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## Overcoming the Paternalistic Firm – Codetermined Family Businesses: A Paradox? Comparing Cases from Sweden and Germany\*\*

### Abstract

The purpose of this comparative case study is to understand codetermination in two family firms. Thereby, this study aims at exploring the role of employee-representatives in two non-listed family businesses. Empirically, this study draws on an interpretive case study of two family businesses. Its findings extend earlier research, by exploring and introducing the phenomenon of codetermination in the family business literature. Codetermination is explored with the perspective of paternalism as analytical lens. Theoretically, the study draws on the control-collaboration paradox which helps understanding the phenomenon of codetermination. The study reveals different types of codetermination, i.e., the works council and the board of directors. The implications of these types are highlighted and discussed. Findings highlight the need for professional governance structures in order to facilitate cooperation between family owners, the management, and employee representatives. Professional governance allows handling the paternalistic ideological underpinnings which can otherwise prevent continued firm success, leading to unsolved conflicts.

Keywords: family firms; codetermination, comparative case study, paternalism, Germany, Sweden  
(JEL: J50, L20, M50)

### Introduction

Most firms all over the world are family firms (Andersson, Johansson, Karlsson, Lodefalk, & Poldahl, 2017; Carney, Van Essen, Gedajlovic, & Heugens, 2015; La Porta, Lopez-De-Silanes, & Shleifer, 1999). Early studies on family firms emphasized the role of paternalism in these (Ram & Holliday, 1993) which was, e.g. evident in leadership behaviour (Dyer Jr, 1988; Kets de Vries, 1993). However, little is known about industrial relations in family firms. A few studies have looked at, for instance, the relationships with trade unions in SMEs and family firms (Gulbrandson, 2009), reporting that there is lower union representation in family firms than in non-family firms. Ultimately, this is a question of control and family firm owners

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are said to be reluctant to share their control rights, by e.g. taking in minority shareholders (Boers, Ljungkvist, Brunninge, & Nordqvist, 2017; Neckebrouck, Manigart, & Meuleman, 2017; Tappeiner, Howorth, Achleitner, & Schraml, 2012). Private family firm owners can refuse minority shareholders, but they are not allowed to refuse legally anchored employee participation, such as sending representatives in the board or the establishment of works councils (Gorton & Schmid, 2004; Wheeler, 2002). A recent study on works councils in family firms in Germany found that there are fewer works council in family firms than in non-family firms because a works council endangers the owners' independence (Schlömer-Laufen, Kay, & Holz, 2014). Still, the indicated resistance towards employee participation (Gulbrandsen, 2009) can be explained by the often only implicit presence of paternalistic elements which function as ideological underpinning of an organizational culture in family firms (Ainsworth & Cox, 2003; Johannisson, 2002).

Kets de Vries (1993) argues that paternalistic behaviour is the root of success for many family firms but also reason for their failure. Therefore, paternalistic behaviour can lead to resistance to change, secrecy and the attraction of dependent personalities (Kets de Vries, 1993). Founders and family owners may be reluctant to accept outsiders to participate in the leadership of the business because they can question their role and behaviour.

Moreover, family gets a wider meaning, connoting a metaphorical dimension which can be seen as a vehicle for control, e.g. who is part of the family and who is not (Ainsworth & Cox, 2003). More recent research points to that paternalism can be part of the organizational culture in some family firms which is transferred from the founder to next generations (Kets de Vries, 1993; Savolainen, 2016). From a paternalistic perspective, labour unions are seen as irrelevant because the patriarch takes care of the employees (Sippola, 2009). Thereby, paternalism becomes an ideology which guides decision-making in the family firm (Ainsworth & Cox, 2003; Johannisson & Huse, 2000; Savolainen, 2016). Thus, industrial relations and employee codetermination add another dimension to the already existing complexity of family businesses. From an industrial relations perspective, it could be asked which role employees should play in an organization (Johnstone & Ackers, 2015). Finally, family firms are exposed to a pressure to professionalize their businesses in order to survive in competitive environments by, for example, including professional, non-family managers in the firm (Dyer, 1989). This paper aims at developing an understanding of how family firms handle employee codetermination.

The purpose of this comparative case study is to understand how paternalistic patterns influence codetermination in family firms. Thereby, this study aims at exploring the role of employee representatives in two non-listed family businesses.

Empirically, this study draws on an interpretive case study of two family businesses. Its findings extend earlier research by exploring and introducing the phenomenon of codetermination in the family business literature. Paternalism functions as an an-

alytic lens for understanding governance and ownership practices in family firms. Findings highlight the need for professional governance structures in order to facilitate cooperation between family owners, the management, and employee representatives. The study highlights two different codetermination mechanisms, i.e. the works council and the board of directors which however do not question the control of the owning families.

The paper continues with presenting a theoretical framework, its methods, the findings, the analysis and concluding remarks.

## Theoretical framework

### Paternalistic Family Firms

Paternalism has been described as a system of workplace control (Fleming, 2005). The employer is viewed as superior to the subordinated employee. This relationship includes a normative dimension where the “moral economy that gives meaning, legitimation and an ethical coordinates to those relations” (Fleming, 2005, p. 1471 f.).

