

LEGAL-ECONOMIC OWNERSHIP AND GENERATIONAL TRANSFER IN FAMILY BUSINESS: FACETS OF OWNER'S RESPONSIBILITY

Mikhail Nemilentsev
Researcher / PhD candidate
University of Jyväskylä
School of Business and Economics
P.O.Box 35 40014 JyU Finland
(+358) 44 355 48 54
mikhail.nemilentsev@econ.jyu.fi

Abstract

In the following paper a conceptual framework of the owner's responsibility is created in order to study the transgenerational legal-economic ownership in the family business. Responsible ownership involves a sense of accountability and entrepreneurship to some extent. However, legal and social responsibilities naturally supplement each other in the family firm. Owners by means of personal relationships and financial guarantees are responsible for carrying out daily business operations and maintaining a balance with the stakeholders. The certain constituents of the estate planning are evaluated through the lens of responsibility. As a final step, the following study provides a synthesis matrix of the zones and fundamentals of the owner's responsibility in the family firm during the generational succession.

Key words: estate planning; family business; generational transfer; legal-economic ownership; owner's responsibility.

INTRODUCTION

Legal and economic ownership makes a sizeable imprint on the whole history of family businesses. Modern circumstances force owners of the family firms to focus on issues stretching beyond the areas of finance or bookkeeping: legal responsibilities are supplemented by a 'softer' side of the firm's economy - psychological accountability and personal attributes. In order to provide an overall stability for decades to come, owners adopt the formal economic principles in accordance with the necessity to keep social values in the business. This article provides a profound outlook on the search for a compromise within a family firm by answering the following research question: "What are the fundamentals and zones of an owner's responsibility in the transgenerational family business from a legal-economic perspective?" As the first stage of a longitudinal study on perspectives of owning a family firm, the primary focus is on working out a conceptual framework that will be used as a basis for the future empirical study. Though theoretical by nature, this paper though provides a synthesis matrix of the owner's responsibility during the family business generational transfer.

LOGIC OF LEGAL-ECONOMIC OWNERSHIP IN FAMILY BUSINESS

Traditions of interpreting ownership in family firms, already described yet decades ago (e.g. Hansmann, 1988; Bethel & Liebeskind, 1993), lead to a distinction between a strict legal perspective and a balanced combination of embedded values, cultural awareness, accountability and willingness to contribute in and for society. A legal entitlement to the unit of possession is considered to affect the principles which individuals act upon (Hannah, 2004). That is why an economic meaning adds to a normative definition in a certain way. There are also difficulties in describing "family business responsibility". An additional stream of interest occurs with an explanation of the legal drivers for those owners who are likely to be preoccupied in other ventures than owning the parent's family firm. In principle, a legal ownership encompasses an economic ownership: the former implies a legal title coupled with an exclusive right to possession, whereas the latter deals more with the outright risks and rewards from the legal entitlement (IMF Committee on Balance of Payment Statistics, 2004). Moreover, a transformation in the legal ownership leads to inevitable changes in the economic ownership. In case of family firms the legal ownership remains safe even in those situations, when changes of the economic structure take place (Tan & Fock, 2001). However for the benefits of this study, a title to possess and seemingly observable economic rights and rewards of control are intertwined and further on used as two components of a single whole.

Perhaps the central idea of owning a family firm is a possibility to continue business activities in future generations. However, a personal attachment to an enterprise does not provide owners with all ready answers. There is also a place for legal-economic procedures in a transgenerational family firm (Chrisman et al., 2004; Hansmann, 1996). The way, in which the ownership gets redistributed, broaches upon a subject of who is responsible for a certain part of the business. From another angle, successors are in charge of giving a decent sustenance for their aging parents and close relatives. Usually problems emerge due to the lack of skills of the young leaders. Knowledge, merits and future orientation are factors that the family is reluctant to assess when it rearranges the ownership stock. In fact, a transfer of the family business to the next generation involves two key issues: founder's retirement from the immediate gover-

nance and from legal ownership rights (release of shares). In the present paper critical steps and required tools for an effective legal-economic ownership transfer in a family business are further described, starting with the estate planning process.

