



غرفة البحرين
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The Family Business Governance Guideline and the Guiding Charter for Family Businesses

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Introduction

Family businesses hold a crucial and influential position within the global economy, especially in advancing economic development in the Kingdom of Bahrain. Their role in achieving sustainable growth, contributing to the Gross National Product (GNP), and generating employment opportunities is well recognized.

The distinct nature of family businesses brings unique challenges, often more complex than those faced by other types of companies. As a result, these businesses may need, at an early stage in their lifecycle, to implement a governance framework that helps them anticipate and resolve potential disputes among family members regarding business matters. Addressing these challenges requires a sound governance structure that clearly defines the roles, responsibilities, and rights of the main stakeholders in the company and establishes a framework for effective interaction among them.

This project is divided into two parts:

- 1. The Family Business Governance Guidebook:** This section provides structures and best practices for the organization and management of family businesses to help alleviate the unique challenges they face.
- 2. The Guiding Charter:** This section promotes the long-term sustainability of family businesses by outlining provisions that summarize the core principles of the family charter.

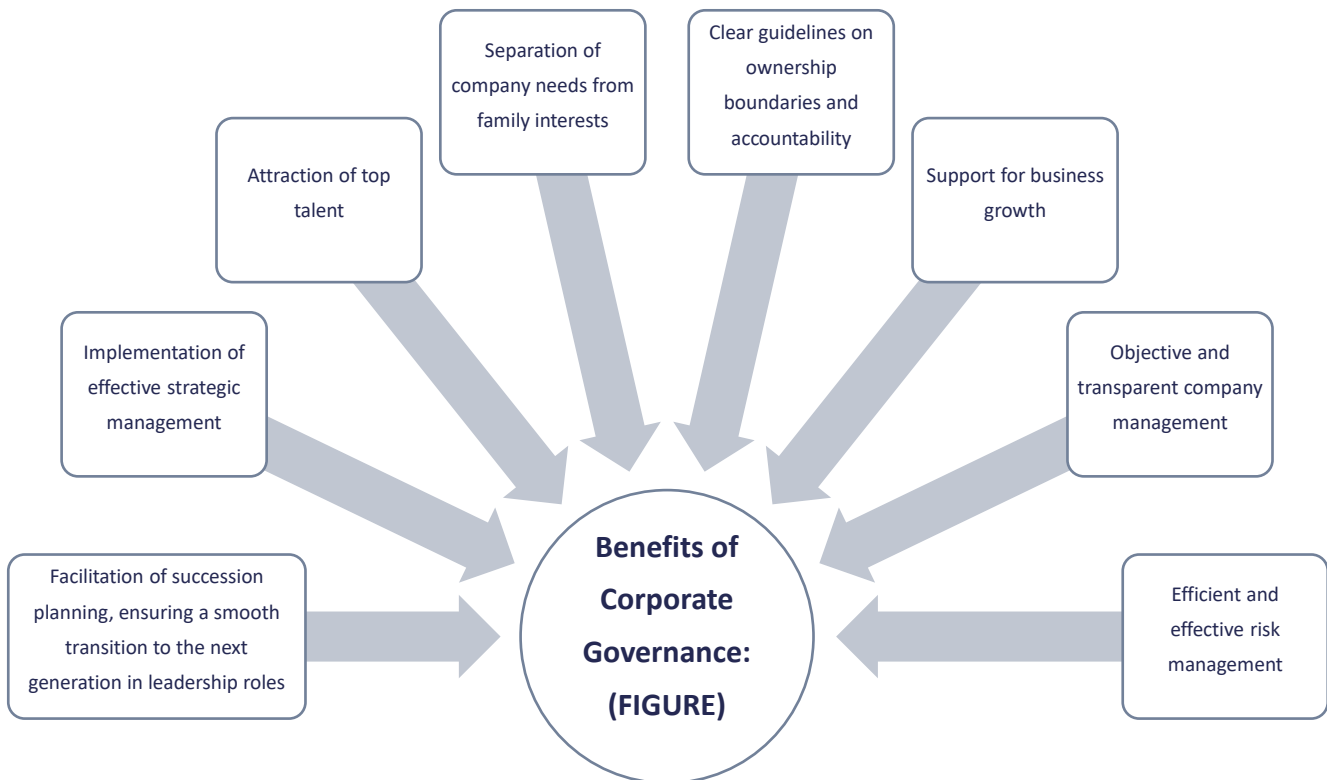
Part 1

Family Business Governance Guidebook



1. Definition and Benefits of Governance

Governance focuses on establishing mechanisms, rules, and regulations designed to guide, manage, and oversee a company's operations. It also defines the rights and responsibilities of all parties associated with the company, including external parties, such as clients, and encompasses the regulatory environment within which the company operates.



2. Understanding Family Businesses

In this guidebook, the term “family business” refers to a company that is either wholly owned by a single family or under the control of a particular family. While the concept of control may vary based on how voting power is exercised by owners across different companies, it generally encompasses control through majority ownership of shares or equity in the company .

However, family ownership does not necessarily imply ownership by a single family alone. Many companies that identify as “family businesses” are jointly owned or controlled by multiple families connected by family ties, despite members having different surnames. This is often seen in family companies with second- and third-generation owners who, while from distinct family branches, share a common lineage tracing back to the original founders.

Furthermore, a “family business” is not limited to companies with the above-mentioned family ownership form. Public shareholding companies, in which one or more families hold significant shares or control, may not be practically considered family businesses. These companies, as public shareholding entities, are subject to specific governance, regulatory, and oversight frameworks, as well as the ease of transferring family-held shares to the general public through the Bahrain Stock Exchange.

In the absence of a legal definition for the concept of a family business, the classification of a company as a family business primarily relies on the intent of the owners to view and manage their company as such, particularly when the characteristics of family ownership and management are present.

3. Legal Form and Structural Framework of Family Businesses

Family businesses may adopt any legal form available under the Commercial Companies Law. However, practical examples in Bahrain show that many family businesses are established as limited liability companies, while others adopt the form of closed shareholding companies .

Closed shareholding companies offer several advantages that make them particularly appealing to many business families as a legal form for conducting their operations. Key benefits include the relative ease of share transfer and shareholder exit, compared to other company forms. They also benefit from an established legal framework for governance, which provides for structured management through the General Assembly and the Board of Directors, as well as greater flexibility in decision-making processes via the company’s General Assembly.

This framework supports the recommendation to select the closed shareholding company form for family businesses, particularly when they meet the conditions for forming such companies, including a minimum of two shareholders and a capital threshold of no less than two hundred and fifty thousand dinars (BHD 250,000).

Establishing an appropriate structural foundation is a critical first step toward adopting effective governance standards. This involves determining the optimal legal form to enhance continuity and value. For instance, a limited liability company may be converted to a closed shareholding company, with an effective board of directors established to oversee executive management. Alternatively, the company could transition to a public shareholding company, thus inviting broader ownership and oversight from external shareholders.

For families that hold shares in several companies with diverse activities, it may be beneficial to consolidate these stakes under a "holding company" structure, or to transfer ownership of their shares or stakes to a legal entity owned by family members. This entity would hold all shares owned by these families, whether controlling or minority stakes. Such a strategy significantly simplifies the organization of family commercial assets and opens the door for potential partnerships with external parties in certain family assets through subsidiaries of the holding companies, without affecting the holding entity fully owned by the family.