Early research on family firms found a clear connection to paternalistic behaviour regarding organizational culture (Dyer Jr, 1988; Dyer, 1989) and leadership styles (Sorenson, 2000), which contribute to their success. The paternalistic leader follows an authoritarian leadership style and feels responsible for the subordinates (Pellegrini & Scandura, 2008; Savolainen, 2016; Sorenson, 2000). Researchers argue that paternalism is an ideological base of family firms. In this sense, the family and its continuity can be seen as the ultimate goal of running the business (Johannisson, 2002; Johannisson & Huse, 2000). However, paternalistic leadership behaviour can also cause inertia in family firms because the owner-manager protects the employees while denying them free choice and autonomy in decision-making (Chirico & Nordqvist, 2010).

From a paternalistic perspective, the owning family makes the ultimate decision. Often, this results in an owner family member occupying formal leadership positions, such as CEO or managing director. However, when a firm grows and when further family members enter the organization, more formal coordination is needed. This may require a certain degree of professionalization (Dyer, 1989). However, there are different ways of professionalizing a family firm (Stewart & Hitt, 2012). Moreover, as time goes by and firm and family grow, a direct control and involvement by and of the owning family can get unrealistic. Therefore, the owning family may steer the firm by combining their involvement with values they represent (Hall, Melin, & Nordqvist, 2016). Usually, these values are the values of the owning family and thereby include a paternalistic notion (Carney, 2005; Johannisson, 2002). This could explain a certain resistance of family owners towards employee

participation (Gulbrandsen, 2005) as it challenges their ultimate control (Johannisson, 2002).

### On Codetermination in Family Firms

European countries such as Sweden and Germany have a strong tradition of labour unions and employee participation. However, codetermination is also anchored in many other countries and in the EU legislation (Addison, 2009). From a governance perspective, this means that it is not only the owners who determine the direction of the firm. Rather, under certain circumstances, employee representatives can also be found in (supervisory) boards where they, for instance, monitor the executive board (Gorton & Schmid, 2004; Wheeler, 2002). However, codetermination can also be found as works councils where employees get informed and take part in decision-making.

### Rules of Codetermination in Germany and Sweden

As in the mainstream corporate governance literature, the literature within the field of family business is also dominated by research on boards of directors (Bammens, Voordeckers, & Van Gils, 2011). Boards of directors are one element in the governance of corporations. Neubauer and Lank (1998, p. 60) define corporate governance in family firms as “a system of structures and processes to direct and control corporations and to account for them”. This definition goes beyond the structures of corporate governance and introduces the processes of corporate governance. The definition includes key activities of governance: directing, controlling and accounting for organizations. The board can be seen as the central hub where these activities and processes take place. However, the board is by no means the only governance arena in family firms. Bammens et al. (2011) argue for the need to include different stakeholders with multiple goals in the study of the governance in family firms.

The following table compares the rules for board codetermination in Germany and Sweden.

**Table 1: Codetermination in Germany and Sweden**

Germany	Sweden
<p><b>1951 Codetermination Act</b></p> <p>Enterprises in the coal and steel industries with more than 1,000 employees</p> <ul style="list-style-type: none"> <li>■ full-parity codetermination</li> </ul> <p><b>1976 Codetermination Act</b></p> <p>Enterprises with more than 2,000 employees</p> <ul style="list-style-type: none"> <li>■ quasi-parity representation with a chairperson of board (shareholders elected)</li> </ul> <p><b>2004 Third Part Act</b></p> <p>enterprises with between 500 and 2,000 employees</p> <ul style="list-style-type: none"> <li>■ one-third codetermination</li> </ul>	<p><b>Codetermination Act (MBL)</b></p> <p>If the company has employed an average of at least <b>25 employees in Sweden</b>, employees have the right having <b>two members</b> on the board and <b>two deputies</b>.</p> <p>If the company is active in various industries and has employed an average of at least <b>1,000 employees in Sweden</b> during the last financial year, employees have the right having <b>three board members</b> and <b>three deputies</b>.</p>

Note. Comparison Codetermination Germany and Sweden

Besides board codetermination, there is also codetermination in terms of works councils. However, Sweden does not have works councils as Germany does (Levinson, 2000).

In Germany, the right to have a works council is legally anchored, however it requires initiative of employees for the initiation of such a process, resulting in that not all, especially smaller family firms, have a works council (Schlömer-Laufen et al., 2014).

Following Addison, the purpose of codetermination is dialogue and conflict resolution (Addison, 2009). In Sweden, the codetermination act is seen as “providing for information and consultation rather than co-determination in a strict sense.” (Burlin, 1995, p. 198). It is noteworthy that some studies report that family firms have lower union representation than non-family firms (Gulbrandsen, 2009; Holten & Crouch, 2014; Mueller & Philippon, 2011), and family firms may oppose codetermination in general, but nevertheless practise it within their firm (Paster, 2012). Similarly, Levinson made an interesting observation when stating that the codetermination has changed in Sweden and increased at the local company and workplace level (Levinson, 2000, p. 458). But, unlike Germany, there are no works councils in Sweden (Thörnqvist, 2011). Instead, the Swedish system can be described as consisting of several levels, e.g. the industry and the company level. At the company or shop-floor level, different unions have so-called clubs, which represent union members in negotiations with the employer (Anxo, 2019; Thörnqvist, 2011). Another significant aspect of Swedish industrial relations is the strong focus on collective bargaining without legislation (Andersson & Thörnqvist, 2007). “Swedish unions negotiate wages at shop-floor level, within the frameworks set by

industry-wide agreements, instead of handing over the issue to works councils as in central and eastern European countries.” (Andersson & Thörnqvist, 2007, p. 58). This highlights one of the differences between industrial relations in Germany and Sweden.