CONCEPT OF THE OWNER'S RESPONSIBILITY IN FAMILY BUSINESS

Behavioral, emotional and psychological relations were found in connection with the legal ownership (Pierce, Kostova & Dirks, 2001, 2003). Understanding a psychological perspective of the family business ownership (e.g. values, ideals, internal dialogue etc.) helps a person unequivocally understand 'what is his/her?' not by law but rather emotionally. To clarify the previous statement, personal responsibilities are perceived on the personal (individual) level, whereas legal rights and obligations are acknowledged by the whole society (collective level) (Brown, 1998; Koiranen, 2007a). Legal and social responsibilities thus naturally supplement each other in a family firm.

Family and non-family businesses are regularly compared on various matters. In terms of the responsibility, it has been found that family firms are more responsible or more committed because their owners put more weight on the firm's image and its reputation (Dyer & Whetton, 2006). By acting in a socially-responsible manner businesses extract positive effects measured by an increase in profitability with a slight time lag (Waddock & Graves, 1997). The firm's annual profits, however, feature only one of the possibilities created by the fulfillment of obligations: money serve as the means for the attainment of social values (Bowen, 1953; Donaldson, 1982; Rawls, 1971; Wartick & Cochran, 1985). In this respect, according to Maclagan, irresponsibility starts when voices of stakeholders cannot any longer be heard by the owner (Maclagan, 1999, 2003).

The inclusion of the time variable goes even further to describe the notion of the owner's responsibility: unreasonable behavior in the past causes inevitable consequences for the future. Therefore the owner's responsibility is used as a 'prospective' phenomenon. Achieving reciprocal agreements stemming from the later ownership contracts explains another facet of the responsible behavior: by reaching beyond the legal terms, owners provide a ground for mutual trust and move these relations to a more transparent level. Coupled with the time variable, an open dialogue with self-assessment creates a moral atmosphere: easier 'digestion' of the formal agency principles by the competitive environment (Finch & Mason, 1993). What really makes a dialogue such an effective form of facilitating a responsibility among owners is its principle of communicating the truth and possibility to amend conditions when it is necessary.

The notion of a 'responsible owner' involves at least the owner's capabilities and emphasizes the association with the owned object (Carlsson, 2001; Koiranen, 2007b). To some extent responsible ownership involves a simultaneous sense of accountability and entrepreneurship. Additionally a criterion of profitableness characterizes of what turns out to be critical for the ownership continuity in a family firm. As a result of the responsible ownership added value emerges for both owner and other stakeholders. Added value can mean a legal-economic surplus as well as emotional benefits, for example enjoyment to be felt towards the family heirloom, regardless of whether it generates financial value or not (Koiranen, 2007b, 23). In general, to be responsible, or accountable, means to be obliged to answer, if one asks why we did (i.e. active re-

sponsibility) or did not do something, although we should have done it (i.e. passive responsibility). Responsibility may be personal, collective or, for instance, firm-level (corporate). The latter means taking into account interests and needs of other stakeholders and maintaining a balance by means of financial results. Thus responsible ownership is simultaneously an obligation and requirement to be reliable from the economic-legal viewpoint. From a moral ethics' perspective, owner's responsibility relies on values. Owners by means of relationships, personal and financial guarantees are responsible to ethically approve business operations and maintain a balance with the stakeholders in renewing the business. Although an owner has legal rights to delegate a part of his/her functions to others involved, there is his/her outright responsibility for improper decisions.

On a broader scope, owner's responsibility in a family firm is logically divided into several groups (Koiranen, 2007b, 30). An economically responsible owner divides profits in a way that ensures continuity of the business and competitiveness in the market: if activities are in red, owners take the full responsibility for losses and consequences that caused such a state. An owner's legal [juridical] responsibility varies between the legal forms of an enterprise. Owners become additionally responsible when they serve as Board chairs or executive directors. Being socially responsible, owners as well as employees stick to existing ethical criteria, since the support of the personnel and its professional development facilitates an after-transfer recovery. Finally there exists an overall responsibility of an owner, which unites economic, legal, social and mental dimensions. By taking and maintaining such responsibility actively, owners acquire the legitimate right to exploit power, augment wealth and feel joy for practicing successful ownership.