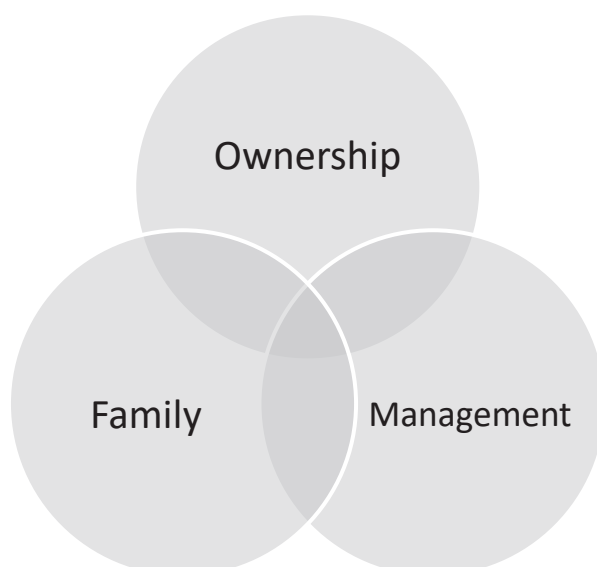
4. Separation of Ownership and Management

The separation of ownership from management is a central principle in family business governance. Some may assume that this separation entails a complete detachment of the family from management, which is not accurate. Effective governance mechanisms and the unique nature of family businesses often necessitate that certain family members participate in managing and guiding the business, whether as part of the board of directors or in executive management. Additionally, grooming successive generations within the family to assume oversight and management roles is essential, as is preserving the rights of family members to exercise oversight as shareholders and partners.

This participation, however, must take place within a defined institutional framework that prevents any family member from intervening outside their designated responsibilities based on their role, whether as an owner, an owner who also sits on the board of directors, or an owner in executive management.

This institutional framework is one of the main elements addressed by the charters and constitutions governing family businesses.

Separation of Ownership and Management: (FIGURE)



5.Guidelines for Developing a Family Business Charter

A family business governance charter is a document that clearly maps out the strategic direction for a family-owned business. For family businesses, it is essential to consider drafting and implementing a family charter. The charter's purpose is to help current and future shareholders of the family business understand the foundational systems of both the family and the family business and to clarify the rights, obligations, and authorities of individuals within the established structure.

The family charter also serves as a guiding document to manage the relationships between family members, shareholders, and managers, as well as their connection to the company. It outlines the qualifications for ownership and the eligibility criteria for family members seeking management roles within the business.

The absence of a clear charter regulating the affairs of family businesses may render them vulnerable to dissolution or a shortened lifespan compared to companies that operate under a regulated charter. Whenever possible, it is advisable to draft the charter while the founder(s) of the company are still alive, before the family grows in number and its business expands and diversifies.

Given the varying needs, sizes, structures, and ownerships of companies, there is no single formula for drafting a family business charter or a universal governance mechanism that can be applied to all family businesses. This charter is a living document, updated and amended according to the family members' wishes, which allows it to adapt to new members as well as changes in the family's business and relationships. Drafting a charter for the family business is a valuable approach to support the continuity of the company and to define the rights and responsibilities of each relevant party. The family business charter may also be prepared as a document under various titles, such as a "family governance document," "family charter," "family constitution," or other similar names.

Experience highlights the importance of considering several key points when preparing a family business charter, the most notable of which are as follows:

- a. The charter is a family document with a commercial purpose, primarily intended to organize family ownership in the company.
- b. Preparing the charter is a collective effort that should involve all family members and their successors, including children, grandchildren, and spouses, in full transparency.

This approach ensures their interests and needs are taken into account and that they are well-informed of the charter's rules.

- c. Preparing the charter is not exclusively a family matter in all cases. In many instances, it may be beneficial to seek the opinions, advice, and expertise of specialists in drafting the charter, whether from within the family or external experts.
- d. The process of preparing the charter not only aims to establish a written institutional structure but also seeks to foster awareness and a shared systematic understanding among family members about how to manage their collective property.
- e. Certain provisions within the Charter are essential for the continuity of the company to the extent that they must be incorporated into the company's bylaws for shareholding companies, or its incorporation document for limited liability companies, or issued as independent resolutions by partners or shareholders.
- f. The Charter fosters a regulatory environment conducive to attracting investors from outside the family if it is prepared with an effective institutional framework that safeguards minority rights whenever they are present.
- g. The Charter itself is not an end goal but a tool for managing the family business institutionally, serving as a starting point for a collective effort to apply effective governance standards within the family business.
- h. The Charter is not a replacement for the family business's articles of association or founding document; rather, it serves as a complementary document.

6. Phases of Family Business Development

There are various models that describe and analyse the different phases through which family businesses progress over their lifespans. In this booklet, we will use the model of three primary phases, which summarize the life cycle of family businesses, as follows:

Phase 1:

This phase represents the birth of the family business, where it is managed and directed by its founder(s). Governance standards are generally less pressing at this phase, though it remains critical to set the company on a trajectory that will allow it to endure. This involves the careful application of effective governance principles to prepare the business to meet the needs of future phases.

At this phase, founders should begin early planning for the subsequent stages of the company's life, where ownership will pass to the second and third generations. In particular, they should prepare successors during the founders' lifetimes, equipping some

or all of them to assume control and management responsibilities within the company, and establishing any necessary mechanisms or arrangements to support this transition.

Phase 2:

This phase marks a significant turning point in the life of the family business, where ownership is transferred from the founders to their successors, which necessitates greater structural organization. At this phase, it becomes crucial for the family business to foster unity and teamwork among the owners, as well as alignment regarding the approach to managing and directing the business. Formality should be integrated into the company's operations and procedures. Additionally, this phase requires the establishment of effective communication channels among owners and the creation of clear rules for forming the board of directors and the executive team.

Phase 3 + beyond:

This phase, along with those that follow, is often the most complex period in the life of family businesses, and for many, it represents the final phase. The substantial transformation in the ownership structure that typically occurs during this third stage, along with the emergence of multiple family branches, makes it increasingly challenging to maintain lasting harmony among owners in terms of business management and direction. During this period, there is a heightened need to adopt clear mechanisms to address fundamental issues, including the making and execution of strategic decisions, the employment of family members within the business, the resolution of family disputes, the exit of partners or shareholders, and policies for profit distribution .

7.Components of a Family Business Charter

Many models suggest common components in these charters, including:

1. Family Goals and Values

Family business charters typically begin with the family's goals and values, often encompassing principles derived from the family's business legacy and ethical foundations they aim to promote and uphold. Additionally, they may provide guidance for future generations on the significance of the family business, its continuity, and the unity of its owners. This section may also outline objectives the family seeks to achieve from both social and commercial perspectives, such as increasing the family's contributions to society and its involvement in charitable activities. "A guiding template

for the family's goals and values has been developed in the charter." (Review of the Ministry of Commerce for the purpose)

2. Family Business Governance Bodies

Experience has shown the value of establishing specialized governance bodies within family businesses to mitigate the potential negative impacts of family ownership, especially during the period when ownership passes to second- and third-generation members. The number, nature, and functioning of these bodies will vary based on the specific context of each family business; the organizational requirements for a family business in the founders' era differ greatly from those in later generations.

This booklet addresses some governance bodies that may be established within family businesses, alongside the general assembly of shareholders/partners and the board of directors or management board of the company.

3. Family Council

Comprising a group of the company's shareholders or partners, the Family Council is considered one of the most critical governance bodies in family businesses. It is recommended that a council be established once the family reaches a size where maintaining official and direct communication channels between shareholders or partners regarding company matters becomes challenging, thus enabling them to make essential decisions for the efficient and effective management of the business.

This council can be formed during the first or second stages of the company's development, even if the family remains relatively small, to allow the council to gain experience and practical familiarity, preparing it to take on a larger role as the company enters its next, more complex phase.

a. Roles of the Family Council

1. The Family Council acts as the main liaison between the family (which collectively serves as the general assembly in shareholding and limited liability companies) and the company's board of directors or management board. Experience emphasizes the importance of the family business charter in establishing and defining the council's responsibilities, taking into account the following considerations:

2. The council should include an appropriate number of members capable of performing their roles effectively, ideally consisting of no fewer than 5 members and no more than 9 members.
3. The process for selecting council members should be clearly outlined. In the second and third generations of the family business, it may be beneficial to adopt the principle of electing council members by the family.
4. The charter should clearly define the selection method for the chairperson and vice-chairperson. In the later stages of the family business, a secret ballot among council members may be an effective approach for electing these roles.
5. The charter should specify the council's decision-making mechanism and quorum requirements. It is recommended to hold regular council meetings, such as at least four per fiscal year, and to adopt the principle of majority voting among attending members, except in very limited cases where unanimity may be necessary.
6. The charter should specify that each shareholder or owner, upon reaching an age determined by the charter, has the right to participate in Family Council elections and to run for membership.
7. The charter should prohibit individuals from holding positions in both the Family Council and the company's board of directors or executive team. However, family members may still participate in the company's board of directors or executive team as long as they are not members of the Family Council.
8. The charter may set membership terms or establish maximum terms to allow a wider range of family members to participate. Alternatively, it may specify that the chairperson or vice-chairperson should step down upon reaching a certain age, as determined by the charter.
9. The charter should consider whether council members are expected to dedicate themselves fully to their duties and whether it is appropriate to provide them with financial incentives.

a. Responsibilities of the Family Council

1. The guidebook recommends that the Family Council be entrusted with the following primary responsibilities:
2. Monitoring the performance of the company's board of directors in accordance with commercial company law and the family business's articles of association or founding documents.