Still, recent research argues for a convergence of the governance systems between Germany and the Nordic systems such as Sweden (Lekvall, 2018; Ringe, 2016). Also, earlier research has found that Germany and Sweden are signified by “... strong union coordination and consensus-based political systems that help to integrate labour into political compromises” (Jackson, 2005, p. 273) which resulted in legally anchored codetermination in Germany and Sweden (see Table 1). The Swedish institutional setting has also resulted in a cooperation between the labour and the capital side which results in regulation but also economic freedom to facilitate growth and competitiveness (Hogfeldt, 2005). To some extent, collective bargaining compensates legislation between employer organizations and trade unions in Sweden (Andersson & Thörnqvist, 2007; Thörnqvist, 2011). Moreover, the Swedish codetermination act is providing unions the right to get information and consultation on certain topics, which however does not imply that there is a need to reach an agreement with the unions on these topics (Brulin, 1995).

In Germany, there is a correlation between firm size and type of codetermination where larger firms typically have a works council as a form of codetermination (Stettes, 2008), whereas board-codetermination can be seen as the most advanced form of codetermination and the works council as another important tool for codetermination. Yet, a recent study on the Volkswagen emissions scandal pointed to the negative role of an insiders’ board as a result of codetermination as one possible cause for the scandal (Elson, Ferrere, & Goossen, 2015).

### Governance Paradoxes

Recently, some authors described the family business as paradoxical (Schuman, Stutz, & Ward, 2010), suggesting an alternative view or perspective of family businesses. This view emphasizes both, the family and the business, without needing to prioritize one over the other, e.g. family or business first. Other researchers have also highlighted the hybrid character of family firms due to the combination of elements which would not normally be expected together, i.e. family and firm (Argele, Hitt, Sirmon, & Very, 2007; Boers & Nordqvist, 2012). Family represents a normative value system whereas business represents an utilitarian one (Boers & Nordqvist, 2020). Janssens and Steyaert (1999) highlight the dualistic nature of organizations which are often described as paradoxes (Poole & Vandeven, 1989) resulting in tensions. Smith and Lewis (2011, p. 382) “define paradox as contradictory, yet interrelated that exist simultaneously and persist over time.” This definition emphasizes underlying tensions which co-exist without simply disappearing.

Sundaramurthy and Lewis (2003) argue that even governance is often signified by paradoxes. Besides tensions resulting from the need to control, a board of directors often also has to collaborate with different stakeholders (Sundaramurthy & Lewis, 2003). This is even more evident in German and continental European governance structures which usually integrate stakeholders (Chhillar & Lellapalli, 2015). The governance structure of Volkswagen illustrates the paradoxical character even further as “the unlikely alliance between an industrial tycoon and labour was possible only within the unique structure of Volkswagen and the German law of co-determination.” (Elson, Ferrere, & Goossen, 2015, p. 42). Elson et al. (2015) argue that the board at Volkswagen, which is a codetermined board, was signified by conflicting interests, which steered the different parties, i.e. family shareholders, federal state representatives, and employee representatives, which led to a disregard for the company’s interests and the board’s task to monitor and oversee the company’s operations.

Further, Sundaramurthy and Lewis (2003, p. 407) reason in regard to control and collaboration “...if one approach becomes overemphasized, perils of groupthink or distrust can fuel reinforcing cycles. From a paradox perspective, however, embracing and balancing both approaches facilitates learning and adaptation (Lewis, 2000; Poole & Van de Van, 1989).”

The focus is often on the governance executed in and by the board of directors (Bammens et al., 2011; Sundaramurthy & Lewis, 2003). Accordingly, an overemphasis of control indicates distrust and results in defensive behaviour, leading to a perceived greater need of control, while an overemphasis of collaboration can lead to groupthink (Smith & Lewis, 2011). As discussed before, the board is however by no means the only governance body of relevance for codetermination. Moreover, there are significant differences between publicly listed and privately held family firms (Carney et al., 2015). Privately held family firms have much greater freedom of choice as they are not exposed to the same pressures from the stock markets and minority shareholders (Carney et al., 2015). Therefore, some owner families decide to going private and delist their company from the stock market (Boers et al., 2017) as a response to the tensions from being publicly listed, i.e. having to report regularly and accepting minority shareholders while remaining being a family firm (Boers & Nordqvist, 2012, 2020).

Paradoxical tensions can arise from inside a system, e.g. an organization, as well as they can result from external pressures. Moreover, paradoxical tensions can be latent and salient, meaning that they will not simply disappear (Smith & Lewis, 2011). Codetermination can be seen as a pressure which the family firm has to address. Eventually, it questions the control of the owning family and requests employee involvement in the patriarchal firm (Addison, 2009). Looking at the family firm, the paradox of governance requires to combine and/or balance the different ideologies,

i.e. paternalism, entrepreneurialism, and managerialism (Johannisson, 2002; Johannisson & Huse, 2000; Koiranen, 2003).

## Methodology

This study follows a case study approach (Eisenhardt, 1989) which is suitable for uncovering peculiarities of family businesses (Nordqvist et al., 2009; De Massis and Kotlar, 2014; Leppäaho et al., 2016) and a used method in studies of industrial relations (Kitay and Callus, 1998). This approach allows understanding the underlying patterns of codetermination in the studied companies (De Massis & Kotlar, 2014; Leppäaho, Plakoyiannaki, & Dimitratos, 2016).