In the previous research, emotions and ownership were theoretically and empirically studied as two constituents of the socio-emotional wealth. Astrachan, Eddleston, Jaskiewicz, Kellermanns and Zellweger carried out a number of joint as well as independent studies on the impact of financial and especially non-financial (emotional) aspects of owning a family firm. For instance, Astrachan and Jaskiewicz (2008, 139) develop a concept of 'emotional value' by showing that family ties, existing between the groups of owners, have both positive and negative effects on the family's well-being. In accordance with their proposal, financial results are to be adjusted by the difference of emotional returns and emotional costs (Astrachan & Jaskiewicz, 2008, 142-143). An achievement of emotional satisfaction does not although predefine financial benefits: for instance, employment of incompetent family members or legal obligations of avoiding interpersonal conflicts might be to the detriment of the business (Eddleston, Kellermanns, & Sarathy, 2008; Zellweger, 2006). Empirical evidence of the impact of cognitive and relationship conflict on the legal ownership continuity are found from the study of Eddleston, Otondo, and Kellermanns (2008, 456, 462-464). Finally, Zellweger and Astrachan (2008, 349-350) elaborate the concept of socio-emotional wealth by modeling a situation when owners plan to sell their businesses and thus express the non-financial value of ownership in monetary terms. Across three consecutive generations of the family business, owners' responsibilities vary to a certain extent (Lehti, 2007). At the firm's founding stage, owners are indebted both personally and enterprise-wide. In addition to bringing up children in accord with the family philosophy, there are issues of profitability and operations. Ownership attributes in the first generation are mainly revealed from an entrepreneurial angle (Kansikas & Kuhmonen, 2007; Robinson et al., 1994), with a greater role of the

founder's individual provision in accumulating sources and developing values for the company. If grown-up children bear honorably their family name, family business takes on certain attributes of a long-term asset, an ultimate value of which is only growing in the years to come (Carlsson, 2001). Come time for the second generation, certain informalities get lost; however an official context of the collaborative work gives more opportunities than earlier and secure future compromises with the unsatisfied family members (Rivers, 2005; Steier, 2001). Such a compromise during the ownership succession appears in the elders' wisdom to respect the wishes of their children and exploit funds for their benefits.

In the course of time psychological attributes of legal owners undergo a further growth. However, second-generation family members often prefer to be treated as executives, rather than owners (perhaps, due to a greater responsibility of the latter). Having once agreed to continue the 'business' of their fathers, the second-generation owners gain a greater responsibility for keeping that business going in the long run. Owners are not deprived of illogical behavior and a dependence upon their parents' and grandparents' will. In the later generations of family firms ideas of the common good and family harmony come to the front (Davis, 2005; Kansikas, 2006). Personal gains are less regarded as prior motivators to continue (Koiranen, 2002; Koiranen & Chirico, 2006; Lehti, 2007). Customers, family members, ownership principles, social relations, long-term objectives - these are all zones of owners' responsibilities. Beyond the generational border, psychological elements are representing a 'glue structure' binding together a 'family' and a 'business.' These arguments illustrate responsibilities taken on by owners of later generations and contribute to the pre-understanding of why only about one tenth of all businesses survive past three generations (Chua et al., 2003).

After the definition of the distinctions of owner's responsibility in a family firm, its applications are further considered with respect to the ownership transfer and the post-transfer period. In other words, key constituents of estate planning, such as trusts, ownership agreements, evaluation and distribution processes are perceived through a responsibility lens.

ESTATE PLANNING AND OWNER'S RESPONSIBILITY

Facilitating a Responsible Attitude towards Estate Planning

In general a family business transfer to the next generation includes two steps: ownership and management succession (Aronoff et al., 1995; Astrachan et al., 2002; Ward & Dolan, 1998). To facilitate the process, a suitable estate plan is drawn up to figure out how owner's holdings (i.e. immobile property, investments, businesses etc.) will be allocated after his/her death. One of the challenges in estate planning is to rationally look at one's own mortality. For that purpose the typical blunders of estate planning are further analyzed. Estate planning, however, features only the first block in the pyramid of the family business' initiatives when a generational transfer looms. To express that in legal terms, negligence (as a display of an owner's passive responsibility) is considered as a crime; and the guilty one is the inactive owner. Preparations for the ownership succession are not limited with filling the successor's position: retiring owners are also tested for giving up the authority they do not obviously need any longer.