3. Providing advisory opinions to the family (acting as the general assembly) regarding its responsibilities under company law and the company's foundational documents. These advisory opinions are intended to offer guidance on exercising these responsibilities without directly assuming them.
4. Developing, reviewing, and ensuring compliance with the family business charter's provisions, while proposing any modifications deemed necessary.
5. Seeking to resolve disputes among family members that may have a direct or indirect impact on the company's operations.
6. Actively working to prepare new generations of the family, academically and professionally, to take on future supervisory and managerial roles within the company.

The Family Council's responsibilities should not interfere with shareholders' rights and duties as guaranteed by company law, nor should they impact the company board's responsibilities, such as appointing executives, setting strategies, and overseeing their implementation. Challenges may arise due to the overlapping presence of the shareholders' assembly and the board within family businesses, as well as the legal and practical need to empower these bodies. However, carefully defining the Family Council's responsibilities in the charter and ensuring compliance can help mitigate these challenges, safeguarding the duties of both the shareholders' assembly and the board from any disruption or marginalization. This includes preventing interference from Family Council members or other family members in the executive team's operations, which remain solely under the board's supervision.

"A guiding template for the responsibilities of the Family Council has been established in the charter."

4. Board of Directors of the Family Business

The Company Law regulates the general assembly and the board of directors, defining their respective roles and responsibilities. The law grants the board of directors of shareholding companies greater regulatory scope, which is considered one of the many advantages shareholding companies have over other corporate forms.

The guidebook recommends certain guidelines for organizing the work of family shareholding company boards (for limited liability companies, these aspects apply with the term "management board" instead of "board of directors," and "deed of association" instead of "articles of association"):

1. Emphasizing the independence of the board of directors in carrying out its duties, including overseeing the performance of the company's executive team, establishing the company's general business strategies, and monitoring their implementation. The family's supervisory role over the board, whether through the general assembly or the Family Council, should not interfere with the board's authority, nor should non-members, directly or indirectly, assume any of the board's responsibilities.
2. Ensuring that no family member, including those on the Family Council, intervenes directly in the work of the company's executive team, except through the ordinary general assembly per its powers or within limits authorized by the board.
3. Assessing whether the board should have exclusive authority to select and define the powers of the company's chief executive position (executive board member, CEO, or general manager).
4. Considering setting a duration or maximum terms for board membership in the family charter to allow for periodic renewal, establishing a gradual rotation of new board members.
5. Assigning the board of directors the responsibility of creating mechanisms and guidelines for appointing executive positions within the company, taking into account the company's circumstances and activities, and subjecting these guidelines to regular review. Among applied practices is the establishment of a permanent nomination committee that includes independent members responsible for identifying and recommending candidates for executive positions.
6. Assigning the board of directors the task of establishing mechanisms and rules for forming its committees, including defining their responsibilities, limits of authority, and evaluating performance; these rules should also undergo periodic review to ensure adequacy.
7. Recommending the amount of compensation and financial benefits for board members, aligned with practices in other companies of similar size and activities to the family business.

“A guiding template for the responsibilities of the board of directors of the family shareholding company is provided in the charter.”

5. Family Forum :

The Family Forum serves as a semi-formal gathering where all family members meet periodically to discuss issues concerning the family and its business. This forum allows family members to express their opinions on business development and other family matters. These gatherings also help prevent potential conflicts among family members that may arise due to unequal access to information and resources.

Although the forum holds social importance as commercial families grow and branches expand, it is not considered a necessary governance body for family businesses. The responsibilities of the Family Forum related to the family business are covered by the general assembly's functions, which must be fully enabled as stipulated by commercial company law. Any commercial family may establish its own family forum as an independent entity outside the family business governance structure .

6. Family Policy:

Formulating policies that clarify the family's stance on core matters, such as family employment within the company, education policy, family members' engagement in competing businesses, conflict-of-interest policy, and specific procedures for each, benefits the family across all levels. Such steps reduce potential family disputes, provided that sufficient information on these policies is accessible to family members.

It is crucial for family companies' documents to encompass policies that consider essential aspects to ensure these policies act as binding guidelines for the company's shareholders or owners, as well as for the board of directors or executive team.

Research highlights the importance of incorporating policies within the family charter that outline family members' roles in a family business, especially as the company enters its second and third generations. Additionally, the charter should include policies regarding profit distribution within the family business.

7. Regulation of Family Members' Roles in the Family Business:

The guideline recommends taking several considerations into account when establishing rules to regulate the involvement of family members in the executive management of the family business. These rules should be tailored to the specific needs of the company's current stage of development. Key considerations include:

1. Evaluate whether the term "family member" should encompass shareholders, partners, their children, spouses, and other closely related individuals, in order to appropriately regulate their roles within the company.
2. Determine whether it is necessary to require specific academic qualifications or professional experience for family members wishing to join the company.
3. Consider whether family members employed in the business should adhere to the same employment policies as non-family employees. This includes policies related to hiring, promotion, termination, and financial incentives.
4. Assess whether the rules should also apply to businesses in which the family company holds a controlling interest, in addition to the family business.

It is crucial to actively encourage and provide opportunities for qualified women from future generations to engage in the family business. Furthermore, it is crucial to establish clear policies regarding the employment of spouses and relatives of female family members in the company. While some family businesses may welcome the involvement of these relatives, others may prefer to maintain distance to avoid potential conflicts of interest or family disputes.

Clearly defining work-related policies for family members helps set expectations for those who wish to work in the family business or elsewhere. In smaller family businesses, providing balanced hiring conditions and additional career incentives may encourage qualified family members to join the company. However, in larger family businesses, particularly in the second or third stages of the company's lifecycle, it may be necessary to implement more stringent hiring policies. This ensures that family member participation is driven by the actual needs of the business, rather than personal family preferences.

“A guiding template for the work rules of family members has been established in the charter.”

8. Profit Distribution Policy in the Family Business

Establishing profit distribution policies presents a significant challenge, especially for family businesses, as it often involves reconciling two competing interests:

1. The company's interest in retaining as much profit as possible for expansion and growth purposes.
2. The interest of shareholders or partners in receiving regular income from the company in the form of cash dividends from its profits.

In many family businesses, shareholders or partners have varying financial circumstances, with some relying solely on the family business for their income. As such, it is essential to create a clear and balanced profit distribution policy that takes into account both the company's growth needs and the financial interests of its shareholders or partners. This policy should also aim to minimize objections to proposed profit distributions by the company's board of directors at the end of each financial year.

The balance between these two interests largely depends on the nature of the company and its ownership structure. For instance, family businesses with owners who have the financial capacity to retain most or all of the company's profits may not need to distribute as much. Conversely, businesses with owners who rely on the company's profits for income may need to distribute a larger share. Experience indicates that family business governance documents should emphasize two key principles when drafting a profit distribution policy:

1. The interest of individual shareholders or partners in receiving regular dividends should not overshadow the collective interest in the company's growth. Retaining part of the company's profits for expansion and development is crucial to maintaining its value, especially as the family business faces the challenge of growing its value in parallel with its expanding family base. This ensures the business remains a viable investment for the family, maintaining their ongoing commitment and enthusiasm.
2. The family business should not be the sole source of income for capable family members. Encouraging family members to seek other sources of income fosters a culture where more profits can be retained within the company to support growth and expansion.

