

LEGAL FRAMEWORK OF THE FAMILY BUSINESSES IN THE KINGDOM OF SAUDI ARABIA

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Abstract:

Family businesses are the oldest and most common model in economic organization and are considered the backbone of country economies. Therefore, the countries have been keen to develop charters and guidelines that include principles and controls ensuring the continuity thereof. One of those countries is the Kingdom of Saudi Arabia, where family businesses are a significant economic stream that impacts economic development in the Kingdom, particularly in the non-oil industries, trade, construction, and building sectors. However, these companies face numerous challenges that threaten their existence and continuity, forcing them to regularize their status to enhance their ability to continue, grow, and compete (Diab, 2010, p. 452).

Family businesses are subject to the general provisions of companies. However, the management is under the control of one family, and the family businesses do not have a specific legal form. Still, such businesses could be civil, commercial, industrial, or service companies, and adopt one of the legal frameworks stipulated in the Companies Law and do not go beyond these legal forms. The limited liability company and the closed joint stock company are the most suitable legal frameworks for family businesses, according to the research results.

From this perspective, this research aims to identify the legal framework suitable for family businesses that accommodates the increase in the number of partners and ensures their continuity, and to examine the relationship between internal and external challenges and the continuity of family businesses, as well as strategies for overcoming such difficulties. The research concluded that there is a relationship between the legal framework and the continuity of companies, and that the closed joint-stock company is the most suitable legal framework for ensuring continuity. Additionally, it found a connection between internal and external challenges and the continuity of family businesses.

Keywords: Family businesses – legal framework, family charter, external challenges, internal challenges.

1. Introduction

Family businesses are a global phenomenon that is not limited to one country only, as such businesses play an influential role in the national economic development of the countries to which they belong. Studies show that approx. Approximately 70% of commercial entities in many countries are family businesses, and they are one of the most essential pillars of the GCC economies, particularly in KSA, where they control around 90% of private sector companies, according to the National Center for Family Business.

Given the importance of family businesses at the international level resulting from the impact thereof on the economy, and the seriousness of these companies' collapse, the World Bank's International Finance Corporation (IFC) has developed a Governance Guide for Family Businesses that includes controls, which should be observed by family businesses, in addition to defining the concept of these companies, advantages, and disadvantages thereof, the reasons that lead to their collapse, and the factors that lead to their sustainability. Thanks to the influential role of family businesses in the growth of the national economy, which represents 60% thereof, the Kingdom has been keen to develop templates for charters and constitutions adopted by family businesses to preserve them from collapse and ensure their sustainability. The Saudi Ministry of Commerce and Industry has developed the Governance Guide for Saudi

Arabian Family Businesses, which includes controls that family businesses should observe to ensure sustainability and intergenerational succession.

- **Research Problem**

The research problem is to answer the following questions:

- Q1. Do family businesses have their own legal framework? Is there a relationship between the legal framework and the continuity of companies?
Q2. What are the challenges faced by family businesses?

- **Importance of Research**

The importance of research stems from the significance of family businesses, which are considered the backbone of the economy in most countries. With the rise of these businesses, the economy flourishes and grows. Conversely, the failure of such companies harms the economy. Therefore, it is essential to search for the appropriate legal framework for the continuity of family businesses in the Kingdom of Saudi Arabia.

- **Research Objectives**

The research aims to:

- Study the relationship between the legal framework and the continuity of family businesses.
- Study the relationship between internal and external challenges and the continuity of family businesses.

2. Previous Studies

By reviewing the intellectual production published in Arabic and English languages in the various databases and related to the study of the legal framework for family businesses, it was found that there are (90) studies. When the researcher reviewed those studies, she found that the studies that are closely related to the research topic are (30) studies, including the following studies:

The study by (Al Zumea, 2016) discussed the determination of the family businesses' legal nature. The study concluded that family businesses that are not subject to legal regulation of companies face several difficulties, including the lack of their own governance rules, and the short life of those companies due to the conflicts that occur, especially in the third generation.