The selected companies are multi-generational family firms treating employee codetermination differently and thereby illustrating the diversity of the phenomenon under study (Howorth et al., 2010). Both companies are active in the media industry. They started a single newspapers but have diversified into further media sectors (cf. Djerf-Pierre & Weibull, 2011; Pätzold, Röper, & Volpers, 2003). However, due to regulations regarding firm size and codetermination (see Table 1), the chosen companies had to be bigger and older (Gorton & Schmid, 2004) to illustrate patterns of codetermination, arguing for family firms beyond the first generation.

One part of the empirical material consists of interviews with key informants in the companies River and Harbour, which are pseudonyms. Each had an annual turnover of approximately 500 million EUR and more than 2,000 employees in 2010 when they were selected for this study. However, for contextualizing the study, field-level data based on publicly available information in press clips, annual reports, etc. (Bruton et al., 2015) from family businesses and their relation with employee representatives has been used representing different levels of analysis (Brunninge & Melander, 2016).

Interviews in Harbour were conducted with employee representatives on the board, owners and managers. Members of the third and fourth generation of the owning family are board members. The board of directors has 15 members of which four are employee representatives. Two employee representatives were interviewed. In total, the 16 interviews with employees, managers and owners in this organization lasted between 45 and 120 minutes.

In River, 36 interviews were conducted with employees, managers and owners. Also, two members of the works council were interviewed. The interviews in River lasted between 40 and 150 minutes.

All interviews were transcribed. These interviews were supplemented with nine secondary ones, mostly in reportage form, published in trade journals and daily press. These focused on strategy and governance, making them relevant for this study. Interviews with managers and family owners addressed the issue of employee participation, which was also addressed in interviews with employee representatives and

works council members. In general, the interviews covered different facets of the owning families for the companies, e.g. their roles and behaviour.

The interview material was complemented with a substantial amount of archival data: six annual reports, 509 press clips from Germany and Sweden, and two auto-biographies of the first and second generation family owners in Harbour and one in River. By following Leonard-Barton's (1990) methodology for reporting longitudinal case studies, Table 2 provides an overview of the timeline of data collection and data sources.

**Table 2: Description of Methods: Timeline and Data Sources**

Year of collection	Data sources							
	Archival data						Authors' interviews	
	Multiple pages of interviews in business magazines	Annual reports	Press clips and personal notes					
Field-level data								
2015, 2016	Covering representatives of Swedish and German family firms	N=14			Press clips, reports on Swedish and German media industry	N=509	2013, 2014	N=2
Company-level data (partly overlapping with the above)								
2007–2016	Interviews in different media outlets, TV, radio, magazines	N=8	River Harbour	N=6 N=4	Press clips	N=27	Key people in River Harbour	N=16 N=36
Individual-level data (partly overlapping with the above)								
2007–2016					Auto-biography, covering personal viewpoints	N= 2	Owners in River Owners in Harbour	N=3 N=3

*Note.* Data Sources and Level.

To contextualize the study, field-level data has been used as it allows to emphasize the relevance and implications of the findings as well as the interrelatedness of different levels of analysis (Brunninge & Melander, 2016; Welter, 2011).

The interpretation is based on themes which developed during the research process, e.g. an iterative process between the material and consulting the extant literature (Nordqvist et al., 2009). Inspired by the work of Clark et al. (2010), Boers et al. (2017) and (Ljungkvist, Boers, & Samuelsson, 2019), the empirical material has been analysed according to emerging themes, and then representative quotes have

been selected. These were aggregated accordingly into summative themes (see Tables 3–5).

Starting point for the analysis was the paradox of control and collaboration which has been described in the literature (Sundaramurthy & Lewis, 2003). Owning families can be assumed to be interested in keeping control as it serves their purpose of generational continuity (Beckhard & Gibb Dyer, 1983; Konopaski, Jack, & Hamilton, 2015), while codetermination requires collaboration (Addison, 2009).

## Empirical illustrations

### Some Voices from the Field

Even though codetermination is legally regulated, implementing it can be difficult, not least when a paternalistic ideology is present. Therefore, these empirical illustrations from the field level give voice to the resistance which can occur in a family business.

A chairman and board member for several small to medium-sized family firms in Sweden elaborates his view on union representatives on the board: “Here, we had the pleasure, which gave the other board members valuable information.” However, he also emphasizes potential problems:

“But one should be clear about that it is not so easy to really influence the board work as employee representative. It is obvious that employees who become board members get affected by that work. From the company’s perspective it is good. But for the employee representatives it can become tricky at times.”

This quote illustrates the challenges which employee representatives may face, i.e. representing the employees’ interests while also acting in the best interest of the company, indicating paradoxical tensions for them. Further, it illustrates a paternalistic pattern as the employee representatives are expected to act in the company’s interest. Table 3 below shows further excerpts illustrating voices on codetermination in family firms.