In this context, the role of the Family Council is pivotal in reviewing the profit distribution policy at the end of each fiscal year. The Family Council should assess both the company's needs and those of its shareholders or partners, providing a balanced opinion that addresses financial needs while safeguarding the long-term interests of the company. The Family Council should also be tasked with reviewing the board's proposals for profit distribution, ensuring that these align with the company's strategic goals and provide for sustainable growth, while accommodating the increasing financial needs of shareholders or partners over time.

8. Transfer of Shares and Exiting the Family Business

The governing documents of family businesses must include provisions regarding the transfer of shares and the mechanisms for exiting the family business, along with clear procedures for managing such exits. Establishing these mechanisms early in the life of the family business significantly contributes to ensuring its continuity.

The transfer of shares and the exit of partners are among the most critical challenges faced by family businesses. As ownership within a family business holds substantial emotional and symbolic value, the announcement of a partner's intention to exit or sell their shares is a matter with significant material and moral implications, which can pose a serious threat to the continuity of the business.

While the possibility of such an event is inherent in some family businesses, it may arise due to personal circumstances affecting a shareholder or partner, such as the desire to sell their stake, issues with the company's management, or family disputes both within and outside the business. Therefore, it is essential for the founders and current shareholders of a family business to anticipate such events, as the exit of a partner is an occurrence that may happen both now and in the future. This anticipation ensures that the business's operations remain unaffected, as the cessation of operations would not only result in financial repercussions for the shareholders or partners but could also damage the family's reputation, devaluing the family name and the business itself. Additionally, such a situation could harm the employees, who are integral partners in the business and in achieving its successes.

Article (270) of the Commercial Companies Law provides a general mechanism for the exit of partners from limited liability companies, while Article (265) of the same law permits the company's founding document to grant a partner the right to redeem or sell their share at its actual value during a period specified in the company's founding documents. However, the Companies Law leaves the evaluation of the share value to the discretion of the company's founding documents, without imposing specific regulations regarding this matter. Furthermore, Article (235) of the law allows for restrictions on the trading of shares in shareholding companies but does not explicitly grant shareholders the right to repurchase shares.

Practical experience has demonstrated the urgent need for every family business to establish a mechanism to manage the exit of shares or stakes. This mechanism should be formulated with great care, taking into account potential differences of opinion regarding

the method of evaluating shares or stakes intended for sale or redemption, whether in limited liability companies or shareholding companies. The mechanism should be formalized in the company's founding documents or its articles of association.

Exit management should especially address the following two aspects:

1. Valuation of company shares or stakes is inherently a complex and contentious issue, not only among shareholders or partners but also among specialists in the field. Additionally, family businesses may own assets that are recorded at book value in the company's financial records, such as real estate. For example, if the valuation of these assets is left to the most recent financial report, it could adversely affect the interests of the selling shareholders or partners, leading to disputes over the method of valuation.
2. The process of redeeming shares or stakes should be considered from a practical perspective, with attention to whether it would be appropriate to allow for the repurchase or repayment of shares in instalments. This consideration is particularly important as many shares in family businesses may hold significant value, making it difficult to raise the necessary liquidity for a full repayment upon redemption. Allowing flexibility in the redemption mechanism, such as through instalment payments, is often essential to preserving the company's viability.

An option available to family businesses is to appoint a neutral third-party evaluator to assess the value of shares or stakes and determine a fair price for the shareholder or partner wishing to sell. If the valuation is accepted, the buyer or another partner willing to assume the purchase costs may cover the evaluation expenses. If the initial valuation is disputed, the selling partner may appoint a different independent evaluator, with the costs borne by them. The average of the two valuations will then serve as the redemption price.

Ultimately, the selection of the most suitable valuation mechanism depends on the type and scale of the assets owned by the family business, particularly since the costs of professional evaluations can be significant. It is also important to outline financial liquidity considerations to ensure the process is practical and enforceable. Additionally, when the mechanism involves the transfer of shares to the company's treasury, even during the partners' lifetimes, it is clear that family businesses are considering the potential distribution of shares to their heirs. In shareholding companies, Article 235 of the law addresses the sale of shares and shareholder exits, which necessitates adjusting the shareholding balance and the company's form to maintain organizational stability and asset sustainability.

"A guiding template for managing exits in family businesses has been established in the charter."

9. Approval, Amendment, and Dispute Resolution in Family Business Charters

Regarding the approval and amendment of family business charters, it is essential to consider the following legal aspects:

1. When establishing the family business charter, it is crucial for those responsible for its preparation to ensure that it is made accessible to all family members, including the family council and others, to allow them to provide feedback and express their views before it is formally approved by the family business governing bodies.
2. For a public shareholding company, the approval or amendment of the charter, or any provision thereof, requires the convening of an extraordinary general assembly, in accordance with Article (212) of the Commercial Companies Law. If the charter is not explicitly referenced in the company's articles of association or if an amendment pertains to a provision related to the charter, the decision will be made in accordance with the company's governance rules. In cases where the charter is not mentioned in the articles of association, approval by the ordinary general assembly is sufficient.
3. In a limited liability company, the approval of the charter or any amendment to its provisions requires the convening of a general assembly, as outlined in Article (284) of the Companies Law. However, if the amendment involves referencing the charter in the company's founding documents or modifying any related provisions, approval from partners holding at least three-quarters of the capital is required.

The process of implementing any written document often leads to diverse opinions and interpretations of its clauses and provisions. Therefore, family business charters must be meticulously drafted, guided by best practices and expert advice. Furthermore, the charter should clearly outline mechanisms for resolving any disputes arising from the interpretation and application of its provisions, as well as a procedure for its amendment to accommodate future business needs. Upon reviewing the provisions typically found in family business charters, it becomes evident that any disagreements regarding their interpretation or implementation will ultimately be subject to the jurisdiction of the competent courts.

The Family Council plays an integral role in facilitating the resolution of conflicts related to the family business charter or any other disputes within the family business. Its

responsibilities extend beyond attempting to amicably resolve disagreements; the Family Council is also tasked with evaluating proposed amendments to the charter when disputes arise over specific provisions.

It is essential for all family business members to understand that resorting to judicial proceedings or arbitration to resolve disputes may be the most effective means of ensuring the continuity of the family business. The impartiality and finality offered by the courts or arbitration make them the natural course of action when all efforts for reconciliation and amicable resolution have been exhausted. In this context, the Family Council has a critical role to play in managing disputes that are presented to the courts or arbitration bodies. The Council should remind the involved parties that turning to the courts or arbitration is a necessary step toward resolving their disagreements, and that such proceedings should not affect the continuity of their personal or business relationships, regardless of the complexity of the dispute. This sensitive issue is particularly addressed by the Family Council's mandate, which requires the Council to strive for a resolution of family disputes until final judgments are rendered.

Part Two

Guiding Charter for Family Businesses



Family Charter of Company

Closed Shareholding Company

Chapter One

Definitions

Article (1):

The following words and phrases shall have the meanings ascribed to them herein:

Commercial Companies Law: The Commercial Companies Law issued by Decree Law No. (21) of 2001.

Company:, closed shareholding company, commercial registration number (), registered on (date).

Articles of Incorporation: The company's Articles of Incorporation.

Charter: The family charter of the company.

Family: The group of shareholders in the company from one family.

Family Member: An individual family member who holds shares in the company's capital.

General Assembly: The general assembly of all shareholders in the company, in accordance with the provisions of the Commercial Companies Law and the company's Articles of Incorporation.

Board of Directors: The board of directors of the company.

Family Values and Objectives

Article (2):

The family shall conduct its commercial and non-commercial affairs in alignment with the family's core values and principles, which govern the leadership of the company's operations and activities. The family shall collaborate to ensure that the company is a thriving business entity characterized by sustainable and balanced growth, which contributes not only to providing consistent and rewarding income for family members, but also to creating job opportunities for the sons and daughters of the Kingdom of Bahrain, and making a meaningful contribution to the national economy.