The study by (Al Zahrani, 2019) discussed the importance of the legal transformation of family businesses in the Kingdom of Saudi Arabia into closed joint-stock companies. It concluded that it is necessary to separate ownership from management and that the best legal form to extend the life of the family business is to transform these companies into closed joint-stock companies.

The study by (Al-Ghamdi, 2021) discussed the sustainability of family businesses in the Kingdom of Saudi Arabia. It concluded that there are obstacles that prevent the continuity of companies, especially in the third generation, and that family businesses should adopt the form of a limited liability company or a joint stock company if the number of partners therein and its capital are increased.

The study by (Matali et al., 2021) discussed the role of governance values in facing the challenges of family businesses, presented the experiences of some Arab companies, and concluded that these companies achieved positive results thanks to the application of governance, represented in building solid values focused on

transparency and effective communication between various parties, and gaining the investors' trust.

By analyzing the previous studies, these studies agree that there is no specific definition of family businesses, the existence of internal and external obstacles that represent challenges to their continuation, and the absence of a particular legal framework for family businesses. These studies concluded that establishing a legal framework suitable for companies and implementing governance mechanisms contributes to the sustainability of those companies, a finding supported by the researcher.

3. Research Hypotheses

The research question is addressed through the following hypothesis:

Hypothesis (1): There is a relationship between the determination of the legal framework and the sustainability of family businesses.

Hypothesis (2): There is a relationship between internal and external challenges and the sustainability of family businesses.

Research Methodology

The researcher used the analytical descriptive method to answer the research questions.

Research Plan

Before addressing the challenges faced by family businesses and the appropriate legal framework for the continuity of family businesses, the legal logic requires learning about the concept of family businesses and the development stages thereof, as follows.

• Concept of Family Businesses

There is no consensus on a specific definition of family businesses in the published literature and reports (L. Mezghani, 2016). There is no legal form called family businesses, as the Companies Law mentions the types of companies exclusively, but this term is applied to any company that has adopted a legal form from among the kinds of companies solely specified in the law and has a family nature, as it is not permissible to agree to establish or form a commercial company that does not adopt one of the legal forms, otherwise, this agreement is considered null and void.

Since there is no agreement on a specific definition, some concepts and definitions have been mentioned in previous studies, including that a family business is “a company owned by a family that is usually managed by it, and it was established by one or more persons and its tradename is derived from his name or the family name” (Hamdan, 2009, p. 2).

A family business is also defined as the “participation of more than one member of one family, either through establishment, inheritance or transferring the ownership of a company's capital, in the exercise of its activity across generations” (Kano, 2002, p. 2) and defined by the Ministry of Commerce's Governance Guide for Saudi Arabian Family Businesses as “a company wholly owned or controlled by a particular family” (Governance Guide for Saudi Arabian Family Businesses, 2013, p. 7).

By analyzing the previous definitions, these definitions are consistent in terms of the content, which is that the element of capital ownership and management control is a criterion for being a family business (Dhafra, 2018, p. 52).

• Characteristics of Family Business

- **Family Character:** The defining characteristic that distinguishes a family business from other types of enterprises lies in the joint ownership and management exercised

by family members. Such companies typically originate with the founder's individual ownership and operate as closed entities restricted to the founding family. In their early stages, they often adopt the legal form of a general partnership or limited partnership. Over time, as ownership is transferred through inheritance or upon the founder's retirement, additional family members become partners. This transition frequently results in a change of legal structure into a limited liability company (LLC), a form favored by many family businesses to preserve personal control, ensure continuity of family involvement, and prevent the participation of non-family partners due to concerns about potential incompatibility in management practices.