**Table 3: Selected quote from press clips**

Selective quotes	Themes
“The issue of codetermination is important to our company and management. From our point of view, codetermination is not only a privilege of a Works Council. Because we actively involve our staff...” (Non-family spokesperson of family firm)	Reluctance to introduce Works Council, emphasizing collaboration
“With its unusual legal form Company X blocks codetermination, what diminishes the great appreciation existing for the company actually also in the IG metal [trade union]. No employee representatives belong to the Supervisory Board, although Company X actually would have to apply the joint codetermination with its legal form, a special form of GmbH & Co. KG, and due to the size of the group – 18 700 employees -. This is avoided, as the ultimate owner is a company with foreign legal form.” (News on 3 <sup>rd</sup> generation family firm)	Avoiding board codetermination through legal constructs, emphasizing control of owning family and securing the patriarch
“Of the 50 largest family companies, half has ruled out their staff from codetermination on supervisory boards. This means that workers have about no insight into the corporate numbers. Some also have no works councils.” (Press clip)	Avoiding codetermination on boards and works councils, emphasizing control in line with paternalistic ideology
“Companies avoiding codetermination take significant risks to their stability as the case of Company Y shows.” (Expert comment)	Codetermination supports organizational stability, emphasizing collaboration; paternalism can be risky
“In the end, bosses need to be prepared to share their power, if they want employees to be more engaged in decision-making.” (Press clip)	Power sharing as prerequisite for codetermination, emphasizing collaboration
“Those who do not have collective agreements are often family businesses or similar.” (Union representative in press clip)	Reluctance of family firms to enter collective agreements
“In this company, they govern by management by fear.” (Union representative in family firm press clip)	Conflicts between union representatives and family management indicating focus on control
“Cooperation with unions is good overall, although “of course, there are many different opinions in a group of a hundred people.” (Fourth generation family owner in press clip)	Emphasizing collaboration, while indicating control in support of the paternalistic ideology
“To my knowledge, no key decisions have been obstructed so far, even in those industries where workers have parity representation on the supervisory boards.” (Founding family CEO)	Emphasizing collaboration

*Note.* Selective Quotes and Themes from the Field

## Codetermination on the Board of Directors

The owning family became majority owner of Harbour in the first half of the 20<sup>th</sup> century. All names have been anonymized. Frank is the third generation of the owning family. He took over after his father Rune. Also, Frank’s daughter Estelle is member of the board of directors. Lasse is member of the board and represents one

labour union. Mike is the non-family CEO of the company and also member of the board of directors.

The board in Harbour is a codetermined board including employee representatives.

Turning to an employee representative on the board, Lasse, who says: “I got to know Rune, Frank and now, there is Estelle. It is no problem... It’s a good thing. They say it is [a family business], they act like it. They are long term owners and it is stable.”

In his viewpoint, it is good that the owning family is present and it gives him a sense of continuity (cf. Carney, 2005). Nevertheless, he has noticed some changes: “Before, it was more like a family business. The family thing is not so strong any more. New times, I am not sure if it will be a good thing.” This quote echoes paternalistic tendencies which the employee representative seems to be used to (cf. Johannisson, 2002). Interestingly, the owning family is emphasizing that they are turning away from paternalism by emphasizing professional management techniques as the following quote illustrates:

“The shareholders’ forum is the annual general meeting, which appoints the board of directors. This is where the owner should act, not in different places and through different forums. The fact that the principal owner is also a member of the board of directors is something I regard as an obvious strength. I am often asked how I can maintain a hands-off approach, and the answer is that it is not difficult at all. It is an approach you either believe in or you don’t.”

(Family owner and deputy chairman of the board)

As these short excerpts illustrate, there is potential for tensions and challenges but also a general cooperative view of employee representatives on the board of directors. Moreover, by separating conflicts, paternalistic tendencies can occur. This is also evident by the following quote: “It’s in their interest to look for the best of the company. Of course, when it comes to individual discussions it is always a little bit fight.” (Non-family CEO in Harbour)

The non-family CEO addresses his and the company’s expectations which are not always easy. He continues explaining the consequences:

“I think it’s positive for the company to have them on the board and we treat them as, what you say, as equals on the board. There is no information being held back on the board-level from the unions.”

(Non-family CEO in Harbour)

Table 4 below presents how the non-family CEO prepares the employee representatives for their role by creating expectations that they should serve the company’s interest and they get special treatment in terms of briefing before the board meetings. In part, this can be seen as a common code of conduct in line with the rules of codetermination of information and consultation (Brulin, 1995; Levinson, 2000), but it also shows a paternalistic undertone when the CEO explains “I also meet them personally before the board meeting to discuss the agenda. Just so they have time to adjust because they are not so used to some issues.”

The CEO suggested to handle these difficult issues as *separate processes*. This also serves as a rationale for offering employee representatives *special treatment*, e.g. getting a briefing before a board meeting, which is appreciated by the employee representatives. However, it also illustrates a paternalistic notion as it gives the impression that the employees need to be taken care of in order to be able to participate in the board meetings (Ainsworth & Cox, 2003; Johannisson, 2002).

There seems to be agreement that the board of directors is an arena for *strategic questions*, not for solving work conflicts. *Family owners* can *initiate* such questions, which however requires accepting the *board as the arena for owners* to act and illustrating paternalistic patterns.

“Now we discuss more strategic questions, buying other companies and so.” (Employee representative Harbour)

Table 4 shows further quotes illustrating the control-collaboration paradox on the board in Harbour.