A clear line is drawn between what is regarded emotional and logical. Children differ in qualities related to their participation in business. In a way parents, who want to be really fair with their children, treat them according to their merits (Davis et al., 1997). Pseudo-equality will more probably lead to a layer of new conflicts, solutions to which are problematic to find. The harmony balance is fragile in nature, and even smallish attempts of retiring owners to oblige successors with an equal distribution of rights undermine a sense of satisfaction and trust. Egoistic considerations emerge in minds of family members as well as among newcomers (multiple in-laws and family members deciding to reap the benefits from their outright participation). As a result, fairness leads to an imbalance of votes and veto right is seemingly to be used by the minority stockholder groups. Owners do not although realize that by their leaving, regardless of whether it's caused by illness, retirement or untimely death, a change is inevitable in the company's legal status. Therefore right before the departure, there is a possibility for the founders to start an evaluation process of what core values mean for the family and where sources for the growth are to be found. A failure to update an estate plan results in undermining working principles and methods of teaching. Those children, who see up coming changes, are ready to respond to arising demands in the future. As Poza et al (1998) advise, estate planning is like a painting, whose parts are subject to constant renovations; hence pencil and eraser are powerful instruments for the process. All in all, estate planning provides more questions than set solutions. An ability to learn from others' mistakes matters at this stage.

Instruments of Estate Planning through the Lens of Responsibility

Estate planning involves using certain instruments, among which there are trusts, ownership agreements, notes for the retiring owners and non-family members as well as buy-out schemes for successors (Davis et al., 1997; Hall, 2004). An owner's responsibility while designing these instruments is analyzed in more details.

In order to dispel owners' fears on the matter of who, when and how will take care of the family business after the transfer, ownership stock agreements as well as voting trusts are established. Reasons for organizing a trust in a family firm are partially correlated with the succession looming over the ageing owners and their reluctance of thrusting a bundle of responsibilities in the immature hands of their own children or other relatives. Traditions of establishing trusts are more common in North America, although some European countries find trusts more attractive for securing the family business' long-term perspectives in comparison with the traditional transfer schemes (The Executive Newsletter of The Official Board, 2009).

Despite being fully in charge of the trusted property, trustees are still liable for serving in accordance with the grantor's interests: typically a fiduciary responsibility touches upon every trustee enacted in the family firm. Owners also benefit from running a trust in a way of economizing on the estate taxes that are postponed for the time being. A relative unpopularity of trusts in Europe might be partly explained by the absence or affordable scale of the estate tax. Besides securing a family firm against the legal duties, family members also get a diversified ownership structure with control in the hands of diligent individuals.

In general, trust is initiated by a grantor (i.e. owner of a family firm) who temporarily delivers an object of possession (e.g. business of the family) to another party. On be-

half of the family firm, trustees are in charge of owning the family property, investing family capital in new projects, paying dividends and compensations to the interested parties, and dealing with the retired owners and their spouses. The duration of a trust depends upon a case's specificity varying from a few months to several decades. However, the longer the owners rely on the decisions made by the trustees the less energized the successors are to take the business over.

Trustees are regarded as shareholders in the company, since owners endow them with certain voting rights. Members of the trust are in charge of pulling family business ownership and control apart. Not infrequently, though, trustees collaborate side by side with the external CEOs (and not directly with the family members) in order to gain a greater impartiality of the decisions made within the family firm. 'To look before you leap' is a proverb that describes a style upon which a panel of trustees operates in and for a family business. Accompanied by skilled professionals, family firms choose out of specific trust schemes, some of which are further presented (The Family Business Succession Handbook, 1997, 2001). As a contribution for the following study, zones of owner's responsibility are described in each case. Moreover, despite the U.S. backgrounds of the mentioned trusts, zones of responsibility are considered in regard to the trust's applicability in the EU-countries, where estate taxes are either low or abolished completely.

