



FAMILY LEGACY: HOW TO MANAGE RISKS AND AVOID DISPUTES

PART ONE



المركز الوطني للمؤسسات العائلية
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FAMILY LEGACY: HOW TO MANAGE RISKS AND AVOID DISPUTES

PART ONE OF TWO: PREVENTION RATHER THAN CURE

Families are central to the Saudi economy and to the region's prosperity. Mourant, in collaboration with the National Center for Family Businesses (NCFB), Quinn Emanuel, Burford Capital and PwC, hosted a seminar entitled "Family Legacy: How to Manage Risks and Avoid Disputes".

Dr Ayth Al Mubarak, Chief Executive of the NCFB, emphasised continuity, education and transparency as the foundations of durable family ownership. This is part one of two white papers intended to distil the practical guidance shared by the panel across both sessions, so that families can reduce risk, preserve relationships and protect enterprise value for generations to come.

Disputes in family businesses rarely arrive without warning. They tend to arise through small governance gaps, unequal access to information, unclear exits and a gradual breakdown in communication. Prevention rests on three pillars.

First, a legal architecture tailored to the family rather than a generic template. That means shareholder agreements that specify valuation methods for exits, practical reserved matters with sensible thresholds, structured information rights and clear conflict disclosures.

Second, ownership and corporate structures that reduce friction over time, including appropriate holding vehicles and, where it suits the family's strategy, the use of trusts or a staged listing to impose regular reporting and external discipline.

Third, family governance is lived and breathed daily supported by continuing education, so that all owners can read the numbers, understand distributions and participate as informed stewards rather than passive recipients.

We would like to thank the valuable contributions by Dr Ayth Al Mubarak (NCFB), Dr Nasser Alrubayyi (Quinn Emanuel), Dr Abdulaziz Alrashid (NCFB), Kassem Younes (PwC), Joe Durkin (Burford Capital), and Stephen Alexander (Mourant) who together shared their knowledge, expertise and experience.



“Treat family members as proud owners, not passive financial owners. That calls for different communication channels and transparency.”

Dr Ayth Al Mubarak, CEO, the National Center for Family Businesses

Introduction

The strongest family enterprises combine emotional cohesion with institutional discipline. In early generations, closeness happens naturally. As the family grows, the relationships that once formed around a single household must be maintained deliberately through clear rules and shared forums within a robust governance framework.

The NCFB observed that many disputes that arise are preventable, provided families recognise the signals early and install the right scaffolding before pressure builds. The panel discussion in Riyadh focused on how to detect the early signs, how to design documents and structures that fit the family, and how to embed the continuous education and transparency that sustain trust.



Early signals you can act on

The first warning signs are almost always behavioural. Board minutes begin to record repeated clashes. The tone in meetings shifts from solving problems to allocating blame. Minor agenda items attract outsized debate because the real disagreement lies elsewhere.



“We have seen that weaknesses in governance are the root cause in most cases presented to us.”

Dr Abdulaziz Alrashid, the National Center for Family Businesses

At the same time, information asymmetry creeps in. One branch receives updates earlier or in more depth than others. Independent executives are replaced by figures aligned to a particular faction, or directors resign without clear explanation.

External shocks raise the temperature further: the loss of a key family figure creates a vacuum in decision-making and emphasises the importance of family governance and continuity.

It is important to analyse both what the business data shows, and what paths are realistically open to the family. This ensures shared understanding and clear future direction for the family business.



“In family business disputes, the facts usually exist before the conflict escalates. The challenge is making sure every branch of the family has equal access to reliable information, clear records and a shared understanding of value before emotion turns uncertainty into a dispute.”

Kassem Younes, Partner, Forensic, PwC Middle East

Why disputes emerge

Across scenarios seen in The Kingdom, governance weaknesses dominate root causes.

Families often rely on generic shareholder agreements that do not reflect the way decisions are made in their business.

While a limited number of family charters exist, noting that 75% of Saudi family businesses lack one according to the NCFB's latest report, they are sometimes drafted in language that is hard to apply or are never revised to reflect a change in circumstances.