**Table 4: Harbour**

Selective Quotes	Summative Themes
“It’s good with the unions on the board. We have a very open relationship to each other. We discuss stuff and I think also that’s part of they have more and more adopted into being looking for the best of the company.” (Non-family CEO in Harbour)	Emphasizing collaboration by synthesizing the tensions/ paternalistic underpinning
“I also meet them personally before the board meeting to discuss the agenda. Just so they have time to adjust because they are not so used to some issues. I also meet the whole structure of unions within our company once every six months for a whole day. To discuss and they can ask me any question about strategy.” (Non-family CEO in Harbour)	emphasizing collaboration in the board by spatially and temporarily separating tensions the patriarch’s representative has to take off the employees
“But we have a good relation today. It’s about salaries or it’s about who should lead the company, also about the knowledge of a certain person. But if you can treat that as different processes it’s turning into very good relations.” (Non-family CEO in Harbour)	
“It’s good with the unions on the board. We have a very open relationship to each other. We discuss stuff and I think also that’s part of they have more and more adopted into being looking for the best of the company.” (Non-family CEO in Harbour)	
“The last thing that came up actually from the board and that was actually Frank who started that discussion that was on the environmental issues which was in our structures but it came from a discussion in the board. Pretty much everyone agreed that we need to focus on that too.” (non-family CEO)	Emphasizing collaboration through synthesizing the patriarchal norm
“Now we discuss more strategic questions, buying other companies and so.” (employee representative)	
“We are a bit lucky. We have a meeting with the CEO before the ordinary board meeting. I think, sometimes we have more information than the rest of the board members....I don’t know really how it started. I think it is a good model. I think he likes it too.” (union representative on the board, Harbour)	Emphasizing collaboration by spatially and temporarily separation

"Sometimes we have to cut costs. But we have a deal. We get a special agreement for those who have to leave." (employee representative)

"I cannot discuss everything with my colleagues but we have an understanding due to the negative economic results.

There are not many people [employees] who want to sit on the board." (employee representative)

"Often he [the CEO] answers the questions we have before the board meeting." (employee representative on the board, Harbour)

"I got to know Rune, Frank and now there is Estelle. It is no problem... It's a good thing. They say it is [a family business], they act like it. They are long term owners and it is stable." (Employee representative Harbour)

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*Note.* Quotes and Themes illustrating Codetermination in Harbour

### The Works Council

Turning to the German company River, a non-family managing director tells "I speak to the employees at the employees' assembly so they can hear my ideas." Formally, this quote is in line with legal requirements of codetermination (Addison, 2009), but it also expresses a clear paternalistic pattern of communication and leadership (Sorenson, 2000).

The head of the works council in River says "There are signs towards more collaboration. We talk about many issues. We had big fights in the past about layoffs. But things have changed in recent years." Also here, paternalistic roots are apparent. Earlier, management did not accept that the employees wanted to have a say and the employees had to get a court decision.

River is a company in Germany, owned in the third generation by four families. The company has a second generation managing director, besides two non-family directors and owner representation in the supervisory board. As a media company, the firm is exempted from the requirement to have employee representation on the supervisory board. Instead, codetermination is limited to the works council.

"The current owners focus on the publishing task. In the editorial, many know the owners. However, not in other parts of the company." (Member of the works council in River)

The following quote illustrates how the owning families steer the company:

"Looking at River, they made it easier and let the sessions take place simultaneously, i.e. the supervisory board and the shareholders' meeting. So we have an internal family agreement that my siblings have authorized me, as with the other families, to attend the shareholder meeting so that when one take part in the shareholders' meeting, it is a bit as to have a supervisory body then in the family as well." (3<sup>rd</sup> generation member of one owning family)

Since there are four owning families with comparable voting power, there is need to balance the interests of the owning families.

"I am chairman of the supervisory board. This is a committee of nine persons. In the supervisory board, we discuss the overall economic situation of the company and decide on applications submit-

ted by the management to the board for approval. I represent my family at the general meeting of shareholders.”

A member of another owning family comments the chairman’s work:

“Although I must say quite clearly, to a very large part it is down to the merit of one person, and that is [name of the chairperson], who truly is a master of balance!”

**Table 5: below exemplifies further issues related to codetermination in River.**

Quotes	Summative Themes
<p>“If one takes part in a trainee program, then I rather believe that the Works Council is the natural enemy, so to speak. So more of the counterpart.” (Trainee 1 River)</p>	<p>Emphasizing control, downplaying collaboration</p>
<p>“I got to know one...when I went to the safety training, where they explained to us what to do if it is burning...otherwise I’ve not had contact with the works councils or employee representatives in this sense...” (Trainee 2 River)</p>	
<p>“We use the employee meeting two or three times a year intensively to not only report the economic development but also strategic development issues and general questions that are very important to report or clarify.” (non-family MD of printing division in River)</p>	<p>Emphasizing control, downplaying collaboration</p>
<p>“In addition, layoffs had to be pronounced in different areas to about 50 employees for operational reasons. All these decisions are hard for us because we know that they have serious personal consequences for those affected. However, our responsibility for the entire enterprise and for the long-term well-being of all employees has left us no other choice. An integral part of the social plan concluded with the Works Council is the establishment of an employment and placement company that all affected employees could enter. The management recognizes the constructive and critical negotiation by the works councils on these difficult issues.” (non-family MD in River)</p>	<p>Emphasizing collaboration</p>
<p>“There are signs towards more collaboration. We talk about many issues. We had big fights in the past about layoffs. But things have changed in recent years.” (Head of works council in River)</p>	<p>Collaboration requires overcoming the tensions and paternalism</p>
<p>“We had to go to court to implement a group works council as the management board did not recognize its necessity.” (Head of works council in River)</p>	
<p>“We are interested in getting information.” (Member of works council in River)</p>	
<p>“There is a development. Earlier, we had to fight for everything, but now it is getting better due to new managers.” (Member of the works council in River)</p>	