- In a grantor retained income trust owners are primarily responsible for selecting those investment targets, which will be beneficial to the forthcoming generation of family members. Another owner's duty is to secure the equity capital from the unplanned withdrawals.
- Since the terms of the revocable living trust are under amendment by owners during the trust's duration, owners' primary responsibility is to maintain the selected course of actions, long-term by nature, and weather temporary drawbacks in accumulating financial assets (McCullom, 1992). The complexity of relations between owners and other family members is under consideration as well.
- An establishment of the irrevocable living trust suggests the owner will make no alterations of the trust's terms in the future. Therefore the responsibility for possible mistakes in outlining the operational tasks is eventually growing (Sorenson, 2000). With respect for the owner's progeny, such trust scheme is regarded as risky for a first-generation transfer, even though property at the trustee's premise is not a subject to estate or capital gain taxes.
- By originating a crummy trust, owners allow a successor to extract the definite capital out of the pool with an agreement of trustees on a yearly basis (Perricone et al., 2001). Simultaneously the main owner takes the ultimate responsibility for any consequences caused by an improper use of money by the young-generation family members.
- In case of setting either qualified terminable interest property trust or bypass trust emotional (relational) issues come to the front. A retiring owner is accountable for a decision to leave out his/her children in favor of his/her living spouse for a specific period of time. Despite the temporary reallocation of funds from the next generation to the current one, communication is a way to gain a mutual understanding, because the successor has no legal rights to exploit ownership neither financially nor operationally during the whole duration of these trusts.
- A division of equity and growing returns are yet another forms of securing family firms during and after the ownership succession. Under the marital trust, an owner is responsible for preserving the equity capital intact for the family progeny as

well as for stimulating trustees to make profitable decisions for the benefit of the owner's living spouse.

- An owner's social responsibility is presented in the charitable remainder trust's terms: while satisfying family needs by means of the pro-active policy, the remaining property is given to a certain charitable organization. After the owner's and his spouse's death beneficiaries gradually take over rights for the capital proceeds (Dumas, 1990). Hence the owners are responsible for giving up a part of the business in favor of other family members. There is also a financial gain stemming from a diminishing business value (as a result of the continuous donations).

Benefits from rendering services to the trustees are in a constant balance of the internal capabilities of maturing children (Levy, 2008). However, excessive protective actions of trustees undermine the owners' chances to be effective in the future. Another stream of parental concern stems from the irresponsible behavior of certain stakeholders: these individuals influence on the successors' will to act independently for the benefit of the external parties or rivals involved. A gradual necessity of the owners to assign equity to the trustees outweighs hypothetical inflows from economizing on taxes. Since owners are in charge of more than one generation of the family, trusts represent a vital source of preserving the business intact for owners' children and grandchildren (Lansberg, 1999; Levy, 2008).

Family businesses in the second and later generations extensively acquire the attributes of formality. By means of ownership agreements an arrangement of roles between those with the legal title is made. For better understanding of the legal-economic role of ownership agreements and consequent zones of owner's responsibility, several schemes are considered in more details.

At the stage of designing a stock redemption agreement, owners are responsible for not only calculating the deal price (usually based on the fair market value or mark-to-market value), but also for selecting assets, which will be further used as collateral. As an outcome, reserves are divided into those contributing to the ownership growth and those set as immobile during the transfer. Owners are also responsible for the justice of the stock transactions, called the buy-sell agreements (Khalil et al., 2008; Kuratko & Foss, 1994). A positive reaction of holders primarily depends on an owner's ability to communicate what the fair price for the deal is and how this certain transaction contributes to the family well-being.

Non-business assets are created for the non-participating family members. Gradually, as the family company evolves in the market, owners invest the proceeds from the main activities in real estate, non-business equipment etc. Dividends and non-voting shares as such compensate inactive members but guarantee no legal rights for the family heritage. In a way, owners withdraw their direct responsibility for satisfying the needs of the non-active relatives. In addition to the non-business assets, restricting provisions are made for the older generation. Any attempts of the retiring owners to shift to a competing firm or open up a new enterprise are usually prohibited with the covenant not to compete. In order to provide the retirees with a decent income, a deferred compensation plan is drawn up (Khalil et al., 2008). Moreover to ensure that payments to the retiree's spouse will be continued after his/her passing, a survivor benefit is an option. So ownership agreements render practical help to the family members and neutralize personal conflicts through the legal notes. However, owners

bear the ultimate responsibility for designing such agreements and possible negative consequences.