The single most frequent flashpoint is exit. Who can leave, when, at what price, and paid over what timetable. Without an agreed method, arguments about valuation methodology become proxy wars. A buy-sell intended to tidy up the cap table turns into an expensive, open-ended debate between experts.

Documentation gaps compound the problem. Decisions are made in good faith but are not written down. Years later, when memory has faded and the next generation asks why a particular risk was taken, each person recalls a different rationale.

Knowledge gaps also play a role. Families sometimes lack shared fluency in basic financial statements, confusing net income with distributable reserves and talking past one another as a result.



Design a legal architecture that fits your family

Prevention starts with documents that match your reality.

Rather than adopt a standard form, engage advisers who will learn how your family actually operates, then draft a shareholder agreement around that. Specify a primary valuation methodology for any exit, plus sensible back-ups if data is missing. Include reserved matters and thresholds covering issues such as removal of key executives, issuance of new shares, major borrowing and dividend policy.

Build in information rights that force the regular provision of management accounts and key metrics to all owners, not only to those who ask. And normalise conflict disclosures so directors can declare outside interests without stigma. A clear, practical family charter is the companion piece. It should set out who can work in the business and under what conditions, how family councils function, how issues are escalated and who speaks for the owners on strategic matters.

The most valuable charters are not the longest, but the ones that are easy to understand, used in daily practice and revised as the family evolves.

Choose structures that reduce friction over generations

Structure also shapes behaviour. For some groups, offshore holding vehicles and trusts reduce fragmentation by consolidating legal ownership with a trustee while preserving beneficial ownership for the family. That avoids forced share splits across a large pool of heirs and keeps decision-making anchored in a single locus.

For other families, listing a portion of the group can be a powerful catalyst for professionalisation. A main-market listing imposes demanding disclosure and governance disciplines; a secondary market route offers a staged path for mid-sized companies. Listing is not a cure-all and must be respected in spirit as well as letter.

If a family refuses to accept the controls that come with public status, internal disputes may simply be replaced by regulatory headaches. But where the family genuinely embraces the step, it can align expectations, clarify roles and reduce room for informal workarounds.



Implement family governance and shared learning



Beyond documents and structures lies the day-to-day practice of family governance. Families should engage family business owners as partners in value creation, not as passive investors to be kept at arm's length. That calls for a rhythm of owners' communication, with equal access to the same data and time set aside to interpret it together.

Continuous education is the multiplier.

Regular sessions on reading financial statements, understanding cash generation versus accounting profit, and distinguishing between reinvestment and distributable income reduce the risk of misunderstanding. As shared financial literacy and fluency grows, anxiety decreases and conversations become calmer.

Enabling support for families

Saudi Arabia now offers supportive levers for families that want to embed these disciplines. The National Center for Family Businesses has built an ecosystem around continuity and sustainability. Its awareness, training and advisory programmes operate as preventative measures before conflict arises, and its alternative dispute resolution function can be engaged when matters escalate.

The Center also works with Government on a more conducive regulatory environment and has partnered with universities so that family business topics are now embedded in curricula and research. Families benefit from this rising capability because it increases the pool of qualified advisers and mediators who understand both the technical and the human aspects of family ownership.

Prevention is better than cure

A practical course of action by way of a 90 day prevention plan can be set and delivered in just one quarter.

1. Begin with a short dispute-prevention audit covering documents, structures, information flow and education needs.
2. Prioritise five actions you can implement within 90 days.
3. Update or redraft the shareholder agreement and family charter to reflect how decisions will actually be taken over the next five years, not how they were taken in the past.
4. Institute a quarterly owners' report that goes to every branch at the same time.
5. Establish a family council with clear escalation routes and standing agendas.
6. Add an alternative dispute resolution ladder to intra-family and shareholder agreements that requires a time-bound mediation before any proceedings.

None of these steps remove emotion from the nature of family business. They do, however, move emotion out of the critical path by triggering processes that carry the weight when tensions rise.



“Mediation blends law and psychology. It can be delicate work, but it is incredibly successful in practice.”

Joe Durkin, Burford Capital

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