"We did a survey, jointly developed with the management, to investigate work-related problems employees face." (Member of works council in River)

"There is a high level of distrust among the employees. In principle, every employee should be a promoter of River. Therefore it should be in the interest of the management to support the employees." (member of the works council in River)

"That one managing director is also an owner does not make a difference. He got his position because of his qualification, not because he is the son of chairman of the advisory board." (Head of works council in River)

"One has to find a common ground [with the management] to change things. We have owners and publishers who believe in the newspaper." (Head of works council in River)

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*Note.* Quotes and Themes illustrating Codetermination in River

## Discussion

The literature on codetermination argues that the risk for conflicts should be reduced through codetermination (Addison, 2009). Due to legal differences of the rules for codetermination between Germany and Sweden, the discussion is divided to address these differences.

### Board Codetermination

In Harbour, the conflicts are relocated outside the board. Family owners and managers report that employee representatives are *equal partners*, however the representatives may have to take difficult decisions, e.g. laying off employees, putting them in a paradoxical situation where they have to align with goals of the company and thereby those of the owning family. There are paternalistic tendencies which however are to change (Bacon, Ackers, Storey, & Coates, 1996; Johnstone & Ackers, 2015). This need for alignment is not questioned in the cases, pointing to paternalistic roots. It can be seen as an underlying ideology (Ainsworth & Cox, 2003; Johannisson, 2002) which is ingrained in the organizational culture. By *emphasizing collaboration, the tensions are synthesized*.

Codetermination requires a *professional management of ownership*, not least from the family owners. In line with earlier findings of Gulbrandsen (2005, 2009), professional management should facilitate the openness towards cooperation with trade unions. In other words, codetermination becomes a trigger for professionalization with regards to structures and board work. Accordingly, industrial relations and

board work become more formalized which could be seen as a reason for why some family firms, and in particular those with owner-managers (Gulbrandsen, 2005, 2009), are reluctant towards professionalization which may be due to different degrees of competence (Hall & Nordqvist, 2008).

Adding the notion of paternalism, the dislike of outsiders gets an ideological underpinning (Ainsworth & Cox, 2003; Johannisson, 2002). In this regard, paternalism functions as a cultural notion which not only guides the family owners but also the employee representatives as the examples from Harbour illustrate.

Levinson (2001) reports that top managers see employee representatives rather as a resource than a burden. However, this differs between Germany and Sweden. In the former board employee representation is limited to certain firm sizes and industries (see Table 2, (Gorton & Schmid, 2004)). Moreover, the board can become a forum of conflict between the different stakeholders (Elson et al., 2015). Thus, as reported in 4.1, the employee representatives are exposed to tensions from their fellow colleagues to act in their interest as well as from fellow board members to act in the organization's best interest. This has also been indicated by Levinson (2001), who argues that it is the owner representatives and the chairpersons who set the agenda and leave little room for letting the employee representatives contribute which opens up for paternalistic tendencies (Johannisson, 2002; Johannisson & Huse, 2000). Instead, the board discourses are focused on strategic questions which employee representatives are more reluctant to contribute to. This can rely on several reasons, but it goes in line with the ideas of paternalistic leadership, according to which the employees need to be taken care of (Pellegrini & Scandura, 2008; Sorenson, 2000). From a paradox perspective, it shows how the dominant coalition, i.e. family owners and non-family managers, synthesize the tension into the board of directors where the company perspective and the connected family ownership logic (Brundin, Samuelsson, & Melin, 2014) prevails. This ownership logic entails certain paternalistic elements as it can be referred to the ideological implications of family (Ainsworth & Cox, 2003; Johannisson, 2002).

This behaviour has consequences for who is exposed to the paradoxical tensions. By including employee representatives on the board, these have to take the owner families' perspective which dominates the board discourse (Brundin et al., 2014), increasing the risk for boardthink (Carroll, Ingley, & Inkson, 2017). Moreover, by taking care of the employee representatives especially, a paternalistic notion surfaces. The employee representatives are part of the culture and ideology (Ainsworth & Cox, 2003; Johannisson, 2002) and they need to get the right treatment and information in order to be able to act in the company's best interest which is not questioned. Yet, before that, the conflicts and tensions are separated both spatially and temporarily to different meetings between the CEO and the employee representatives. By excluding these critical issues from the board, the risk for groupthink remains (Carroll et al., 2017; Sundaramurthy & Lewis, 2003). The separate meetings

between the CEO and employee representatives create a new arena, where these critical issues can be dealt with. However, other board members are excluded from these arenas which also excludes them from these critical discourses and potential information given there. This can contribute to conformance and non-resolution of paradox (Carroll et al., 2017). This does not only facilitate collaboration in the board but also emphasizes control as critical issues are excluded from the board.