- **Loyalty and Teamwork** (Al Zahrani, 2019, p. 19): As the social entity of the family and its economic level are linked to the company, there is a sense of belonging to the family and keenness to achieve one interest, which is the management of the company. Therefore, the family business prefers the legal form that allows it to impose restrictions on the exit and transfer of shares (Al-Ghamdi, 2021, p. 287). Article (161) of the Saudi Companies Law, issued in 2015, which corresponds to Article (178) of the new Companies Law, stipulates the following: "The partner shall have the right to assign the share to any partner or others, provided that the remaining partners approve this assignment and each partner is allowed to recover the sold share." The appropriate legal form to ensure the continuity of the family business and its steadfastness in the arena of competition in the labor market is a closed joint-stock company, as this form allows trading of shares between shareholders without restrictions compared to companies that are based on personal consideration, such as general partnership and limited partnership, and accommodate a large number of partners.

- Respect for the family head, especially in Arab countries, following the customs and traditions that support the presence of the family head and obeying him, and committing to his opinions (D. Miller, 2006, p. 80).

- The good reputation of the family in the commercial environment is linked to the market confidence in the company, which gives it preferential opportunities in the sale and purchase transactions and provides it with the required funding to expand its projects.

- The management is keen to develop the company, ensuring it passes it to subsequent generations.

- Stability of management and decision-making mechanisms, especially at the beginning of the establishment, due to the simplicity of the administrative structure of the company.

- Exchange of experiences (Saud, et. al, 2018, p. 231) where many family members are integrated into the company at an early age, which qualifies them to work and lead company affairs in the future.

- Lack of formalizing the work organization rules and procedures.

- Transferring personal conflicts between family members from home to the work environment.

• Legal Regulation of Family Businesses

By reviewing the laws of many countries, it was not found that there is a type of company called a family company. Still, it was called a family business because the partners are relatives, and their relationships are based on personal considerations.

However, the Egyptian Civil Code established a special regulation for family ownership, similar to that of family companies. Most of its rules are derived from

Swiss civil law and Italian civil law. Still, it did not ignore the nature of the Egyptian environment, especially in the countryside, where tradition and custom play an influential role in keeping the family inheritance in the hands of the family head, who manages it on behalf of his common partners, and in rare cases, a family member may ask to divide the inheritance due to fear of breaking the prevailing custom, which may cause injustice in some cases, especially with the absence of an obligation on the family head (the Director) to provide a statement account for the partners. Hence, the Egyptian legislator wanted to regulate the compulsory commonality based on an implicit agreement, such as the case of inheritance, and permits the exit of the partners who wanted that.

- **Elements of Family Ownership in the Egyptian Civil Code**

Article 851 of the Egyptian Civil Code stipulates the following: "Members of a single family united by a common business or interest may agree in writing to create a family property. Such property shall be either an estate inherited by them in which they agree to make the whole or any part of such estate a family property, or any other property held by them which they agree to make part of such family property." Article (852) of the law above, in the first and second paragraphs, further stipulates that: "It may be agreed to create a family property for no longer than fifteen (15) years, provided that a partner may request the court to authorize such partner to dispose of his share in such property before the expiry of the agreed date, provided that such request is found to be well reasoned and justified. Where the lifespan of such property is not determined for a particular length of time, each partner may withdraw from such property after six months from the date of giving notice to his partners of his intention to dispose of his share." It is clear from the text of the articles that the law defines family ownership in four pillars as follows:

First Pillar: Concluding a written agreement and the writing herein is a condition of conclusion, not proof.

Second Pillar: The partners shall be members of a family, and the definition of the family is based on prevailing custom, as well as the concept of family being determined in a flexible manner, where spouses are considered members of the same family.

Third Pillar: The property shall be owned by the family, whether through inheritance or other property owned by the family members, and they want to add it to the family property.

Fourth Pillar: Setting a maximum period of ownership, which is fifteen years, but the text of the second paragraph of Article (852) included the hypothesis of not determining a particular length of time for ownership, where each partner may withdraw from such property after six months from the date of giving notice to his partners of his intention to dispose of his share. Furthermore, by mutual agreement of all partners, it is permissible, upon the expiration of the maximum period, to renew the family property arrangement for an additional term.