The family's objectives and values related to the company shall include, but not be limited to, the following:

1. Maximize the value of the company and drive its business growth, particularly in light of the increasing number of family members and their successors, which will result in greater financial needs.
2. Educate family members about their rights and obligations, ensuring fair and equitable treatment for all.
3. Establish a unified and shared vision for the family regarding the company's future and strategic goals.
4. Maintain a fair and balanced alignment between the interests of family members and the interests of the company.
5. Enhance and enhance the active participation of family members in the management, oversight, and governance of the company.
6. Preserve the company's reputation and commercial standing as a legacy for the family and future generations.
7. Prohibit the company from engaging in any activity that conflicts with established commercial values and ethical standards.
8. Ensure the company serves as a vehicle for strengthening family unity and reinforcing the family's ongoing contribution to the national economy and society.
9. Safeguard the unity of family members, ensuring that the company's reputation and commercial standing are preserved, and that no internal disputes, regardless of their nature, affect the cohesion of the family.
10. Keep the company's operations free from personal conflicts that may arise among family members.

11. Encourage family members to seek outside employment and explore additional sources of income, thereby reducing or minimizing their dependency on the company as their primary source of income.
12. Foster a culture of respect for the independence of the company's governing bodies and executive teams, ensuring their distinct separation from family interests across successive generations.
13. Make the education and training of future family generations a perpetual priority, preparing some family members for active involvement in the company's operations.
14. Enhance the knowledge and understanding of family members and their successors regarding business practices and company operations, enabling them to exercise their oversight responsibilities more effectively.
15. Commit to transparency and openness in the relationships among family members, especially those related to the company.
16. Safeguard the interests of the company's employees with the same level of importance as the personal interests of family members, recognizing their role as partners in the company's success.
17. Ensure the orderly transition of ownership and management of the company to subsequent generations.
18. Establish clear methods of communication among family members regarding company-related matters.
19. Uphold professionalism and integrity in managing the interests of the company's clients.
20. Protect the confidentiality of all company information.

General Provisions

Article (3):

1. The company is a profit-oriented entity, operating through methods and practices that align with prevailing laws and commercial customs, while supporting the achievement of the family's values and objectives.
2. Notwithstanding the provisions of the Commercial Companies Law, the form of the company, including its bodies or internal units, shall be determined based on the scale of its operations, the development of its organizational framework, the number of family members, the extent of their involvement in the management of the company's activities, and any other criteria set forth by the company.



3. In accordance with the provisions of paragraph (2) of this Article, the company's governing bodies shall consist of the General Assembly, the Family Council, and the Board of Directors.
4. Each governing body of the company, within the scope of its authority, shall ensure that family members are able to exercise their rights related to the company in a manner that is free from discrimination or obstruction.
5. Each governing body of the company shall adopt the necessary measures to ensure that family members are consistently informed of the company's operations and activities, in accordance with the provisions of the Commercial Companies Law and the company's Articles of Incorporation.
6. The governing bodies of the company shall make every effort to enhance the value of the company in a manner that is congruent with the growth of the family and the corresponding expansion of its financial needs.

Chapter Two:

General Assemblies

Article (4):

The General Assembly is the supreme authority of the company, possessing the legal competence to handle all matters pertaining to the company. When convened in accordance with the provisions of the Commercial Companies Law, the General Assembly represents all family members in the exercise of their rights and responsibilities concerning the company, and operates in accordance with the provisions of the Commercial Companies Law and the company's Articles of Incorporation.

Article (5):

The General Assembly shall hold both ordinary and extraordinary meetings, each convened in accordance with the provisions stipulated in the Commercial Companies Law and its executive regulations.

Article (6):

The resolutions of the General Assembly shall be adopted as follows:

A. Resolutions of the ordinary General Assembly shall be passed by a majority of the shares represented at the meeting.

B. Resolutions of the extraordinary General Assembly shall require a two-thirds majority of the shares represented at the meeting, and a three-quarters majority of the shares of those in attendance, provided the meeting is deemed valid in the following cases:

1. Increasing or decreasing the company's capital.
2. Extending the duration of the company, its dissolution, transformation, or merger with another company.

Article (7):

Except for matters specifically reserved for the extraordinary General Assembly, the ordinary General Assembly shall have jurisdiction over all matters concerning the company, notably the following:

- A. Electing and dismissing members of the Board of Directors.
- B. Determining the remuneration for the members of the Board of Directors.
- C. Reviewing and approving the Board of Directors' report on the company's activities and financial status for the completed financial year.
- D. Granting or denying discharge from liability for members of the Board of Directors.
- E. Appointing one or more auditors for the upcoming fiscal year, and determining their remuneration, or authorizing the Board of Directors to establish the same.
- F. Reviewing and discussing the auditors' report on the company's financial statements for the concluded financial year.
- G. Approving the profit and loss statement, the balance sheet, the allocation of net profits, and determining the dividend per share.
- H. Authorizing a member of the Board of Directors to engage in activities that may compete with the company or participate in any business activities that directly compete with the company, as provided under the Commercial Companies Law.
- I. Monitoring the compliance of the Board of Directors with the provisions of the Commercial Companies Law, its executive regulations, other related legislative decisions, and the company's Articles of Incorporation. This includes examining any damages arising from breaches of these provisions or mismanagement of the



company's affairs, determining the resulting liability, and taking appropriate actions in accordance with the Commercial Companies Law.

J. Deciding on the Board of Directors' proposals regarding the method of distributing net profits.

K. Appointing or reappointing the company's auditors and determining their compensation.

L. Reviewing any violations or errors committed by the company's auditors in the performance of their duties, and addressing any difficulties reported by the auditors related to the Board of Directors or the company management in facilitating access to the necessary books, records, documents, and information for the auditors to perform their duties. Appropriate actions will be taken as necessary.

M. Deciding on the distribution of any surplus from the legal reserve, whenever it exceeds 50% of the company's issued capital, to the shareholders in financial years where the company does not generate sufficient net profits to distribute dividends.

Article (8):

The extraordinary General Assembly is responsible for the following:

A. Amending the Articles of Association or Articles of Incorporation, except for amendments that are deemed invalid under the provisions of the Commercial Companies Law or those that would extend the company's duration.

B. Reducing the company's capital if it exceeds the company's needs or if the company has sustained financial losses, or increasing the capital, including the issuance of new shares.

C. Disposing of assets whose value exceeds half of the company's total assets, in accordance with the provisions of Article (194) (bis) of the Commercial Companies Law.

D. Selling the entire project for which the company was established, or disposing of it in any other manner.

E. Dissolving the company, converting it, or merging it with another company.

F. Deciding on the continuation or dissolution of the company before the expiration of the term specified in its Articles of Association.

G. Approving the process of purchasing the company's own shares.

H. Issuing preference shares or approving their acquisition, as stipulated by the company's Articles of Association and in accordance with the established regulations.

I. Issuing convertible bonds, which may be converted into shares, and specifying the maximum number of shares that may be issued in exchange for those bonds.

J. Allocating some or all of the newly issued shares in the event of a capital increase to the company's employees.

The extraordinary General Assembly may pass resolutions within the competence of the ordinary General Assembly, provided that the quorum and majority required for the ordinary General Assembly are met, and that the agenda includes the matters subject to the resolution.

Article (9):

Resolutions adopted at the General Assembly meetings, in accordance with the conditions stipulated in the Commercial Companies Law and the Articles of Association, shall be valid and binding on all family members, whether they were present at the meetings where such resolutions were taken or not.

Article (10):

The invitation to convene ordinary and extraordinary General Assembly meetings shall be issued by the Board of Directors. Attendance at these meetings shall be a right for the following categories of individuals:

A. Shareholders or their duly appointed representatives, through written proxies, excluding members of the Board of Directors or employees of the company.

B. Legal representatives of shareholders who are legally incapacitated or lack capacity, excluding members of the Board of Directors or employees of the company, through written proxies.

