021; Mohammed *et al.*, 2024).

Qatar has the highest Islamic Integration Index score (85/100), indicating a strong blend of Islamic ethical principles with modern governance. The Qatar Islamic Bank's governance model and the Qatar Foundation's stakeholder engagement practices clearly demonstrate these

Table 1. Governance performance indicators across MENA countries (2022–2024)

Country	TI[a] corruption index (2023)	WB rule of law	WB regulatory quality	Board independence (%)	Stakeholder engagement score	Islamic integration index
UAE	68/100	1.21	1.45	67%	78/100	72/100
Qatar	58/100	1.05	0.89	64%	71/100	85/100
Saudi Arabia	52/100	0.34	0.67	62%	69/100	78/100
Bahrain	42/100	0.58	0.92	59%	65/100	91/100
Oman	43/100	0.72	0.45	56%	61/100	69/100
Jordan	46/100	0.41	0.23	54%	58/100	64/100
Morocco	36/100	0.18	0.11	52%	55/100	71/100
Egypt	35/100	−0.12	−0.21	48%	51/100	67/100

Note(s): [a]Transparency International

Source(s): Transparency International (2025), World Bank Governance Indicators (2024), Authors' calculations practices (Zunaiba *et al.*, 2024; Karsh and Mahareeq, 2024). Qatar performs well across various governance areas even in the face of international challenges. This integration seems to improve governance effectiveness as it supports the idea of culturally responsive governance frameworks.

Among non-GCC countries, Jordan has relatively strong governance performance. Despite its economic problems, Jordan achieved a score of 54/100, proving that strong institutions and a mixture of cultural and ethical values can help overcome limited resources. Jordan's governance model, a mixture of modern board structures and traditional consultation approaches, improves stakeholder authenticity and helps maintain international integrity (OECD, 2024; Labban and Roussel, 2025; Khamisu *et al.*, 2025).

4.2 Institutional quality and governance effectiveness

Regression analysis demonstrates strong positive relationships between institutional quality indicators and ethical governance performance across MENA countries, with results supporting Institutional Theory predictions regarding the foundational importance of formal institutional frameworks for governance effectiveness (Rahat and Nguyen, 2024; Barbar, 2025; Dodds and Smith, 2025). Table 2 presents the hierarchical regression results examining these relationships, while controlling for organisational and contextual factors.

The results show that institutional quality strongly affects the effectiveness of governance. The Rule of Law was a key factor ($\beta = 0.285$, $p < 0.01$). This aligns with research emphasising the need for legal frameworks to ensure effective governance in emerging markets (Polzer, 2022; OECD, 2024; World Bank, 2024). These findings support Institutional Theory, which states that strong systems are required for good governance. This means having ways to enforce laws, hold people accountable, and provide clear legal rules (Schaumann and Tarnovskaya, 2023; Balzano *et al.*, 2025).

The positive coefficient of Islamic Integration ($\beta = 0.148$, $p < 0.05$) shows that combining cultural and institutional factors improves governance in MENA countries. This challenges the belief that traditional and religious governance methods are at odds with modern needs (Karsh and Mahareeq, 2024; Zunaiba *et al.*, 2024; LSEG Islamic Finance, 2024). Instead, it suggests that when these influences work together, they can strengthen governance overall. This supports the idea of governance frameworks that respect local cultures and leverage local strengths, rather than simply following Western models (Farah *et al.*, 2021; Elhabib, 2024; Mohammed *et al.*, 2024).