The researcher's comment on family ownership in the Egyptian Civil Code and family companies:

It is clear from the extrapolation and analysis of the texts of the Egyptian Civil Code that there is a significant similarity between family ownership and family businesses in terms of the existence of a social purpose that emerges from customs and traditions, the linkage between family ownership and the family unit, and the financial purpose, which is profit, and the intervention of the Egyptian legislator and family property systems in the texts of the Civil Code to provide it with the legal protection to

preserve the rights of family members, but the family property system does not establish a legal personality responsible for fulfilling rights and assuming liabilities, nor an independent name to deal with it away from the name of the family head, and the family property system does not accommodate large capitals. At the same time, family businesses create a legal person independent of the partners. They are subject to the Companies Law according to the legal framework adopted by it, whether a civil or commercial company.

- **Legal Framework of Family Businesses**

We review the legal frameworks available for family businesses to adopt a suitable legal framework as follows:

Most laws generally categorize companies into two types: civil companies and commercial companies.

- **Civil Companies:** It is a legal framework for companies aiming to gain profit and practice an activity of a civil nature, such as agricultural works, real estate speculation, or investment in mines.
- **Commercial Companies:** The activity of these companies is based on one or more businesses, such as land and sea transport, construction contracting, and banking transactions.

The criterion for differentiating between civil and commercial companies is the same criterion that distinguishes between civil and commercial work **(the Supreme Judicial Council)**.

The new Saudi Companies Law promulgated by Royal Decree No. (M/132) dated 1/12/1443 AH defines the forms of companies as follows:

a. General Partnership: It is a company of two or more partners with natural or legal personalities, who are jointly and personally liable in all their assets for the company's debts and liabilities. A partner in this company shall acquire the capacity of a merchant. (A/35).

b. Limited Partnership: A limited partnership comprises two types of partners, one of which includes at least one natural or legal partner who is jointly liable in all his assets for the company's debts and liabilities (general partner(s)), and the other type includes at least one natural or legal partner whose liability is limited to the value of his share in the partnership's capital (limited partner(s)). A limited partner shall not acquire the capacity of a merchant. (A/51).

c. Joint-Stock Company: It is a company established by one or more natural or legal persons, and its capital shall be divided into negotiable shares. The company is solely responsible for the debts and liabilities arising from its activities or from its operations. The shareholder's responsibility is limited to the performance of the value of the shares to which he subscribed. Its issued capital must not be less than five hundred thousand riyals, and the paid-up capital must not be less than one quarter at the time of incorporation (A/58, 59).

d. Simplified Stock Company: The law did not set a specific definition for it, but stipulated that the provisions of the joint-stock company shall apply to it according to its nature, except for the provisions specified in some articles of the law (A/138).

e. Limited Liability Company: It is a company established by one or more natural or legal persons, where its liability is separate from the financial liability of each partner or its owner. The company shall be solely liable for due debts and liabilities arising from it or arising from its activity. The owner of the company or the partner therein shall not be liable for such debts and liabilities except to the extent of their shares in the capital (A/156).

Some researchers (Mahmoud, 2011) believe that the limited liability company is an appropriate legal framework for family businesses, as it accommodates the family's financial capabilities through small and medium-sized enterprises. Moreover, the partner's liability is limited to his share, in contrast to the joint liability of the general partner in the general partnership. It is not terminated upon the expiration of the personal consideration in case of death, bankruptcy, insolvency, declaration of legal incompetence, or withdrawal of the partner, which allows all family members to enter the company, provided that the number of partners does not exceed fifty persons, and this leads to the continuation of the company through generations. In contrast, the deceased partner's share is transferred to the heirs.

It is clear from the above that the new Companies Law has introduced amendments to the companies forms that support family companies, as the partnerships in the old Companies Law expire under the Law in case of death, bankruptcy, insolvency, withdrawal, or exit of one partner, which threatens the continuity of the company. In the new Law, companies do not expire for the reasons mentioned above unless this is stipulated in the company's articles of incorporation. The canceled Companies Law limits the partners in the partnerships to natural persons only. Still, the new Law stipulates that the partners may be natural or legal persons, and the legal person determines who represents it in the management of the company.

