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The unspoken side of mutual adjustment: Understanding intersubjective negotiation in small professional service firms

Abstract

Employment relationships and practices in small firms are generally acknowledged to be ad hoc, contested and negotiated, producing 'mutual adjustment' between owner-managers and employees. Drawing on detailed qualitative empirical material from three small professional service firms, we argue that the explicit instances of formal or informal negotiation that influence mutual adjustment cannot be understood as discrete events disassociated from ongoing, everyday intersubjective negotiations. Mutual adjustment is founded in a largely unspoken, intersubjective guessing game that becomes particularly crucial in the ambiguity-intensive nature of small professional service firms where organizational realities are particularly prone to idiosyncratic (mis)interpretation. The intersubjective guesswork underlying mutual adjustment is potentially dysfunctional as outcomes arise that satisfy neither owner-manager nor employee interests. We suggest that understanding employment relationships in small professional service firms requires greater focus on the study of individuals' perceptions and the ways in which their relative positions are structured in intersubjective mutual (mis)recognition.

Keywords

Introduction

Analysis of employment relationships in small firms has advanced beyond crude polarizations of 'small is beautiful' or 'bleak house' perspectives (Ram and Edwards, 2003) to recognize that relations between owner-managers and employees are the product of ongoing negotiations and processes of *mutual* adjustment (Holliday, 1995; Moule, 1998; Ram, 1994, 1999a). Mutual adjustment refers to the ways in which both owner-managers and their employees accommodate, adapt to and, potentially, struggle with one another to develop working practices and employment relationships. Importantly, this acknowledges that employees are not 'passive recipients of management control' (Ram and Edwards, 2003: 722) but are involved in ongoing processes of (re)negotiation and adaptation. Small professional service firms (sPSFs) provide a valuable focus for this debate because of the high degrees of interdependency between dominant owner-managers and valuable specialist employees (Messersmith and Wales, 2011; Tam et al., 2002) that can potentially lead to greater degrees of mutual adjustment in their employment relationships (Ram, 1999a). However, the concept of mutual adjustment remains relatively underdeveloped in this context.

While studies of small firms have distinguished between and examined the formal and informal nature of negotiation shaping employment relationships and working practices (Marlow et al., 2010) there has been limited exploration of the processes that may underlie (and potentially undermine) this negotiation. Utilizing detailed qualitative empirical material from three sPSFs, this paper develops the concept of mutual adjustment to help understand 'the often opaque and complex internal dynamics' (Ram and Edwards, 2003: 727) of small firms' employment relationships. Our findings suggest that explicit instances of formal or informal negotiation cannot be understood as discrete events disassociated from ongoing, everyday, intersubjective forms of negotiation. These negotiations have important consequences for the organization as their development can become potentially dysfunctional and outcomes arise that satisfy neither owner-manager nor employee interests.

Literature Review

Employment relationships in small firms

Regarded as informal adhocracies (Mintzberg, 1980), small firms are often considered to be dominated by the interests and goals of owner-managers. The same close physical proximity and interpersonal contact that breeds informality (Bacon and Hoque, 2005; Ram and Edwards, 2003) can also increase opportunities for owner-managers to exert their influence (Jennings and Beaver, 1997). These close social-working

relationships allow some scope for employer and employee needs to be accommodated, for example employees may be granted flexibility around working-hours in return for effort or task flexibility (Nadin and Cassell, 2007; Tsai et al., 2007), creating ongoing, everyday processes of negotiation.

Traditional polarizations of 'small is beautiful' or 'bleak house' approaches to small firms (Ram and Edwards, 2003) have been criticized for failing to pay sufficient attention to the way employment relationships might feature a combination of conjunctive and disjunctive interests (Marlow and Patton, 2002). This reflects a need for a more balanced, context-sensitive understanding of the nuances of employment relationships in small firms (Blackburn, 2005; Harney and Dundon, 2006). While external influences and sectoral factors interact with the internal firm environment to shape and potentially constrain employment relationships (Barrett, 1999; Barrett and Rainnie, 2002; Rainnie, 1989), they are not deterministic (Jansen et al., 2011). Those inside the organization must make sense of these factors and neither owner-managers nor their employees are passive in this interpretation (Arrowsmith et al., 2003; Gilman and Edwards, 2008; Ram, 1994). It is this negotiation of employment relationships within the firm that is the focus of the present study.