Table 2. Regression results – institutional quality and governance performance

Variable	Model (1) (base)	Model (2) (institutional)	Model (3) (cultural)	Model (4) (Full)
Rule of law	–	0.312^{***} (0.089)	0.298^{***} (0.091)	0.285^{***} (0.087)
Regulatory quality	–	0.267^{***} (0.076)	0.251^{***} (0.078)	0.243^{***} (0.074)
Control of corruption	–	0.189^{**} (0.082)	0.176^{**} (0.084)	0.171^{**} (0.081)
Islamic integration	–	–	0.156^{**} (0.063)	0.148^{**} (0.061)
Company size (log)	0.089^{*} (0.045)	0.067 (0.041)	0.063 (0.042)	0.059 (0.040)
Industry controls	Yes	Yes	Yes	Yes
Country fixed effects	Yes	Yes	Yes	Yes
R^2	0.23	0.47	0.51	0.53
N	248	248	248	248

Note(s): Standard errors in parentheses, $^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.10$

Source(s): By authors

4.3 Cultural-institutional dynamics and stakeholder engagement

The results show that cultural and institutional impacts are strongly linked to effective governance and Islamic ethical values. This link differs in different areas of governance and among different companies. This plays a significant role in stakeholder engagement. This correlation proposes that Islamic ethical frameworks increase stakeholder relationships beyond strictly following strict rules (Mashali and Eltantawy, 2024; IFC, 2025; UNFCCC PCCB, 2024). Figure 1 shows the relationship between Islamic Integration Index scores and stakeholder engagement performance. A strong correlation was observed (r = 0.67, p < 0.001). This means that companies with higher Islamic integration scores engage more stakeholders. This trend is consistent across different company sizes, industries, and countries. This indicates a strong link between cultural values and governance practices (Qazi *et al.*, 2024; WHO EMRO, 2024; Rahat and Nguyen, 2024).

Numerous examples of this correlation exist. First, Shura values promote community consultation outside legal obligations. These values are important for including moral duties in engaging stakeholders (Karsh and Mahareeq, 2024; Zunaiba *et al.*, 2024). Second, cultural philosophies improve trust with stakeholders when they are supported by prospects (CBUAE, 2025; Almubarak *et al.*, 2023). Third, companies are developing definitions of stakeholders to involve community interests, reflecting Maslaha (public interest) (Almubarak *et al.*, 2023; LSEG Islamic Finance, 2024). Finally, the Amanah principles (trust and stewardship) provide a convincing ethical basis for managing stakeholder relationships through transparent accountability (Elhabib, 2024; Elidrisy, 2024).

The qualitative analysis shows that Islamic ethical integration enhances stakeholder engagement through several pathways that are not captured in quantitative measures. Expert interviews show that organisations with strong Islamic integration create more thorough processes for identifying stakeholders. They include community leaders, religious authorities, and social groups, which are often excluded from traditional stakeholder mapping. These organisations also respond better to stakeholder concerns by using formal consultation

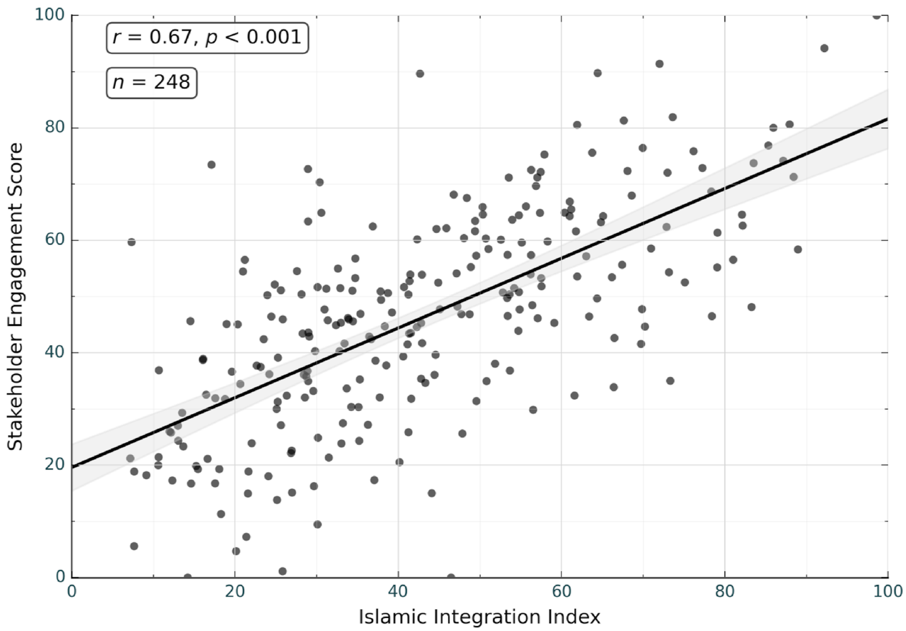

Figure 1. Islamic integration and stakeholder engagement performance. Source: By authors

methods grounded in Shura principles, allowing input beyond what regulations require (Mashali and Eltantawy, 2024; Khamisu *et al*., 2025; Farah *et al*., 2021).