### Works Council Codetermination

The works council is often seen as a tool for communicating the management's goals, e.g. through the employees' assembly. Collaboration becomes relevant when it serves a certain purpose, e.g. agreeing on staff reduction. This reflects a paternalistic ideology as the owning family and the non-family managers use this arena for information. This may be in line with the general rules of codetermination (Addison, 2009), but maintains a hierarchical and controlled way of communicating (Koiranen, 2003). Also, there are difficulties in establishing a works council which has been reported in section 4.3 and is in line with other studies, reporting that there are less works councils in family firms (Schlömer-Laufen et al., 2014). The lower number of works councils in family firms is explained by the owner family's goal of independence as well as a higher level of stability and job security in family firms (Schlömer-Laufen et al., 2014). There can be resistance from the owner's side as well as from the employees' side. A paternalistic culture supports this resistance.

From the employees' perspective, the findings reveal that *paradoxical tensions need to be overcome to reach collaboration*. The existing tensions are accepted and continue to exist. The employees' assembly becomes an arena for addressing these tensions. However, from the management's perspective, it is also perceived as a platform for communication, thereby controlling the information flow to employees. Interestingly, change efforts are initiated by the employee representatives who went to court in order to implement a group works council, which is a way towards establishment and acceptance of this paradox (Addison, 2009; Smith & Lewis, 2011). As presented in section 4.3, there are four owning families in River, which requires coordination and balancing with the owning families as well as among the owning families. This could be an explanation for the resistance to allow employees or their representatives to enter the supervisory board as it would potentially endanger the balance of the forum and reduce the owners' independence (Schlömer-Laufen et al., 2014).

### Two Perspectives on Codetermination: the Board and the Works Council

There are differences between the two case companies which can be related to the differences in the governance systems between Germany and Sweden (Gorton & Schmid, 2004; Jackson, 2005; Levinson, 2000; Paster, 2012; Wheeler, 2002). In both studied family firms, the family owners and the non-family management set the agenda and take initiatives. The tensions created by codetermination are usually

separated (Poole & Vandeven, 1989) and channelled into different arenas, i.e. the board of directors and the works council.

Besides the institutional differences of the governance systems (Jonnergård & Larsson-Olaison, 2016; Stafsuud, 2009), there are also differences in regards to how the owning families decided to govern and control their companies. In the German case, codetermination exists with regards to works councils and in Sweden, the board of directors includes employee representatives. This finding can be explained by different modes of professionalization of the family firms (Stewart & Hitt, 2012) which rely on owners preferences. There is a reluctance of family owners to share control rights with outsiders (Boers et al., 2017; Boers & Nordqvist, 2020; Neckebrouck et al., 2017). Yet, both companies show that the owning families' control is not questioned. This is in line with earlier studies, emphasizing that initial resistance may be strong, but eventually, the majority owners are not questioned (Levinson, 2000; Paster, 2012). Therefore, paternalistic tendencies can remain.

Eventually, it can be asked at what level codetermination is more efficient, i.e. the board or the works council. Irrespective of the institutional differences between Germany and Sweden, the board of directors has an advantage when family owners are represented there. Then family owners and employee representatives can meet. In the works council or employees assembly, family owners do not have access, unless they have a managing position in the company.

Overall, it becomes obvious that codetermination is handled differently in the presented family firms. On the one side, there is employee representation on the board, whereas on the other side, there is a works council. There could be the impression that the former gives better and more direct influence for employees to participate in decision-making. However, the literature also reports that board codetermination is more symbolic and does not have far-reaching consequences (Brulin, 1995; Levinson, 2001; Thörnqvist, 2011). As recent research shows, there is also the risk that employee representatives in the board can become victim of boardthink and ally with the other side and thereby disregard the employee interests (Carroll et al., 2017; Elson et al., 2015).

## Conclusion

This study finds that different perspectives can be taken on the question of which role employee representatives play in family firms. Overall, codetermination facilitates collaboration between family owners, the management and employee representatives. However, the relationships are shaded by a paternalistic ideology which is not limited to the owning family but also includes employees when paternalism is part of the organizational culture. A prerequisite for overcoming the paternalism can be professional governance structures. This study shows that there is variation among family firms, which is not only due to contextual differences. There are legal differences which determine the codetermination mechanisms that can be used, e.g.

board codetermination or works council codetermination. From a family firm perspective, the degree of codetermination can also be explained by the mode of professionalization of a given family firm (Stewart & Hitt, 2012) as well as the ownership structure which shapes the presence of paternalistic patterns. It could be argued that higher degrees of professionalization could counteract negative paternalistic tendencies such as a narrow focus or authoritarian behaviour and promote merit-based procedures instead.

In practice, the study indicates that codetermination can pose different challenges, depending on which level it exists, e.g. works council or board of directors. Whereas the works council level offers opportunities for cooperation, the board level can be seen as tricky when its agenda is seen to narrow, which can lead to boardthink (Carroll et al., 2017).

Future studies could apply the lens of paternalism to studying other phenomena related to family firms, which has been described both as strength and weakness in and of family firms (Chirico, Nordqvist, Colombo, & Mollona, 2011; Kets de Vries, 1993; Sorenson, 2000). The study of family firms and different generations in particular appears to be worthwhile for understanding the phenomenon further. Especially, how different ideologies contribute to generational continuity is an interesting question (Koironen, 2003; Rautamäki & Römer-Paakkanen, 2016; Savolainen, 2016). Finally, future studies need to look more into different types of codetermination in family firms, e.g. the board and the works council, and in different contexts.

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