The role of mutual adjustment

Laying emphasis on informal communication between actors, Mintzberg (1980) proposed 'mutual adjustment' as a reflection of the control of working practices by the 'doers'. Workers in small firms are not powerless in the face of management interests (Ram and Edwards, 2003) but may draw on various resources to actively 'bargain' with their employers. Employment relationships and working practices in small firms are significantly influenced by such bargaining, of give and take between managers and employees. These ongoing, everyday interactions produce forms of mutual accommodation, adaptation and struggle (Holliday, 1995; Ram, 1994) and, as order is negotiated in an informal environment characterized by close spatial and social proximity, this is unlikely to derive solely from formalized management strategies (Nadin and Cassell, 2007; Ram, 1994; Verreynne et al., 2011). Mutual adjustment therefore suggests a more nuanced understanding of the informally negotiated working relationship of everyday organizational life (Ram, 1999b).

Classic ethnographic studies of SMEs have highlighted the significance of this internal negotiation of social relations and the prominence of informality (Holliday, 1995; Ram, 1994). Working practices and employment relationships in small firms are complex and heterogeneous (Rainnie, 1991) involving improvised, ad hoc solutions and compromises, producing particular, unwritten practices, routines and tacit understandings (Brown, et al., 2010; Ram et al., 2001). These processes of informal

negotiation produce forms of mutual adjustment (Goffee and Scase, 1995; Ram, 1999a) that we suggest can be particularly heightened in sPSFs.

The distinctive case of small PSFs

We suggest that sPSFs represent a potentially fruitful avenue for investigating forms of employer-employee negotiation. Whilst retaining many of the features of small firms, for example around close physical and social proximity and informality, sPSFs also exhibit many of the distinct features associated with larger PSFs. For example, the influential position of highly-skilled or specialist employees who work closely with clients can be central to the success of these organizations, granting them a relatively strong position from which to negotiate their employment relationships and exert influence on the development and growth of the firm (Behrends, 2007; Ram, 1999a, 1999b). Employment relationships in sPSFs are therefore characterized by 'the necessity of balancing the pressures for organizational efficiency with the need to harness the entrepreneurial facilities of key staff [which] tends towards more contingent and fluid approaches to labour' (Ram, 1999a: 28).

Employment practices can be used to moderate these relationships (Boxall and Steeneveld, 1999; Tam et al., 2002) and more sophisticated practices have been identified in specialist small firms than in other SMEs (Brown et al., 2010; Dietz et al.,

2006). However, with room for worker discretion and a potential lack of managerial expertise, there remains a need for consent to be negotiated (Ram, 1994, 1999b). The negotiation of employment relationships and working practices in sPSFs is therefore characterized by the interdependence and potential conflict between central owner-managers and valuable, influential specialist workers. It is this ongoing, everyday negotiation that produces potentially distinctive forms of mutual adjustment. However, the development of working practices and employment relationships in sPSFs and other small, knowledge-intensive organizations remain relatively under-researched, despite their importance for many economies (Ram and Edwards, 2010).

Mutual adjustment and intersubjectivity

In the small firm context, the importance of mutual adjustment is developed from a perspective on the negotiated order that reflects the relative importance of factors such as external environment and individual characteristics as well as both formal and informal negotiations (Ram, 1994: 5). We suggest that there is a further, internally held influence of individual (mis)perceptions that underlies (and potentially undermines) this negotiated order and the mutual adjustment that reflects it. Recent discussions of employment relationships in small firms have focused on forms of informality but not on the unspoken influences that determine forms of accommodation and adaptation.

We suggest the relevance of intersubjectivity as a useful conception for informal, (partially) unacknowledged forms of negotiation in small firms.

Intersubjectivity is derived from the particularly interactional infrastructure of organizations in which individuals seek to understand others, to make themselves understood and to hold one another accountable for these understandings (Reich, 2010). It has therefore been suggested as useful for understanding organizational life (Eden et al., 1981) and management, as a mediating influence in these processes of mutual understanding and interpretation (Hancock and Tyler, 2001). It is in asserting a perception of others that one takes up a position and an identity of one's own and intersubjectivity therefore provides a means of understanding how individuals (differently) construe power and predict the behaviour of powerful others, their values and intentions (Jones, 1984). It is in this unchoreographed dance of interpretation and prediction that norms can develop in work groups (Eden et al., 1981) and that non-vocal coordination of organizational environments and practices can take place (Schegloff, 1992). We propose that this type of mutual recognition is an important factor underlying the processes of mutual adjustment in small firms.