4.4 Sector-specific governance patterns and Non-GCC insights

The results of the analysis are shown in Table 3. This table shows that governance performance varied widely by sector. Financial service companies perform better than others in several governance areas. This shows the regulatory requirements and specific features (Khamisu and Paluri, 2024; Elhabib, 2024; Masud *et al*., 2025). However, there are substantial variations between the GCC and non-GCC regions. These variations show varying paths of governance development, inspired by regional settings (Farah *et al*., 2021; Mohammed *et al*., 2024; Labban and Roussel, 2025). A closer look at non-GCC countries, Egypt, Morocco, and Jordan, shows exceptional governance patterns that are often ignored in broader regional analyses. This is in line with recent research that emphasises institutional diversity in the region (OECD, 2024; World Bank, 2024; Bouteska *et al*., 2025).

Morocco demonstrates innovative approaches to cultural-institutional integration, with traditional governance mechanisms such as family business councils formalised into modern board structures while maintaining cultural authenticity. Morocco's average governance score is 52/100. However, a closer look shows that Morocco engages stakeholders in mixing modern governance practices with traditional consultation methods. This validates the value of producing governance related to the local culture (Polzer, 2022; Dodds and Smith, 2025).

Egypt has its own challenges in evaluating state-led development and in improving governance in the private sector. This displays broader trends in how states and markets cooperate in the region (Farah *et al*., 2021; Aljughaiman *et al*., 2024). State-owned firms scored an average of 58/100, indicating better performance in governance. The average number of privately held companies scored an average of 47/100. This shows the government's attempts to modernise governance after economic transformation. However, political sensitivities and restricted space for civil society and getting stakeholders involved are still a challenge. This shows the challenges associated with effective governance (Schaumann and Tarnovskaya, 2023; Bhat *et al*., 2024).

Jordan has the most successful non-GCC governance model. Jordan has experienced progress in several areas of governance. Jordan has done this by effectively mixing international best practices with traditional governance methods with (Khamisu *et al*., 2025; Elhabib, 2024). With an average score of 58/100, Jordanian companies perform well in stakeholder engagement (Elidrisy, 2024; Rahat and Nguyen, 2024).

4.5 Temporal trends and post-2021 governance evolution

Figure 2 shows a 12.3% increase in governance scores, indicating better governance performance in the MENA countries from 2022 to 2024. This improvement is due to several

Table 3. Sector-specific governance performance analysis

Sector	Average governance score	Board independence (%)	Stakeholder engagement	Anti-corruption score	Sample size
Financial services	72.3	68%	74/100	78/100	67
Energy	65.8	61%	68/100	71/100	52
Telecommunications	64.2	59%	65/100	69/100	38
Manufacturing	61.7	56%	62/100	65/100	45
Real estate	58.4	53%	58/100	61/100	46