C. Members of the Board of Directors.

D. The company's auditors.

E. Any other category authorized by law to attend General Assembly meetings.

The invitation to the General Assembly meeting must be sent via registered mail with acknowledgment of receipt, or by any other method that provides proof of awareness regarding the date, time, location of the meeting, and the agenda, at least twenty-one (21) days before the scheduled meeting. The ordinary General Assembly must be held at least once during the twelve (12) months following the end of the financial year.

The Board of Directors is required to call for an ordinary General Assembly meeting upon the request of the auditor or a group of shareholders holding at least 10% of the company's capital.

Article (11):

The Family Council, as defined in Article (15) of this Charter, may submit a written proposal to the Board of Directors to convene a General Assembly meeting whenever it deems it necessary in the best interest of the company, provided that the proposal includes justifications for its submission. If the Board of Directors fails to respond to the Family Council's proposal and the Family Council believes that convening a General Assembly meeting is essential, the Family Council may seek to obtain written approval from family members who represent at least 10% of the company's capital, thereby compelling the Board of Directors to issue an invitation to convene the General Assembly in accordance with Article (10) of this Charter.

Article (12):

Each shareholder, or their authorized representative (excluding the Chairman, members of the Board of Directors, and company employees), is entitled to attend the General Assembly. Any shareholder or their proxy, as outlined in Article (10) of this Charter, has the right to engage in discussions concerning the items listed on the agenda and may direct questions to the Board of Directors or the company's auditors during the meeting. Should the shareholder or proxy find the responses from the Board of Directors or auditors unsatisfactory, they may appeal to the General Assembly. The resolution passed by the General Assembly in this regard shall be binding and enforceable.

Article (13):

The General Assembly meeting shall be presided over by the Chairman of the Board of Directors, the Vice Chairman, or any individual designated by the Board of Directors or the General Assembly for this purpose.

Article (14):

The performance of duties by any of the company's or family's governing bodies shall not hinder the ordinary and extraordinary General Assemblies from exercising their powers as stipulated by the Commercial Companies Law and the company's Articles of Incorporation. The family is committed to enabling the effective exercise of these powers by both the ordinary and extraordinary General Assemblies, ensuring that the company operates institutionally while respecting the rights of all family members.

Chapter Three: Family Council**Article (15):**

A body known as the "Family Council" shall be established¹, composed of a specified number of members elected by the family from among its members or other eligible individuals, through a secret ballot during a dedicated meeting convened for this purpose. A record of the resolutions made during this meeting shall be documented.

The Family Council shall appoint a Secretary, who must be an individual outside of the family, responsible for managing the necessary administrative tasks for convening the council's meetings and recording its minutes.

Article (17):

In selecting members for the Family Council, careful consideration must be given to the necessary personal and professional qualifications required to effectively fulfil their responsibilities within the Family Council. This is to be done in light of the responsibilities assigned to the Family Council as detailed in Article (21) of this Charter.

Article (18):

A member of the Family Council shall not hold simultaneous membership in the Family Council and the Board of Directors, nor shall they serve in the executive management of the company. Furthermore, the position of Chairman of the Board of Directors shall not be held concurrently with any executive position within the company.

Article (19):

The term of office for a member of the Family Council shall be three (3) years. A family member may not serve for more than two consecutive terms on the Family Council.

Article (20):

The election of members to the Family Council shall be overseen by an Election Committee composed of a number (...) of family members or other individuals, as determined by the family. The Election Committee shall elect its Chairperson through a secret ballot.

No member of the Election Committee shall simultaneously hold membership in the Family Council or stand for election to the Council. The Election Committee shall take the necessary steps to compile a list of candidates wishing to run for the Family Council prior to the end of the current term and shall call for elections accordingly. The Committee shall ensure that the election process is conducted transparently, fairly, and in accordance with all necessary safeguards.

Article (21):

Without prejudice to the powers granted to the General Assembly and the Board of Directors under the Commercial Companies Law, the company's Articles of Incorporation, and this Charter, the Family Council shall have the following responsibilities:

A. Monitoring the performance of the Board of Directors and offering advisory opinions to the General Assembly concerning its duties as outlined in the Commercial Companies Law and the company's Articles of Incorporation. In pursuit of these responsibilities, the Family Council shall have the authority to:

1. Provide recommendations concerning candidates for membership on the Board of Directors, in accordance with the provisions set forth in Articles (29) and (30) of this Charter.
2. Investigate the involvement of Board members in any activity that may potentially compete with the company.
3. Ensure that Board members do not disclose confidential company information to third parties or family members outside of General Assembly meetings, provided the Family Council has credible evidence suggesting such disclosures may have occurred.

4. Oversee the compliance of Board members with the Commercial Companies Law and the company's Articles of Incorporation, investigating any potential damages arising from violations of these regulations or mismanagement of the company's affairs.
5. Request that the Board of Directors provide copies of meeting minutes or any other documents deemed necessary for review.
6. Offer advisory opinions to the General Assembly regarding proposals to increase or decrease the company's capital, or decisions relating to the continuation or dissolution of the company prior to the expiration of its term as stipulated in the Articles of Incorporation.
7. Propose amendments to the company's Articles of Incorporation as deemed appropriate.
8. Examine the direct and indirect interests of Board members in any transactions or contracts undertaken on behalf of the company.
9. Review the compensation and financial benefits provided to Board members to ensure that such remuneration aligns with the provisions of the Commercial Companies Law and the company's Articles of Incorporation.
10. Monitor the establishment and utilization of the company's reserves in compliance with the Commercial Companies Law, the company's Articles of Incorporation, and the resolutions of the General Assembly.
11. Review the company's financial statements, including the budget, profit and loss statements, the Board of Directors' report on the company's activities and financial position, and their recommendations concerning the distribution of net profits.
12. Provide advisory opinions to the General Assembly on the appointment, reappointment, and dismissal of auditors, as well as their compensation. The Family Council shall also address any issues raised in the auditors' reports, including any errors, violations, or difficulties the auditors may have encountered, particularly regarding access to the company's books, records, or other necessary documents.

B. Efforts to resolve and settle disputes among family members affecting the company's operations, as follows:

1. The Family Council shall engage in confidential consultations to identify the underlying causes of any disputes and determine the optimal approach for seeking an amicable resolution. To lead the efforts for dispute resolution, the Family Council shall designate its Chairman, or another member who has no direct connection to the dispute, to oversee the resolution process.



2. The appointed Family Council member will engage each disputing party individually to discuss the causes of the conflict and will work, either independently or in collaboration with other members of the Family Council, to propose conciliatory solutions that take into account both the family's and the company's best interests.
3. Should the Family Council's attempts at an amicable settlement prove unsuccessful, it will recommend to the parties in dispute the formation of a mediation panel composed of neutral, non-family members. This panel may include neutral family members, trusted external advisors, professional mediators, or family business consultants who possess the requisite expertise to impartially consider and resolve the dispute. The Family Council, in consultation with the disputing parties, will define the procedures and scope of the mediation panel's activities. The panel may, if necessary, be replaced by another trusted external party.
4. In the event that the formation of a mediation body proves difficult or its efforts do not lead to a resolution, the Family Council shall propose to the parties involved that the dispute be referred to arbitration or litigation. The Family Council shall take all necessary actions to ensure that this does not adversely impact the company's operations, except as required by applicable law, arbitration agreements, or legal procedures. The Family Council will continue to seek an amicable settlement until a final, binding judgment is issued.
5. The Chairman of the Family Council, or another designated member, shall oversee the enforcement of any decisions rendered by arbitrators, court rulings, and settlement agreements concerning family disputes that affect the company's operations.

C. Consider any proposals or ideas from family members or others regarding investing company assets or engaging in commercial or investment activities within the company's scope. Such proposals will be presented to the Board of Directors for review and action.

D. Strive to prepare new generations of the family to be scientifically and professionally qualified to oversee the company's performance and potentially participate in its management and operations.

E. Any other responsibilities assigned by the family or the General Assembly. The Family Council may form committees from among its members to carry out some of its responsibilities.