After reviewing and analyzing the legal forms of companies, it becomes clear that the selection of an appropriate legal framework for family businesses is based on the stage the company is going through. It may start by choosing a form of partnership in the initial stage of the company's life, and turn at a later stage into the form of joint stock or limited liability companies to cope with the global and local developments in the work environment. The modern economy requires the concentration of significant capital in economic units that are both small in number and large in volume.

The joint stock company is the ideal form, as it absorbs significant capital. The Saudi regulator considers it as the appropriate legal framework for family businesses for the ease of trading the company's shares between the partners, and the exit of shareholders, in addition to the existence of a specific regulatory framework to regulate the work of both the company's shareholders' assembly and its board of directors. The Saudi regulator has recommended choosing the form of "closed joint-stock company" for family businesses, provided that the number of shareholders is not less than five, and the capital is not less than two million riyals as a minimum (Governance Guide for Family Businesses, p. 11).

- **Challenges to the sustainability of family businesses** (Saud et al., 2018, p. 233).

Family businesses face internal and external challenges that hinder their continuity, and we will review the stages of family businesses' growth to identify these challenges and learn how to overcome them, ensuring their sustainability.

- **Stages of Family Businesses**

The family business goes through several stages that we will mention in the following to determine the stage at which the company may collapse, as follows:

Stage 1: Founding Owners Stage (1st Generation)

This stage is characterized by a small number of partners and the sole authority to make decisions, especially if the founder is an individual who has established an enterprise in his area of experience and is dedicated to working to prove the presence of the company and its success at this stage.

At that stage, there are no internal challenges, especially since the company's organizational structure is centralized and straightforward, relying on the founder, who makes critical decisions (Diab, 2010, p. 18). It is considered one of the most essential stages on which the smooth transition to successive generations depends (Ghalab, et. al, 2019, p. 252), so the founder shall develop a clear road map, specifying how to manage the company after the death of one of the founders or his exit from the company (Al Zumea, 2016, 309) to ensure its sustainability.

Stage 2: Children Stage (2nd Generation)

This stage is a fundamental transformation in the life of the family business, where the ownership and management of the company pass to the children of the founders. If the founding generation is one person, the management and decision-making authority passes to the older brother if there is cooperation between the children (Alghamdi, 2021, p.201 et seq.).

When the first generation is more than one founder, the company faces the challenge of survival, which lies in distributing tasks among children according to clear policies that stimulate the transition from individual work to organized teamwork, encouraging team spirit and clarifying the mechanisms of communication between them (Mohammed, 2019, p. 41).

This stage is characterized by the fact that children are more educated than the first generation and have technical knowledge. Still, at the same time, it constitutes a challenge if incompatibility arises and harmony diminishes among family members, particularly as their numbers increase. It needs to create effective communication channels between them to plan for the next stage and achieve a balance between the requirements of the family and the requirements of the business to ensure survival. Therefore, there is a need to apply the principles of governance to ensure transparency and the lack of differences (Hamza, et al., 2021, p. 28).

Stage 3: Grandchildren and Children (3rd Generation)

This stage is one of the most dangerous stages in the life of a family business and is very susceptible to collapse. Research and studies have revealed that it is an endpoint for many family businesses (Alghamdi, 2021, p. 281), due to the increase in the number of partners who are children and grandchildren belonging to different generations and branches of the family, and their intervention in the company's work, and the existence of a disparity between their ideas on how to manage the company, recruitment, and distribution of profits, and competition on who takes over the management, which creates conflict between those partners, and inheriting conflicts from the generation of children to cousins makes it more difficult and complex, which may lead to the collapse of the company and its sale. An example of a company sold due to family disputes is the "Pogo Marie Brizard" group in 1997 (Mohammed, 2019, pp.43 et seq.).

- **Challenges to the Continuation and Survival of Family Businesses** (Saud et. al, 2018, p.233).