In particular, while studies of small firms have examined the informal nature of negotiation shaping employment relationships (Holliday, 1995) there has been limited

attention given to illuminating other ways in which employment relationships and working practices might develop. The potential role of intersubjectivity in these distinct contexts has yet to be explored. However, the reliance of owner-managers on their personal assessments (Nooteboom, 1988), discussions of tacit understanding and knowledge management (Edwards, 2007; Edwards et al., 2007; Yu, 2009) and the role of individual subjectivity in relational development (Jayasinghe et al., 2008) have suggested something of the idea's relevance. Intersubjectivity has also allowed Sharifi and Zhang (2009) to draw out the relative unimportance of truth in the negotiation of organizational definitions, broadly in line with considerations of SMEs as shared communities of meaning (Rigg, 2005).

Our paper sets out to explore the ways in which ongoing, everyday negotiations may manifest in sPSFs with a view to developing our understanding of the processes underlying mutual adjustment. We will discuss our research findings in terms of the potential tensions between central, dominant owner-managers and influential specialist workers and how the processes underlying mutual adjustment cope with and accommodate these tensions on an everyday basis. Intersubjective negotiation is then discussed in relation to mutual adjustment and its impact in sPSFs. We will first describe the method we adopted for our exploratory research.

Method

Our study was focused on investigating working practices and employment relationships in sPSFs. Our qualitative multiple case-study research strategy (Yin, 2003) enabled us to explore the relatively informal yet routine-based environments of SMEs (Scott et al., 1989) and understand employment practices and relationships in action. Getting close to the practice of employment relationships in SMEs reveals subtleties of employment relationships (Holliday, 1995; Ram, 1994) and in our study we became interested in the processes underlying mutual adjustment.

Three sPSFs were recruited as separate cases via purposive sampling. The firms, with fewer than 50 employees, were small (BERR, 2006) and corresponded to Morris and Empson's (1998: 610) definition of PSFs as organizations trading on the ability of their human capital to create bespoke, intangible solutions to complex client problems. Despite each firm possessing relatively sophisticated formal policies, for example evidenced by their attainment of such external recognition as *Investors in People* accreditation, elements of their practices were conducted informally (Marlow et al., 2010), not least owing to the intangible nature of the service work undertaken.

The organizations provided specialist recruitment ('SciRec', a scientific industry recruitment firm and 'FinRec', a financial services recruitment firm) and design-

communications ('ComCo', a communications consultancy) services. All three firms operated as niche service providers to small numbers of clients and identified themselves as offering bespoke, specialist services that could be clearly distinguished from more common 'high-street' providers. Typically all had low turnover rates, reflecting owner-managers' conception of the valued, highly skilled nature of their employees. As well as the centrality of specialist work, the three firms had sufficient commonalities, such as owner-managers who had left large corporate environments to pursue similar work through their own businesses and a reliance on narrow client bases, to allow meaningful comparisons to be drawn between their employment relationships and working practices despite their different sectors. The firms were given pseudonyms to anonymize their identity.

Gathering empirical material

Detailed qualitative research was conducted in each company over an 18-month period by the paper's first author. This comprised an initial on-site phase (phase one) at the company premises followed by telephone, email and some personal contact during an intervening period before a second significant phase on-site (phase two). In total the empirical material comprised on-site observations (348 hours), semi-structured interviews (x35) and company documentation (600 pages; see Appendix Table 1). The three sources of empirical material facilitated triangulation and built understanding to

inform the ongoing study (Denzin, 1970; Webb, 1970). Further, observations helped to gain a sense of the day-to-day practices in each firm and attending team meetings, coffee breaks and other events provided a sense of context while developing rapport between researcher and participants (Alvesson, 2011a). This informal interaction was supported by access to a broad range of documents such as employment contracts, values statements, general staff emails and other notices.

Care was taken to interview people across each firm to gain a rounded understanding of working lives. The semi-structured interviews typically lasted around 60 minutes, with a range between 35 and 105 minutes, often depending on the participants' individual approaches to the process. All interviews were structured around topics including recruitment and selection, training, reward and recognition, performance appraisal and staff exit. These initial questions then allowed participants to relate their own explanations of employment relationships and working practices, descriptions that were subsequently pursued by the interviewer. Verbatim interview transcripts were produced in their entirety for phase one and for relevant sections in phase two to facilitate subsequent analysis (e.g. excluding introductory chat and unrelated digressions).