Source(s): Authors' calculations based on company disclosure data

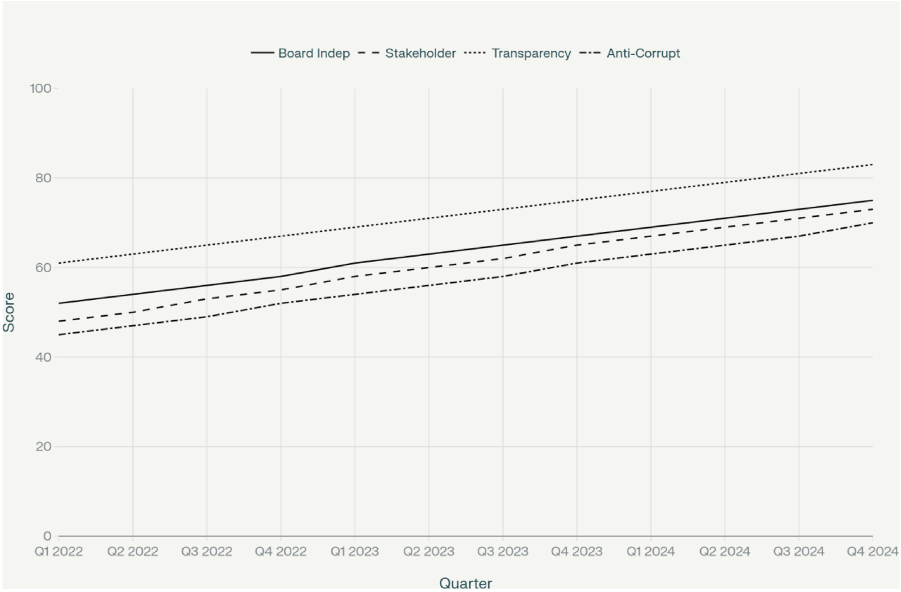

Figure 2. Temporal trends in governance performance (2022–2024). Source: Authors' calculations based on company disclosure data

factors, including increased pressure from international investors, better regulations, and stronger national strategies (Almubarak *et al*., 2023; CBUAE, 2025).

Several major improvements in the transparency and disclosure steps were the reasons for this increase. The average score increased from 61/100 in Q1 2022 to 72/100 in Q4 2024. These improvements were due to the strengthened disclosure requirements of several MENA stock exchanges. Adopting international reporting standards and greater scrutiny by institutional investors for transparency are behind the rise in ESG investments (Refinitiv, 2024; S&P Global, 2025; IFC, 2025).

The stakeholder engagement scores improved steadily from 58/100 to 67/100 during the same period. This was driven by enhanced guidelines that required compulsory shareholder consultations in several countries. Digital platforms make collaborations easier and more manageable among users. Additionally, there is mounting awareness that stakeholders improve business performance (Mashali and Eltantawy, 2024; UNFCCC PCCB, 2024; WHO EMRO, 2024).

5. Discussion

5.1 Theoretical contributions and framework development

This study's Institutional Theory demonstrates how connecting cultural and religious beliefs can improve governance in emerging markets. This challenges the idea that cultural traditions and modern governance need cannot work together (Rahat and Nguyen, 2024; Barbar, 2025; Dodds and Smith, 2025). Instead, the theory shows that these two areas can work harmoniously to enhance several important aspects. Boosting stakeholder involvement, making ethical choices, and building trust in organisations are the major areas addressed through this theory. This approach focuses on using culturally meaningful practices rather than merely copying Western governance models (Polzer, 2022; Schaumann and Tarnovskaya, 2023; Balzano *et al*., 2025).

This study adds to Stakeholder Theory by showing how culturally specific stakeholder engagement practices go beyond traditional Western approaches (Qazi *et al.*, 2024; Mashali and Eltantawy, 2024; IFC, 2025). By integrating Islamic values with Stakeholder Theory, this study proposes improved steps for identifying cultural and religious beliefs to strengthen stakeholder capitalism. It focuses on preserving cultural identity and legitimacy. This study adds to the growing literature on stakeholder capitalism in non-Western contexts (UNFCCC PCCB, 2024; WHO EMRO, 2024; Bhat *et al.*, 2024).

This study introduces a new way of understanding how culture and institutions work together in governance. It proposes a *"Cultural-Institutional Complementarity"* framework. This newly introduced framework shows how properly combining traditional ethical systems can improve modern governance. This new framework helps identify several religious and cultural philosophies to strengthen global business practices. This new framework supports the growing literature on comparative, governance, and cultural management theories (Farah *et al.*, 2021; Mohammed *et al.*, 2024; Labban and Roussel, 2025).