The Family Council may form committees from among its members to exercise some of its responsibilities.

Article (22):

The Family Council shall elect a President and a Vice-President from among its members by means of a secret ballot. Communication between the Family Council and the Board of Directors shall be conducted through the Presidents of both councils.

Article (23):

The Family Council shall hold no fewer than four meetings per financial year. A special meeting must be convened prior to any ordinary or extraordinary general meeting to review the agenda and approve the recommendations to be presented to the General Assembly in accordance with its responsibilities outlined in this charter. A meeting of the Family Council shall be considered valid if attended by at least the majority of its members. Decisions of the Family Council shall be made with the approval of at least the majority of those present. In the event of a tie vote, the President's vote shall prevail. The President is obligated to convene the Family Council upon the request of at least two members.

Article (24):

Members of the Family Council shall be entitled to an attendance allowance equivalent to that provided to members attending Board of Directors meetings.

Article (25):

A specific budget item shall be allocated to cover the Family Council's expenses, including attendance allowances for meetings. The General Assembly shall issue a decision on the creation of this budget item, its value, and the method of its disbursement. Should it not be possible to cover all or part of the Family Council's expenses from the company's budget, the Family Council shall propose an alternative method for covering these expenses to the General Assembly.

Chapter Four

The Board of Directors and CEO

Article (26):

The Board of Directors shall consist of (..) members³, elected by the ordinary General Assembly.

(3) It is preferable that the Board of Directors consists of a limited number of members, between 3 and 15, in accordance with the provisions of Article (240) of the Commercial Companies Law¹.

Article (27):

The Board of Directors shall elect a Chairman and a Vice-Chairman from among its members through a secret ballot process.

Article (28):

In accordance with the provisions of the Commercial Companies Law, the term of each Board of Directors shall not exceed three years. Members of the Board may be re-elected for one or more terms, whether individually or collectively.

Article (29):

When considering the re-election of all or some members of the Board of Directors, the Ordinary General Meeting shall take into account whether there is a benefit to the company in enabling new family members to join the Board. The transition of family members into Board roles should be gradual and aligned with the company's long-term interests.

Article (30):

In the appointment of Board members, the ordinary General Assembly must ensure that candidates possess the requisite experience, knowledge, skills, and independence to effectively fulfil their responsibilities. Specifically, the following attributes should be required:

- A. Leadership Ability: Candidates must exhibit leadership capabilities that enable them to delegate authority effectively, inspire high performance, apply best practices in management, and uphold professional values and ethics.
- B. Competence: Candidates must possess the appropriate academic qualifications, professional expertise, relevant practical experience related to the company's present and future activities, or in areas such as management, economics, accounting, law, or governance. Additionally, candidates should demonstrate a commitment to continuous learning and professional development.
- C. Guidance Capability: Candidates must demonstrate the necessary technical, leadership, and managerial skills, the ability to make quick and informed decisions, and a solid understanding of the operational needs of the company. They must also possess strategic thinking, planning expertise, and a clear vision for the company's future direction.
- D. Financial Knowledge: Candidates must have the ability to comprehend and interpret financial statements and reports.

- E. Health Fitness: Candidates must not have any health conditions that could impede their ability to carry out their duties and responsibilities effectively.

Article (31):

In accordance with the provisions of the Commercial Companies Law, the Articles of Association, and this Charter, the Board of Directors shall have the authority to manage and direct the operations of the company. It shall exercise its duties independently, particularly with respect to the family, and no shareholder shall interfere in the work of the Board or the executive management, unless they are a member of the Board, or their intervention is made through the ordinary general meeting within its competencies, or in circumstances expressly permitted by the Board of Directors.

The Board of Directors' tasks and responsibilities include:

1. Approving the commercial and financial policies that guide the company's operations, formulating and defining the company's plans, policies, strategies, and objectives, and overseeing their effective implementation.
2. Developing policies and mechanisms for investment, financing, risk management, and the internal control systems and procedures.
3. Selecting the Chief Executive Officer (CEO) of the company and overseeing their performance.
4. Establishing the company's executive management structure, organizing its operations, supervising its work, and preparing the necessary administrative and financial regulations.
5. Approving the company's proposed budget and its profit and loss statement, in preparation for submission to the ordinary general meeting.
6. Presenting proposals to both the ordinary and extraordinary general meetings of the company, in accordance with the respective powers conferred upon each under the Commercial Companies Law.

Article (32):

The Board of Directors must take all necessary actions to protect and enhance the company's interests and maximize its overall value. Each member of the Board shall owe a duty of care and loyalty to the company, and shall prioritize the company's interests over personal interests. The duties of a Board member shall include, but are not limited to:

1. Monitoring the performance of the executive management and evaluating its success in achieving the company's objectives and goals.

2. Ensuring the accuracy and reliability of the company's financial statements.
3. Providing advice and opinions regarding the appointment and dismissal of members of the executive management.
4. Participating in the development of succession and replacement plans for the company's executive leadership positions.
5. Fully adhering to the provisions of the Commercial Companies Law, its executive regulations, any relevant implementing decisions, and the Articles of Association, in the execution of the member's duties on the Board.
6. Attending Board meetings and avoiding absence unless excused by a legitimate reason, communicated in advance to the Chairman of the Board, or in the case of urgent circumstances.
7. Dedicating adequate time to fulfill their responsibilities and preparing for Board meetings and committee meetings.
8. Reviewing and analyzing all information relevant to the matters being considered by the Board before expressing opinions or decisions on such matters.
9. Enabling other members of the Board to freely express their views, and encouraging open deliberations within the Board on various topics, while taking into consideration the perspectives of the executive management and other relevant specialists.
10. Immediately disclosing to the Board any direct or indirect personal interest in any contract or transaction to which the company is a party, including the nature of the interest, the identities of the relevant parties, and the expected financial or non-financial benefits (direct or indirect) derived from such interest. In such cases, the member shall also refrain from voting on any related decisions during Board meetings or general assemblies, in accordance with the provisions of the Commercial Companies Law.
11. Promptly informing the Board of any direct or indirect involvement in any activities that may compete with the company, in compliance with the provisions of the Commercial Companies Law.
12. Maintaining strict confidentiality with respect to any information or secrets acquired through their Board membership, and refraining from disclosing such information to any shareholders, unless it is in the context of a general assembly meeting or to third parties, in accordance with the provisions of the Commercial Companies Law.
13. Acting in good faith, with due care and diligence, and always in the best interests of the company and its shareholders.

14. Continuously working to enhance their knowledge of the company's business operations and activities, as well as in the broader financial and commercial domains.
15. Resigning from the Board if they are unable to effectively fulfil their duties and responsibilities.

Article (33):

The Board of Directors shall appoint a secretary from among its members or from outside the Board. The specific duties and responsibilities of the secretary shall be defined in a resolution passed by the Board of Directors.

Article (34):

The Board of Directors may establish committees from among its members or external individuals to perform one or more of its tasks. It shall also have the authority to establish the necessary regulations governing the work of these committees, in accordance with the provisions of the Commercial Companies Law, the Corporate Governance Charter, and the company's Articles of Association.

Article (35):

1. The Board of Directors may establish an Advisory Board ⁴ composed of experienced professionals in the company's core business sectors, as well as other relevant fields, to provide expert technical advice on matters referred to it that fall within the Board's authority and responsibilities.
2. Should the Board of Directors establish an Advisory Board, it shall draft the operational Articles of Incorporation for the Advisory Board's activities. These Articles of Incorporation, along with the necessary budget for the Advisory Board, must be presented to the ordinary General Assembly for approval.
3. The Articles of Incorporation of the Advisory Board, once approved, must provide that the Board of Directors retains the authority to select its members, supervise their work, and dismiss them as necessary. It is expressly prohibited for any shareholders or individuals whose personal interests may conflict with the company's interests to be appointed to the Advisory Board

(4) The purpose of the Advisory Board for the family business is to enable the Board of Directors to benefit from the insights and counsel of independent experts who are not shareholders in the company, particularly in the formulation and approval of strategic plans and the review of investment programs and activities.