Analysis

Drawing too-sharp a distinction between collection and analysis of qualitative empirical material can hinder the depth of a research study by closing-off lines of enquiry arising from emerging ideas and reflections (Eisenhardt, 1989; Glaser and Strauss, 1967). In light of this, interview tapes were listened to within 24 hours of the recording for points of interest or that required elaboration. Subsequent, close readings of the empirical material, conducted by both authors, informed ongoing discussions to develop a rich understanding of the organizations.

Initial reviews of the empirical material collected suggested that employment relationships comprised negotiations on many topics and in different modes. We organized our empirical material by coding instances in which one party's interests were (or were perceived by them to be) in negotiation or tension with another party's. We ordered these according to the area of employment relationship in which it occurred, for example 'salary setting and review'. For each instance, we noted the positions of the relevant parties and briefly described how the matter was resolved. Further, we were careful to draw on the longitudinal nature of our study and trace changing perceptions of negotiation around issues such as payment structures that persisted throughout the study. Given the emergent nature of our codes, no formal testing was completed for agreement between the authors but a coding dictionary was

developed and discussed, disagreements being resolved by recourse to the empirical material.

The codes and relevant extracts of empirical material were analysed in light of existing literature on employment relationships and working practices in small firms and the nature of influence exerted by specialist employees, requiring frequent returns to the original empirical material as we explored the concepts developed. The negotiations identified were observed to take very different forms. Some issues were resolved through a formal negotiation such as using a pay review meeting to discuss an employee's salary level while other issues were addressed through informal negotiations, such as reminding staff of appropriate conduct towards colleagues in the office. These formal and informal explicit negotiations fitted with our existing understandings of mutual adjustment but there were other instances that departed from established literature. These were occasions in which research participants described changes being made in response to perceived, but as yet unrealised, pressures within the organization. In other words, while there was no apparent explicit negotiation, parties were altering their position in respect of another *as if* engaged in an active negotiation. As these instances emerged from our findings, we were prompted to consider how these unspoken 'negotiations' informed the employment relationships in our participant firms.

Findings

In this section we will describe the dynamics of the mutual adjustment of employment relationships and working practices in each firm and discuss specific examples in detail. This is principally to suggest the unspoken, anticipatory processes underlying mutual adjustment that are not adequately accounted for or addressed in the existing literature. Our findings are presented on a firm-by-firm basis to allow for a detailed description of the context and (potential) relationships between different areas of negotiation, acknowledging that types of negotiation, for example in terms of relative degrees of informality, are not mutually exclusive (Marlow, et al., 2010).

All three firms sought to grow and increase the degree of formality in their employment relationships and business processes (Gilman and Edwards, 2008). Existing employment relationships, contrary to observations in larger PSFs, had features in common with adhocratic, informal small firms governed by powerful, central owner-managers. However, the characterization of specialist workers as important to the organizations was also common to all three firms.

ComCo

ComCo Limited is a broad-based communications consultancy offering public relations (PR), strategic marketing, design and internal communications services. ComCo was

incorporated in 2001, almost four years prior to the first research visit. The three founding directors, Patrick, Roger and Steve, had previously worked at the same large company and were later joined by Eddie, one of Roger's former colleagues, who became a junior director alongside Steve. Including the hands-on directors, the business employs 14 people, divided between PR/communications professionals (x6), the growing design team (x5) and a small sales team (x3). Although initially focused on providing these services to SMEs and public sector organizations, as part of its growth strategy ComCo later attracted more lucrative and demanding private-sector clients. The business also changed in other ways during the study, including Patrick's exit and Roger taking a majority stake, increasing his already significant influence across the firm.

The nature of mutual adjustment at ComCo combined formal, informal and 'unspoken' forms of negotiation as well as resistance. A central force in the everyday working relations is derived from Roger informally asserting control, not only on the employees but also his fellow directors. He is the centre of the office (and the organization) with most PR work going through him. When out of the office Roger maintains his centrality, making regular calls throughout the day for short briefings and follow-ups.