A protection of income for a retiring owner is a matter of honor for the successor and a practical issue for the retiring owner him-/herself. Beside the emotional claims, legal documents are processed, where the clear guarantees, payout schedules and financial limits for successors and their immediate family members are allowed for. Such precautions do not call for a vote of confidence, but, quite the contrary, initiate a thought-out planning. Owners of the long-lasting businesses are considered to be the masters of their destiny and forge their income by saving subtle annual installments aside the main business. Periods from seven to ten years before the transfer are regarded as sufficient for amassing the required funds (Rivers, 2005). Owners relinquish part of their responsibility by giving successors personal promissory notes to be subsequently repaid. Right after the legal ownership transfer, inheritors are responsible for maintaining the free cash funds (in order to avoid loans at the time of capital investment). However if family members fail to meet the legal expectations of the retiring owners, an association of creditors or an attendant bank might impose restrictions on the debt-to-equity ratio or historical showings (Koeplin et al., 2000). There is also an additional security against the unexpected actions of the buyers: until the buyers repay due debts for the business they purchase, possession rights are saved by the family. On the economic level, a supermajority provision (e.g. when owners hold only one fifth of the voting shares, other family members need more than four fifths of the same shares to put the idea into action) helps the retiring owners spread the responsibility and keep an eye on the successor's actions.

A generous allotting children with voting rights, however, makes them feel indebted or trapped into the family business. In this respect a buyout is advantageous for owners, since the free cash is amassed on their accounts and collaborative traits among the children are continuously developed. The same effect is hardly achieved via outright gifts of voting rights. A psychological justice is created via the leveraged buyout (cash-out): by selling the firm for the fair market value to an interested child and giving non-active family members the immobile property or other non-business assets, parents sustain fairness and again responsibility. Buyout agreements are especially effective for successors who strive to obtain exclusive ownership control and diminishing dividend payments to stockholders. Possible claims during the evaluation process are resolved by either enlisting to an impartial arbitrator (i.e. a person who defines a fair price by the compulsory decision) or working out a possible agreement independently by choosing the most suitable price. These alternatives give owners a chance to escape from long and generally expensive legal procedures.

After the first-generation transfer owners also become responsible for the objectivity of the decisions made. It is hardly possible to approach decisions impartially when the decision makers are family members only. For this reason, non-family directors are invited aboard (Strobel, 2007; Young & Quintero, 1995). A psychological portrait of an external director suggests that s/he prefers to be equally rewarded for the same work done as by the family members. However for those CEOs with the corporate market backgrounds ownership does not represent a sufficient source for remuneration (Cohn & Pearl, 2000). A responsible owner develops special rewarding packages without a dilution of the family stake. Following the logic of economic-legal responsibility, by means of an incentive stock option owners give an opportunity to the ex-

ternal members to beneficially purchase non-voting stocks. In some cases such a right is donated even after executives' leave from the family firm (i.e. companion stock redemption agreement). Additionally a special type of securities, phantom shares, is designed for satisfying the outsiders' needs, while giving the family members a sense of safety. Phantom stocks do not give any direct voting rights, however one gets a stable income from its rates' variations. An altruistic nature of relations between owners and external board members leave the former feeling morally indebted to provide a decent post-work living for the latter. Various pension programmes as well as private retirement plans are consequently designed. That is to say, a transitory stage of the family firms involves both multiple claims of the next-generation family members and psychological challenges of the chosen successor. To some extent an availability of the formal ownership agreement releases arising tensions without the serious ramifications for the future.