5.2 Practical implications for governance implementation

Businesses operating in MENA countries should develop their own institutional approaches, rather than simply copying Western models. Scholars say that successful governance relies on an understanding of local cultural values, institutions, and stakeholder expectations. This shows the importance of culturally responsive governance consulting and implementation approaches are tailored to the region (Karsh and Mahareeq, 2024; Zunaiba *et al.*, 2024; LSEG Islamic Finance, 2024; Elhabib, 2024; Elidrisy, 2024; Khamisu *et al.*, 2025).

The findings show that integrating Islamic ethics can boost organisations' competitive edge in stakeholder engagement, community relations, and legitimacy when done correctly (Almubarak *et al.*, 2023; CBUAE, 2025). Companies should consider establishing Islamic ethical advisory systems. This should be done using Shura-based consultation and aligning their governance with Islamic values as per international standards. This requires a thorough understanding of the Islamic ethics and modern governance. When done well, it improves stakeholder relationships and boosts community engagement (Zunaiba *et al.*, 2024; Karsh and Mahareeq, 2024; LSEG Islamic Finance, 2024).

This study recommends that MNCs in MENA nations create governance strategies that are tailored to each country. They should consider differences in institutional cultural contexts, quality, and stakeholder expectations (OECD, 2024; World Bank, 2024; Bouteska *et al.*, 2025). This is because governance performance can vary widely across countries and customised strategies are necessary rather than a one-size-fits-all approach. It is important to focus on ways to combine the cultural and institutional factors in each country (Farah *et al.*, 2021; Aljughaiman *et al.*, 2024; Rahat and Nguyen, 2024).

5.3 Policy recommendations and regulatory development

Policymakers should gradually build institutional governance capacities. This should be carried out while acknowledging cultural diversity and the various levels of development (Khamisu and Paluri, 2024; Masud *et al.*, 2025; Elhabib, 2024). Research shows that effective authorities need not only formal guidelines, but also cultural acceptance and stakeholder support. This might involve the use of non-traditional methods that blend cultural values with international standards (Refinitiv, 2024; Transparency International, 2025; S&P Global, 2025).

Regional harmonisation of governance frameworks should recognise cultural diversity and national sovereignty. This should be done alongside the launch of universal standards for transparency, accountability, and stakeholder engagement (OECD, 2024; World Bank, 2024; IFC, 2025). The GCC countries present a programme for improved governance cooperation. This platform could be expanded to include wider MENA cooperation. This can potentially be done through Arab League economic ideas or regional development banks. This would promote collaborative governance while acknowledging institutional diversity (Almubarak *et al.*, 2023; Elhabib, 2024; Elidrisy, 2024).

Promoting Islamic financial principles in governance is a culturally suitable way to improve governance effectiveness. This involves creating training programmes, regulatory guidelines, and specialised frameworks to support true integration while maintaining international credibility. Collaborating with governance experts, Islamic finance institutions, and international standard-setting bodies can help create this material (Almubarak *et al.*, 2023; Zunaiba *et al.*, 2024; LSEG Islamic Finance, 2024; Karsh and Mahareeq, 2024; Khamisu *et al.*, 2025; CBUAE, 2025).

5.4 Limitations and future research directions

This study notes several limitations which create opportunities for future research.

First, focussing on publicly listed companies may limit generalisability to broader economic contexts, including SMEs, family-owned businesses, and state-owned enterprises that dominate the MENA economies. Future research should examine how governance operates in non-listed businesses.

Second, depending on formal governance indicators, important informal governance methods, cultural practices, and relationship-based approaches are significant in MENA business environments. Future research should elaborate on approaches to evaluating the effectiveness of cultural procedures and informal governance. This should be done alongside formal governance analysis. This would help to provide a better understanding of governance dynamics in several cultural settings.

Third, the data from 2022–2024 shows recent changes in governance. However, this does not reflect long-term trends. Analysing data over a longer period can help to understand various important relationships. Cause-and-effect relationships, the development of institutional patterns, and effective policy interventions. This would provide a clearer picture of how governance evolves.