Accommodation and adaptation in practices is illustrated in the case of consultants' pay. When Laura joined ComCo she was paid what Patrick admitted was a 'very low' wage but with a contractual promise to review the amount after three and six months. Laura reported that the company had honoured these formal pay reviews. However, while Patrick fretted about her starting salary, Laura explained, independently, how she was happy with her initial rate of pay since she had offered to work for free in order to make her first step on the ladder. The formal pay reviews were held, thereafter, on an annual basis but the directors also awarded ad hoc bonuses for exceptional client work. This reflected Patrick's concern that ComCo pay competitive salaries to retain key staff, who were seen as having vital client relationships that would be difficult to replace:

> We want to keep people because it's such a relationship-based business. If you were to lose them you are in danger of losing the client because the client likes to see that person.

As with Laura, this led to staff receiving pay increases and promotions outside of the formal pay review process. These increases were not only informal, they were neither sought nor initially anticipated by the staff. Laura, after developing a burgeoning local reputation for her work, related her experience:

We had the team meeting in January and we were going through all the accounts and all the Private Sector ones [had] my name on them, and I think I must have looked, been a bit freaked out! Patrick took me outside and said, "Oh, you know, we were going to give you a pay rise" and officially… and then gave me a letter and it was all in, in there, it had been decided.

However, this strategy was acknowledged to increase pressure on the business to generate profit in order to afford the salaries. Whilst the perceived consequences of losing skilled staff left the owners feeling that they had had little choice, concerns over affordability remained and Patrick feared that ComCo could lose staff as a result of limited pay increases in the future, despite no evidence that staff considered leaving or required higher salaries. The importance of established relationships and the bespoke nature of the work left the owner-managers unable to identify how to recruit or replace such staff.

This deep belief in the value of their most effective staff members left the owner-managers feeling constrained in some of the areas of the business, extending beyond pay and rewards. This was most dramatically demonstrated when, while working at a client's offices, two senior specialists contravened the client's email policy, causing great embarrassment for ComCo's directors who were well-known in that sector. Under

ComCo's disciplinary policy Alison and Christina could have been dismissed, something Roger was initially determined to do, as much to restore his reputation with the clients as to signal that such behaviour in ComCo was unacceptable.

However, Roger and Patrick also recognized that ComCo must still deliver the client contract and that Alison and Christina were central to this. Neither Alison nor Christina campaigned to keep their jobs, yet the owner-managers felt compelled to acquiesce to their unspoken interests for fear of jeopardising the project and future work in this important sector. Although the option of dismissal was discussed between the owner-managers, no formal or informal direct negotiation took place and the matter was quietly dropped. It seemed as though the owner-managers' perception of specialist employees' value ensured that their interests were represented in management discussions, in this case superseding company policy and the owner-managers' immediate personal interests.

SciRec

SciRec Limited specializes in recruiting staff for scientific industries, providing associated services such as psychometric testing and interview training. The managing director, Alex, had taken voluntary redundancy from his senior recruitment role at a major pharmaceutical company and founded the firm in early 2001, three years before

the first research visit. He is the sole owner. SciRec serves a small number of clients across Britain on a contractual basis rather than replicating the more highly sales-driven form of 'high-street' recruitment agencies. Services are based around a detailed understanding of clients' businesses and strong relationships with the departmental managers for whom the services are tailored by SciRec's consultants. There were two consultants at the start of the study and three at its conclusion.

Managing director Alex's relations with staff were characterized by his dissatisfaction and continual attempts to cajole consultants into line. Such frustrations were tempered by his nervousness around staff turnover. The extent of consultants' power stems from the company's reliance not only on their abilities to assess applicants' technical skill and suitability for a given role, but also upon the relationships they develop with managers at client firms. In common with the other participant firms, employees with high levels of performance were seen as particularly difficult to recruit, irrespective of qualifications or experience. This led Alex to offer these top performers additional benefits such as externally-provided training courses in order to pre-empt any intention to leave, despite no such intentions being indicated.

Consultants' boundary-testing appeared a common feature of mutual adjustment at SciRec and this gradual, contested adaptation could continue over long periods of time.