DISTRIBUTION OF OWNERSHIP AND CONTROL: PSYCHOLOGICAL IN LEGAL

Legal-economic ownership of a family firm surprises with its multi-sidedness: formal ownership principles are permeated with personal and psychological attributes. In general a sense of owning something in a socially-responsible way leads to an improvement of personal habits. Society itself leaves an imprint on the object of possession: stakeholders and interest groups create closer ties with the owners and develop a social interaction with both retirees and succeeding generations (Nordqvist, 2005). These relations exemplify a psychological and socio-symbolic side of the legal-economic ownership. In the family business context, ownership has always been a cornerstone, with respect to both generating greater profits from a legal-economic perspective and satisfying loyal employees and aging family members with the option ownership rights from a psychological viewpoint (Almeida & Wolfenzon, 2006; Daily & Dollinger, 1992). At a certain stage of the business development a necessity emerges to understand what sort of ties hold the legal ownership in the hands of a certain family. Hall proposed that 'emotional capital' positively affects all other elements in the family business (2003). In addition to that Nordqvist (2005) has developed a mature concept of the socio-symbolic ownership, explaining a family business distinction through a special way of social interaction and creation of the non-financial attributes (Pierce et al., 2002).

In growing family firms, owners acknowledge the influence made by the relatives with voting rights. On principle an owner's responsibility does not necessarily consist of the equal stock distribution among the family members. The reverse may be true: provided everyone in the family possesses an equal set of shares, resentment is about to occur. Without a formal entitlement, family is forced to decide, who the main owner (i.e. the holder of the number of controlling shares) is. Relationships based on ownership make successors respect also those with minimum set of shares; by means of that an unjustifiable criticism to the minor shareholders is overcome. One of the eternal problems of the human choice - between what is regarded fair and socially justifiable - was reflected by the Nobel winner Milton Friedman in saying that a social responsibility of an owner of a small company opposes to the well-being of himself and his family (1970). Achieving fairness in the family business goes beyond the equal distribution of shares. Using the term 'rough justice' (Ayres, 1990), practitioners usually hint at the possibility to satisfy less active members of the business family

with immobile assets or cash reimbursements instead of obliging them to take part in a real and frequently adverse business life. By having received the same amount of shares those who have never acted as directors benefit as equally as those who have spent long hours at work and contributed to the firm's progressive development over the preceding years. From an equal distribution unequal opportunities arise (Cohn & Pearl, 2000).

Owner-parents deal with the business evaluation right before the transfer of ownership rights to their children: one of the critical owners' or trustees' responsibilities is to measure the firm assets as low as possible for the time being. At the finish line, the business will be less favorable for outside takeovers. However a lack of liquidity makes family firm low-marketable, with few chances to increase its profitability in the future. From another viewpoint, when going public owners gain the liquid assets and a compliance with all required standards. Markets for new groups of target customers widen as well. If owners feel confident in their maturing children, family partnership is an option to keep the level of family relations untouched and ownership safe. Under these conditions, business assets are ascribed to a succeeding generation, and parents keep the right to intervene in the investment and ownership redistribution processes. Inside this partnership, value of the ownership transfer is preserved with no forthcoming changes: for children paying estate or property taxes such an innovation improves accounts, since any augmentation in value is not a subject to estate or gain taxes. Along with the formal precautions, a communication process keeps owners responsible for the family firm's future.

A legal constituent of ownership, with all duties and responsibilities granted by law, is supplemented by an increased emotional attachment, psychological attributes of which positively correlate with the successful governance (Koiranen, 2007a). Together these two elements form values of the family business ownership, helping to explain the principles of those families running their companies for more than one generation. Thoughts of possessing something beyond the legal frames broadens the mindsets of the family business owners and facilitates a common awareness of the necessity to stay together and step further, marching arm in arm and being ready to struggle for the family interests (Koiranen, 2004).