Article (36):

The Board of Directors is responsible for appointing the company's executive management from among individuals who possess the necessary expertise and qualifications to effectively oversee the company's operations. This includes, but is not limited to, the following responsibilities:

- A. Designing the organizational structure and defining the roles, responsibilities, and duties of the executive management, based on the company's operational needs and business activities.
- B. Evaluating the qualifications and performance of senior management employees in alignment with the organizational structure, and making appropriate decisions regarding their continuation in their roles or their replacement.
- C. Establishing training programs to develop the capabilities of competent employees within the company to assume senior management positions and other key roles.

Article (37):

The selection of the company's Chief Executive Officer (CEO), the determination of their powers, or their dismissal shall be decided exclusively by the Board of Directors. The positions of Chairman or Vice-Chairman of the Board of Directors shall not be held concurrently with the position of CEO.

Chapter Five:

Company Policies

Article (38):

1. The Board of Directors shall establish a fair and comprehensive policy for the management of human resources within the company, which shall include, but is not limited to, the following provisions:
 - A. The rules governing the appointment of family members to positions within the company, including the conditions for their appointment such as qualifications, experience, age, performance standards, evaluation criteria, and provisions for termination of service.
 - B. The rules and mechanisms necessary for attracting and retaining professional talent.
2. In formulating the human resources policy, the Board of Directors must ensure that efficiency, merit, and the needs of the business are prioritized. Appointments to the

company should be made in accordance with these criteria, whether for family members or non-family members.

Article (39):

The creation of new job positions within the company shall be based on sound commercial and professional criteria, such as the expansion of the company's operations and its evolving needs. It is strictly prohibited to create a position solely for the purpose of appointing a family member. Similarly, the employment of a non-family member cannot be terminated for the purpose of replacing them with a family member.

Article (40):

The salary of an employee, whether a family member or not, shall be determined based on the following factors:

1. Level and scope of the position they occupy.
2. Duties and responsibilities assigned to them.
3. Academic qualifications.
4. Performance level.

The salary of family members shall not be influenced by their family affiliation.

Article (41):

Within the family business, it is imperative that a family member does not work under the direct supervision of another family member, nor should more than one family member occupy a position within the same department, unless it is in the best interest of the company.

Article (42):

1. The involvement of a shareholder in the company is voluntary and discretionary and does not constitute an acquired right.
2. The CEO is empowered to appoint, promote, or dismiss any shareholder within the executive management of the company, based on standards of competence and merit, and in alignment with the company's needs and best interests. During their tenure, the shareholder is subject to the same regulations and policies that apply to

non-shareholding employees and shall be treated equally, without any discrimination.

3. A shareholder employed by the company must adhere to professional conduct, uphold work ethics, comply with the directives of their superiors, and prioritize the interests of the company above their personal interests at all times. The shareholder must not, under any circumstances, act in the capacity of an owner while fulfilling their professional duties.
4. The term "shareholder" as referenced in paragraphs (1), (2), and (3) of this Article shall encompass not only the shareholder but also their children and spouses.
5. The Board of Directors holds the responsibility for overseeing the implementation of the provisions outlined in the preceding paragraphs of this Article.

Chapter Six

Share Transfers and Exiting Procedures

Article (43):

1. Without prejudice to applicable laws, no shareholder shall dispose of, transfer, or relinquish all or part of their shares, whether for consideration or otherwise, unless they provide written notice to the company and all other shareholders, via the Board of Directors, indicating their intent to dispose of or transfer the shares, along with the terms of such transaction. Any shareholder shall have the right to exercise their pre-emption right to purchase the shares within fifteen (15) days of receiving such notification. Should this period elapse without any shareholder requesting to purchase the shares, the transferring shareholder is then free to dispose of the shares at their discretion.
2. The transferring shareholder must submit a list of three (3) accredited appraisers, from which the interested purchasing shareholders may select one to assess the value of the shares specified in paragraph (1) of this Article. The costs of the valuation shall be borne by the transferring shareholder. The valuation provided by the chosen appraiser shall determine the purchase price of the shares.
3. Shareholders interested in purchasing the shares may request a second valuation from an accredited appraiser. The costs of this second valuation will be shared equally among the interested purchasing shareholders. The final purchase price shall be derived by averaging the first and second valuations.

4. In the event that more than one shareholder exercises their pre-emption right to purchase, as specified in paragraph (1) of this Article, and the shares being transferred constitute a bulk transfer, the shares will be allocated proportionally among the purchasing shareholders, based on their respective shareholdings in the company's capital.
5. Shareholders wishing to purchase the shares may agree with the transferring shareholder to settle the purchase amount in instalments, either in two or more payments. The first instalment shall be due immediately upon the written agreement to proceed with the transaction, with the second instalment due within a period not exceeding (...) from the date of the written agreement, unless both parties mutually agree to a different arrangement.
6. Notwithstanding any written agreement between the shareholders, the purchased shares shall be registered in the names of the purchasing shareholders upon the settlement of the purchase price. In cases where the payment is made in instalments in accordance with paragraph (5) of this Article, the sale shall be deemed as phased and partial. Should any purchasing shareholder default on the payment schedule for the shares, the transferring shareholder may offer the shares for resale to the remaining shareholders at the originally agreed-upon price. Should all other shareholders decline to purchase the shares, the transferring shareholder is then free to dispose of the shares as they see fit.
7. Notwithstanding the provisions of this Article, a shareholder may transfer their shares to their legal heirs during their lifetime.
8. The provisions set forth in this article shall not apply to shares transferred through legal inheritance, unless the legal heirs wish to transfer the shares to someone other than their legitimate heirs.



Chapter Seven

Article (44):

A family member is entitled to submit a proposal for amending this charter. The Family Council shall examine such proposals and prepare a report detailing the findings, which shall be presented at the subsequent General Assembly meeting for deliberation and decision-making.

Article (45):

Without prejudice to the provisions of the Commercial Companies Law and the articles of association regarding the powers of the extraordinary General Assembly, any amendments to the provisions of this Charter shall require the approval of the ordinary General Assembly.

Article (46):

Any disputes arising concerning the interpretation or application of the provisions of this Charter shall be subject to the dispute resolution mechanisms outlined in paragraph (b) of Article (21) hereof. This is without prejudice to any legal remedies available for resolving disputes, as stipulated in the articles of association or in resolutions passed by the General Assembly.

Article (47):

The family shall undertake all necessary actions to amend the articles of association in accordance with the provisions of this Charter. Additionally, the family shall subject this Charter to ongoing review, considering the evolving needs of the company and any legal amendments enacted subsequent to the Charter's entry into force.

Article (48):

This Charter shall come into effect after a period of ... days from the date of its approval.

This Charter was executed in the Kingdom of Bahrain on ... corresponding to ..., by the family members listed below, each of whom has received a copy and is bound to act in accordance with its provisions.

The name of each shareholder of the company shall be recorded at the conclusion of this Charter. It shall be signed by all eligible shareholders, as well as by the legal representatives of those who are underage or legally incompetent, such as minors, thereby ensuring that the Charter reflects the collective will of all shareholders of the company who are members of the family.

Conclusion:

Effective governance of family businesses is based on three fundamental pillars:

1. The General Assembly.
2. The Family Council.
3. The Company's Board of Directors or its Board of Managers.

The objective of clearly defining and documenting the powers of these pillars in the form of a charter is to ensure the long-term sustainability of family businesses and to enhance their value.

References and Resources:

The following references and resources have been reviewed and consulted:

1. The Guiding Charter for Family Businesses in Saudi Arabia.
2. The Gulf Family Business Council: "Gulf Family Business Governance Charter - A Guideline for Family Business Governance."
3. Law No. (10) of 2021 regarding Family Business Governance in the Emirate of Abu Dhabi.
4. McKinsey & Company: "Family Businesses in the GCC - A Journey to Long-Term Sustainability: Findings from the First Survey on Family Businesses in the Gulf," October 2015.
5. Family Business Governance in Arab Countries.