During the first research phase there was an intricate combination of contingent pay arrangements. Alex described these schemes as a reward and an incentive for filling client vacancies that earned revenue for the firm. However, the consultants perceived inequity in the system because, under its complex rules, certain vacancies attracted commission while other, similar ones did not. As Kathy, a consultant, explained:

> I'm not supposed to claim for that [type of vacancy], but I think people claim for it anyway? (Researcher: People being?) Erm, me and [colleague] (laugh). Because, you know, we [SciRec] make less of a fee on people coming through the [client] website but our argument is that we do exactly the same for those candidates as we do for others…

In this way, the consultants were attempting to extend the scope of their financial rewards. Alex appeared complicit in this 'cheating' by signing off these commission claims while company performance was on target, effectively accepting their implicit demands for increased remuneration. In doing so, Alex undermined his own carefully prepared commission system that had been developed to reward and focus those activities he deemed most important to SciRec's long-term success. The consultants adjusted accordingly, assessing their commission rates (and related work) in terms of what Alex was willing to sign-off rather than the formal policy. This mutually adjusted

practice therefore came about through an unacknowledged process of negotiation in which the consultants submitted adjusted claims and gradually established what would and would not be accepted.

Concerned at the company's declining performance against client service level agreements, yet still paying out commission for placements, Alex again became frustrated with his employees. He eventually opted to completely overhaul the commission scheme. Working over the Christmas holiday, with only limited input from Sharon (operations manager), Alex redesigned the scheme explicitly in line with his current goals. The changes increased emphasis on client satisfaction and, while winning new business would attract a higher rate of commission, filling vacancies at existing clients ('shooting fish in a barrel' – Sharon) would attract reduced rates. Acting in this unilateral fashion, Alex operated as a dominant owner-manager, exercising his apparent right to run his business as he saw fit. There was neither engagement with staff nor explicit acknowledgement of the ways in which the system had previously adapted, and what employee beliefs and goals these adaptations had reflected.

The consultants learned of the change at a meeting called to announce its implementation. As Sharon recalled, initial reactions were not positive:

Well, Kathy cried. (INT: Cried?) Yes, she actually excused herself [from the meeting] and cried in the office. Erm, Lucy got mad...anyway, she was off sick all the time.

Although the changes might reduce consultants' earnings, performance-related rewards were provided for the results Alex required. However, the consultants focused on those changes that they argued would cost them hundreds of pounds each month in lost commission. Three weeks after the announcement Alex described the atmosphere as 'a bit frosty the snowman' and, within a couple of months, his changes had been quietly dropped. In redesigning the pay system Alex failed to acknowledge the potential power held by the consultants at the heart of his business. By assuming that, as owner, he had prerogative to unilaterally set pay and commission rates while not accounting for consultants' interests, Alex effectively required the consultants to explicitly assert themselves in resisting the changes.

The previous system that had gradually been adapted through an implicit process of mutual adjustment was therefore reinstated after a prolonged campaign of informal, small scale resistance from the consultants. However, when the resistant consultants eventually left the firm through unrelated causes, Alex found that, contrary to his previous fears, replacing them was relatively easy and caused minimal disruption with

the firm's major client. He therefore felt confident in reintroducing the reward scheme he had previously been forced to abandon. New employees, seeking to impress Alex and not having implicitly negotiated unacknowledged increases in their commission claims, expressed little resistance and accepted the scheme without incident.

FinRec

FinRec Limited specializes in the recruitment of permanent staff to the largest operators in the financial services and consumer credit industry. It was founded in 1994 by owner-manager Paul who had worked in retail finance and was still involved in this industry via a separate business venture. FinRec's clients have outlets nationwide and undertake regular recruitment activities. The precise nature of the service provided depends on client requirements but can involve recruiting individuals or hiring an entire team. While serving national companies, selection decisions depend upon consultants' understanding of individual managers' requirements and preferences for the successful placement of candidates. To succeed, FinRec's nine consultants must have an appreciation of the job markets local to their client outlet, local rates of pay and also the style of the existing team so that candidates complement those staff already in post.

FinRec has a strong emphasis on meeting personal targets, including gentle 'peer pressure', recording individual progress in meetings and on notice-boards. In addition to the formal commission structure there are regular activities in which performance is rewarded with alcohol, reinforcing a work hard/play hard culture. The highly competitive nature of the firm was suggested by an occasion, now part of FinRec folklore, when Norma (the operations manager) had to intervene in a competition over bottles of spirits that led to heated rows in the office.