Fourth, this study focusses on the MENA region. Future research could include Islamic-majority countries beyond the MENA region. This would help identify how Islamic governance values apply to different settings and levels of development.

6. Conclusion

This study provides constructive insights into how ethical governance is directed in MENA countries. The results showed substantial differences in cultural integration methods, institutional development, and governance effectiveness. The results also show that institutional frameworks enhance governance effectiveness. Additionally, the research confirms that aligning cultural and institutional factors, especially integrating Islamic ethics, can enhance governance effectiveness when performed correctly.

These findings challenge common beliefs about the link between traditional cultural values and modern governance needs. The results reveal that integrating Islamic ethical values with contemporary governance frameworks can improve organisational legitimacy, stakeholder engagement, and governance effectiveness. This integration requires a thorough understanding of Islamic ethics and modern governance. When done successfully, it offers a competitive edge in stakeholder relationships and community engagement, while preserving international credibility.

This study shows significant differences in governance performance among MENA countries, with GCC countries typically outperforming non-GCC countries in various areas. However, non-GCC countries, such as Jordan and Morocco, also achieve strong governance by strategically integrating cultural and institutional factors and by using innovative approaches that leverage their local strengths.

The temporal analysis shows positive trends in governance improvements in the region from 2022 to 2024. This analysis directs cultural-institutional integration, stakeholder commitment, and progress in transparency. However, there are still challenges in enforcing laws, fighting corruption, and advancing institutional capacities. These areas challenge continuous policy attention and international collaborations.

Future success in MENA governance depends on building institutional capacities and developing governance frameworks. This should be done while respecting work collaboratively on regional standards and cultural values aligned with international requirements. The urgent global sustainability challenges and growth of stakeholder capitalism offer MENA countries a chance to use their cultural strengths to create governance frameworks that combine international credibility with cultural authenticity.

This study contributes to the theoretical understanding and practical application of governance frameworks in emerging markets, providing insights for policymakers, scholars, and practitioners seeking to develop effective governance systems that balance international standards with cultural authenticity and stakeholder legitimacy. This study explains that effective governance involves a good understanding of cultural dynamics, institutional contexts, and stakeholder expectations. It progresses beyond meeting technical obligations to including larger challenges. These challenges include social responsibility, organisational purpose, and ethical leadership in difficult global business environments.

Data sources and accessibility

Primary Data Sources

World Bank Worldwide Governance Indicators (WGI)

(1) *Access*: https://databank.worldbank.org/source/worldwide-governance-indicators

(2) *Licence*: Creative Commons Attribution 4.0

(3) *Coverage*: 2022–2024 annual data for eight MENA countries

(4) *Variables*: Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption

Transparency International Corruption Perception Index

(1) *Access*: https://www.transparency.org/en/cpi/2023

(2) *Licence*: Open access with attribution

(3) *Coverage*: 2023–2024 annual rankings

(4) *Variables*: Corruption perception scores (0–100 scale)

Refinitiv ESG Database

(1) *Access*: Through institutional subscription (alternative: contact Refinitiv for academic access)

(2) *Coverage*: 2022–2024 quarterly data for 248 MENA companies

(3) *Variables*: ESG governance, board independence ratio, and stakeholder engagement scores.

Company Disclosure Data

(1) *Sources*: National stock exchange filings, annual reports, sustainability reports

(2) *Access*: Publicly available through exchange websites and company investor relations pages

(3) *Variables*: Board composition, governance policies, stakeholder engagement practices

All the data sources used in this study were publicly accessible through the indicated channels, ensuring research transparency and reproducibility. No proprietary data were used for the analysis.

Notes

1. Organisation for Economic Co-operation and Development
2. London Stock Exchange Group

3. United Nations Framework Convention on Climate Change
4. Paris Committee on Capacity-building
5. World Health Organisation
6. World Health Organisation Regional Office for the Eastern Mediterranean
7. Central Bank of United Arab Emirates
8. Standard & Poors'

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