CONCLUSIONS AND DISCUSSION

This theoretical analysis helped answer the research question stated in the beginning of the article: "What are the fundamentals and zones of responsibility in the transgenerational family business ownership from a legal/economic perspective?" Through the following key steps of the estate planning and devoting an owners' attention to the social and psychological aspects, legal owners will only benefit in the long term by taking on a sense of responsibility and awareness. The following study as a final step provides a "synthesis matrix" of the zones and fundamentals of an owner's responsibility in a family firm during the generational transfer (Table 1). Such a matrix is regarded as a viable instrument that could be exploited as a backbone for analysis of the ownership dimensions and particularly multifaceted nature of the owner's responsibility in a multigenerational family business. Since the owners' responsibilities evolve over time, its fundamentals transfer between the zones, or in other words, fundamentals are dynamic and need to be treated as a 'prospective' phenomenon. In accordance with the Table 1, in countries with no estate taxes, reasons for establishing trusts or

drawing up ownership agreements are not solely financial. For example, marital or bypass trusts could have a primary objective of securing emotional well-being of the spouse. Stock redemption agreements can also be explained from an emotional perspective, since retiring owners are also stewards, willing to protect the original number of equity shares for their grandchildren. However, a transition between the zones does not exclusively go in one direction. Next-generation owners might become dependent on the free cash flow or return on equity ratios in the course of time, thus preferring to reconsider the family business philosophy from a more financial/economic viewpoint. For this reason, emotional capital will give its place to the economic capital. The fundamentals of the owner's responsibility belong to either legal-economic, emotional or both zones that can be found in the following Synthesis matrix.

Table 1. Synthesis Matrix. The fundamentals and zones of the owner's responsibility during the generational transfer.

Zones	Legal-Economic zone (Business zone)	Emotional zone (Family zone)
Fundamentals	<i>Mix of Legal-Economic and Emotional zones</i>	
Trusts	irrevocable living trust revocable living trust grantor retained income trust charitable remainder trust marital trust qualified terminable interest trust bypass trust crummy trust	
Ownership agreements	stock redemption agreement buy-sell agreement buy-out agreement	
Fairness & Justice	creation of non-business assets	
Psychological commitment	family business philosophy family ownership	
Stewardship attitude	personal promissory notes	
Acknowledgement of emotionality	emotional capital self-identity	
Legal advisors	value of advice	

Zones	Legal-Economic zone (Business zone)	<i>Emotional zone (Family zone)</i>
Fundamentals	<i>Mix of Legal-Economic and Emotional zones</i>	
Retiring owners	supermajority provision covenant not to compete	survivor benefit pension program private retirement plan
External directors	incentive stock option plan companion stock redemption agreement phantom stock	

Findings of the study are expected to be proved by means of the empirical research. Psychological drivers of owners' behavior, hence, have an impact on the legal-economic strategy of owning a family firm. In the present paper legal and economic ownership is combined without making a distinction in the effect of socio-symbolic and psychological aspects on them. For this reason, in the future studies it would be beneficial to find quantitative measures for comparing economic and legal ownership between each other. Coupled with the country-specific legislation on family businesses, analysis of family ownership in two-three different countries features a prospective venue for future research. In addition to that, an owner's responsibility and schemes of ownership distribution are possible to interpret from both legal-economic and non-economic viewpoints. For a better understanding of factors, which explain owners' motives during the process of designing the transgenerational strategy, emotional aspects need to be taken into account. By means of face-to-face meetings with the owners (before and after the transition) non-financial costs and returns will be collected. In its turn, quantitative analysis is preferable on the stage of comparing sources of responsibility in family versus non-family businesses. With the help of the time variable in a calculation process, we could see, in what generation responsibilities are 'prospective' or 'bygone' phenomena. Finally, emotional attachment of owners has to be critically assessed. Behavioral patterns of the non-active family members in the later generations and their role in changing the future of the family business is under-researched. In this respect, diversified and concentrated ownership structures feature a scientific interest, especially in the context of the owners' missed opportunities. However for a greater contribution to the academic society, additional sources of inquiry are included. Based on current doctoral research on family traditions and key value-sets in multi-generational families, social beliefs and religious convictions with its overall impact on the legal-economic ownership feature a new stream of research interest. Religion and traditions, preserved from one generation to another, make it easier to figure out whether the family or business side dominates, especially among the insufficiently studied newly-created family firms from the Eastern Europe. To specify, in the forthcoming paper there will be an attempt to combine findings from the present article with the historical analysis of the orthodox Russian family business dynasty, actively participating in business and social life of the Grand Duchy of Finland on the verge of 19th and 20th centuries. The aim of that study is to find out the roots of the legal and economic ownership among the Russian family firms.

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