Reviewing performance and rewards at FinRec, owner-manager Paul and operations manager Norma realized that, while team managers were being paid a higher salary to manage team performance in addition to their consultant roles, this premium was unrelated to their respective teams' results. They wanted to create a link between team performance and team managers' rewards. In considering how to resolve such a sensitive matter, Norma explained their approach:

> Paul will come up with various options, but I will actually then challenge him, and I always say "Right, if I was Jane, or if I was Diane, I wouldn't be happy with that because X, Y, and Z"...So we tend to do it between us and then when we came up with the one we finally, hopefully is going to work

In this instance a decision was made to create an additional team and focus team managers' bonuses more closely on the performance of their team:

> I said, well I think that's fair, I can't see why it wouldn't work. They're going to have smaller teams, we're not giving them a salary cut, and if somebody said the same to me, I'd be laughing me. Same money, less staff, less pressure, I can get more bonus if the team do, great! ...there's a lot of stuff that we talk about which doesn't get filtered down

Taking on the role of Jane and Diane in the thought process, Paul and Norma granted the team managers influence in the discussion, playing-out a negotiation as if they were in the room stating their case. By inferring their potential reactions or objections to each idea raised, Paul and Norma sought to satisfy Jane and Diane without resort to formal discussions or even informal soundings on ideas. It meant that, even before Jane and Diane considered new proposals, attempts had been made to pre-emptively avoid their objections. Thus, there is an adjustment taking place prior to the employees' awareness of the potential changes.

The nature of ongoing, everyday mutual adjustment at FinRec can be seen in the employees' attitudes towards targets. Comparisons were made with colleagues and targets were decided upon 'behind' the official targets, just as individual judgements

were made regarding quality, and these idiosyncratic, informal targets were adjusted accordingly. As team manager Jane explained:

> If somebody's sat there and they're doing eight CVs a week and they're thrashing their [revenue] targets, I'm not going to jump up about 12 CVs. If somebody's done eight CVs, thrashing their target, am I really going to jump up and down about it? It, you know, it is a guide...so...announcing 12 CVs [as a formal activity target] is what you should be aspiring to but I'd rather see 10 quality ones rather than 12 naff ones put in [but] Paul would go back to the view that, "Well if they can do eight and thrash their targets, why don't they hit 12 and do a lot more?" Well, to me it's...if people are doing eight and exceeding their targets...then it's up to them if they want to push themselves a bit more.

Owner-manager Paul regularly challenges the team managers on the performance of certain consultants but allows scope for team managers to defend their staff with reasons not to dismiss them, acting out an ongoing, informal negotiation. Team managers then have a mediating role between discussions with Paul concerning the implementation of official targets and the negotiation with employees around working practices and the enacted, day-to-day 'shadow targets'. It is within this mediating position that further mutual adjustment can be seen to occur on an ambiguous, at

times implicit, ongoing basis. While the revenue target is the consultants' principal concern, the correlation between activity and revenue means that both measures receive management attention, introducing further complexity to the mutual adjustment of targets as guides for working practices.

Discussion: The role of intersubjective negotiation in mutual adjustment

Small professional service firms (sPSFs) can be characterized in terms of the degree to which they hold tensions between the potentially competing interests of central owner-managers and their valuable specialist employees, within a context of close physical and social proximity. This environment produces forms of mutual adjustment in which policies, practices and relationships are gradually, and idiosyncratically, developed over time through ongoing, everyday forms of both formal and informal negotiation. However, explicit forms of interaction and negotiation do not represent a full picture of mutual adjustment. To fully understand the development of working practices and employment relationships, we suggest the relevance of processes of intersubjective negotiation that underlie, and potentially undermine, mutual adjustment.

The importance of intersubjectivity in small firms is derived from their particular ongoing, everyday interactional employment relationships in which individuals seek to

understand others, to make themselves understood and to hold one another accountable for these understandings (Reich, 2010). It is in the context of this unchoreographed dance of interpretation and prediction (Eden et al., 1981) that employment relationships and working practices adjust, adapt and accommodate (Schegloff, 1992). In some small firms, the gap between intersubjective perception and organizational realities may have limited implications but, given the ambiguity-intensive nature of professional service work, there is greater scope for mutual (mis)recognition. In sPSFs there is pressure both on individual staff and the organizations themselves to prove their expertise, creating an environment where '[b]eing perceived as an expert is as crucial as actually being one' (Alvesson, 2011b: 1649). This has important implications for the perception of value and the position of influence and power within these firms.