After reviewing and analyzing the stages of the family business growth, it is clear that there are internal and external challenges that hinder its progress, especially in the third stage of the company's life, which we will review in the following:

- **Internal Challenges**
 - Intergenerational struggle for power and management (Abdul Razzaq, 2013, p. 194), where the family members compete for access to the management of the company, in addition to the desire to follow modern methods of management,

which is rejected by the previous generation, who follow the patriarchal style of management.

- Combining ownership and management.
- The legal structure represents one of the internal challenges because it does not respond to numerical developments and changes.
- Lack of qualifying the subsequent generations.
- Poor strategic planning.
- Lack of formalization in the dealings and decisions of the company (Taqrarat, et. al, 2019, p. 8, Governance Guide for Family Businesses, p. 21).
- **External Challenges**
 - The inability of the company to provide the necessary funding for development and renewal, prompting it to resort to external financing.
 - Family members' objection to the entry of new partners.
 - The impact of pandemics and crises such as the Coronavirus pandemic and the Ukrainian crisis on stock prices.
 - The impact of pandemics and crises such as the Coronavirus pandemic and the Ukrainian crisis on the volume of activity.
 - The impact of pandemics and crises such as the Coronavirus pandemic and the Ukrainian crisis on the company's priorities.
- **Weaknesses of the Family Businesses**
 - The impact of the kinship relationship and emotions on the work progress of the company, especially in terms of employment (Abu Zeid, 2009, p. 13 et seq.), where it is based on kinship and not on competence and skill, which negatively affects the company's sustainability.
 - Excessive flattery in decision-making, coupled with the tendency to disregard mistakes due to fear of workplace conflicts, undermines family relationships.
 - Lack of clear objective criteria that determine salaries and leaves.
 - Absence of an employee's performance appraisal system that allows changing the management if its performance is inadequate.
 - The transfer of emotions and family problems to the company's business undermines the strength of the company, especially in the absence of clear work rules and procedures.

- **Sustainability of Family Businesses:**

After reviewing the internal and external challenges and analyzing the weaknesses that constitute obstacles leading to the collapse of most family businesses. We review ways to overcome these aspects and ensure the sustainability of family businesses as follows:

- **Legal Structure**

The success of a family business starts with taking a legal form appropriate to its current and future situation. The legal framework is one of the challenges facing family businesses, and to overcome this challenge, the founders shall develop a plan to restructure the company to turn it into a legal form that enables it to face potential economic and regulatory changes in the labor market and accommodate the numerical increase of partners and the volume of capital.

According to the Corporate Governance Guide for Saudi Arabian Family Businesses, it can be a limited liability company and then turn into a closed joint-stock company, or a joint-stock company of a public subscription, keeping themost

significant percentage of capital, which qualifies it to form the boards of directors and tighten control of the company's executive team performance.

The transformation of the family company into a joint stock company helps maintain its continuity. It enables it to play a role in the economy's development by establishing large economic entities that can compete and face emergency crises due to the availability of qualified administrative cadres and the distribution of responsibilities.

- Separate Ownership from Management

The combination of ownership and management was one of the internal challenges facing the family business, and to overcome that challenge, the relative separation of ownership from management is carried out to ensure the continuation of the family business, regardless of its legal form, as the company avoids the adverse effects that result from the difference of opinion between partners (Alghamdi, 2021, p. 330) and selects appropriate manager in terms of the expertise necessary to manage the company and bear responsibility before the partners concerning conducting these tasks, and the partners have the right to dismiss him if he is not suitable for management (Al-Hajj, 2017, p.50).

- Establishing the Principle of Disclosure and Transparency at the Company

Disclosure and transparency are among the most important principles of governance that ensure the sustainability of family businesses. The financial position of the company shall be fully disclosed and made available to all partners to review to consolidate a sense of confidence among the partners.

- Amicable Resolution of Disputes between Partners

The recourse of the partners to the court to resolve the disputes that arise between them leads to severing ties and the liquidation of the company. Therefore, the partners shall adopt amicable methods to resolve any differences that occur between them, ensuring the continuity of the company.

From this point, the Chamber of Commerce and Industry in the Kingdom of Saudi Arabia in Riyadh has established the National Center for Family Business to support family businesses, enhance their competitiveness and ensure their sustainability for the significant impact thereof on the Saudi national economy. One of its objectives is to contribute to the amicable settlement of disputes that may arise between partners, thus contributing to protecting the future thereof. The establishment of this center that strongly supports family businesses is credited to the Kingdom.

- Qualifying a New Generation of Partners in the Management of the Family Businesses

The generation of founders shall involve their children in the work, inform them of all the information and make them aware of the nature of the market, and give them experience in the methods of dealing with customers and crises, to qualify and prepare them to take over the management, and maintain the continuity of the company.

- Developing a Charter of the Family Businesses

The Family Charter is a legal framework that defines the rights and duties of each family member under a written document regulating relations between partners within

the same family, and it provides control of the Board of Directors (Governance Guide for Family Businesses, p. 16). The document helps resolve disputes that may arise between partners in a friendly and mutually agreed-upon manner, thereby enhancing the company's sustainability and fostering a harmonious working environment.

- **Family Charter Characteristics** (Governance Guide for Family Businesses, pp. 16-19).

-is a family document of a commercial nature that regulates the family ownership of the company.

- All members of the family shall agree to this charter and consult with each other thereon so that each member of the family shall be aware of the provisions of the charter.

- Expert houses may be consulted on the development of the charter to ensure its legal form.

- A flexible document that allows modification according to future changes, but the update is done according to controls that ensure transparency and clarity and support trust in the family.

- The goal is to manage the family business institutionally according to the governance standards.

- The charter is an integral part of the company's articles of incorporation.

- Good drafting of the charter helps to make partners aware of the current and future property management mechanisms.

- **The Relationship between the Family Charter and the Sustainability of Family Businesses (Mohammed, 2002, p. 18).**

The Family Charter enhances the governance of family businesses and ensures sustainability thereof as follows:

- The Family Charter helps create an effective family connection between family members, establishing a sound organizational structure that contributes to resolving issues related to rights and responsibilities and protects the company from randomness in decision-making.
- The family charter is linked to the rules of wealth management and the strategy of transfer between generations, and families differ in determining the strategy they follow based on the financial goals that they seek to achieve.
- The charter defines the areas of allocating the family assets and separating the wealth of the family from the wealth of the company.
- The family charter is linked to the governance of ownership, as the company selects the appropriate legal structure based on the data, its future vision of the company, the objectives of the company, and the participation of qualified owners from among the family members in the equity and shares of the company and the number of family company owners.
- The Board of Shareholders is one of the most important controls of the Family Charter, which is related to the governance of family businesses, as it acts as a family council and oversees the performance of the family businesses' Board of Directors and binds its members to the priorities of the family. The shareholders' document determines how the company is managed, outlines the rights and obligations of shareholders, and regulates the shareholders' relationship, including ownership limits and privileges.
- The family charter clarifies the strategy of succession in the company. It serves as a legal framework that includes guidelines clarifying who is in

charge of management, as well as addressing unexpected circumstances related to the company, such as death and diseases that hinder the founder's ability to manage. It ensures the selection of qualified and suitable people for management. The family charter contributes to reducing conflicts at the moment of power transfer because the criteria are clear in advance.

• Conclusion

A high percentage of family businesses collapsed, especially in the third generation, which prompted many persons to search for a solution to ensure the sustainability of these companies. Therefore, our study aims to explore solutions that provide the continued existence and survival of these companies. We have achieved several results that can be summarized as follows:

- There is no agreement on a specific definition of family businesses.
- There is a relationship between the determination of the legal framework and the sustainability of businesses.
- Restructuring the company by following the steps of transformation into a legal form appropriate to the labor market qualifies it to sustain its position in competition with other companies in the light of the free economy.
- The closed joint-stock company is the appropriate legal form for the application of the governance principles that help enhance confidence, regulating the relationship between partners and the mechanisms of management, employment, and profit sharing.
- The lack of separation between ownership and management is an internal challenge that may lead to the collapse of the family business.

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