In our cases, employers' assessments of employee value, for example in terms of the difficulties in replacing them, influenced their actions in attempting to keep them at least 'satisficed' (Friedlander and Pickle, 1968). In assessing value, employers may have few objective measures against which to test their perceptions. Waiting until an employee leaves to identify the relative difficulties in recruiting replacement staff while the business struggles from a shortage of skilled staff is an unattractive option (Ram, 1999a). Likewise, testing whether clients will take their business elsewhere should a

particular employee leave represents a gamble for a business relying on few clients. In our study, owner-managers did not acknowledge or seek to address this problem, confidently relying instead on their own perception of valuable expertise that had developed in their particular sPSF context.

Of course, the owner-managers remained sensitive to client feedback and the relationships employees developed with those clients heavily influenced the perception of value. However, little was done to gather detailed feedback or to explore the quality of the relationships in any systematic way. It is therefore not only any 'objective' state of external factors that influences the development of employment relationships within the firm but the perception of these factors by the relevant actors, in negotiation with their intersubjective assumptions of the perceptions of the parties they are interacting with. In our firms, the perceived value and substitutability of specialist employees was not simply a matter of qualifications or other objective measures but related to the ambiguous value attached to the somewhat intangible, bespoke nature of the services provided.

While owner-managers worked in close proximity to their employees, promoting familiarity and opportunities for monitoring work and behaviour, the ambiguities around the bespoke service work often limited the extent to which these managers

could directly involve themselves or assess performance. As a result, several employees perceived as invaluable by owner-managers were observed to appear to exert influence over their pay and conditions. In this way, these employees could, for example, breach existing policies without sanction, even to the potentially longer-term detriment of the firm. Frequently, no explicit negotiations over the consequences of such actions were engaged in. Instead, negotiations seem to have often developed intersubjectively, for example, owner-managers weighing-up their projected alternatives, making assumptions about the client or employees' beliefs and intentions. The results of this process would then be interpreted by employees and both parties would adjust, adapt and accommodate accordingly.

However, in responding to their interpretations and predictions, owner-managers were observed to offer the minimum concessions they felt sufficient. By satisficing the workers' perceived needs, the traditionally dominant owner-manager may hope to remove or reduce the motivation for their employees to act as explicit negotiators. For example, at FinRec Paul and Norma modified proposed changes to team managers' income structure in order to make it more acceptable to the team managers and thereby avoid conflict with these key employees. The 'adjustment' was made on the basis of Paul and Norma's best guess as to what Diane and Jane would accept. This intersubjective guessing game is distinct from Paul and Norma simply considering the

effects of management decisions on staff because their consideration was motivated by securing management interests through avoiding dispute rather than concern with Jane and Diane's opinions per sé.

We suggest that such strategies may be particularly prominent in small firms. Where employment relationships are conducted in close physical proximity, explicit negotiations may upset familial, interpersonal relationships between interdependent owner-managers and employees as the raw power dynamics of the firm are laid bare (Goss, 1991; Ram, 1999a, 1999b), no longer obscured by the informality and friendliness of day-to-day collaboration (Scott et al., 1989). Further, in small PSFs explicitness may create greater pressure to justify ambiguity-intensive skills or outputs and interdependency in the employment relationship may blur the balance of power within the firm, leaving neither party certain of their position relative to the other. In such circumstances, success in an explicit negotiation may secure your interests and affirm your position as having power but at the expense of pleasant working relations and adaptive cooperation. Failure in such a negotiation, your relative weakness explicitly revealed, could lead to a rout in which your interests become largely discounted.

The negotiation that takes place between owner-managers and employees is therefore informed by their ongoing intersubjective guessing games rather than by explicit engagement alone. In our participant firms this led to an ad hoc, unspoken mutual adjustment and adaptation of working practices and employment relationships. In the absence of explicit negotiations, recognized by all parties where 'stakes' can be discussed until a mutually acceptable value is reached, the significance attached to various actions or comments relies heavily on mutual (mis)interpretation and (mis)recognition. Uncertain as to what might satisfy employees (Nadin and Cassell, 2007), owner-managers guess, conceding something to them in the hope that they will at least be satisficed. While employees may therefore obtain certain concessions from the owner-manager, the absence of explicit negotiation means that employees may not recognize such concessions as benefits; the owner-manager's concession may not therefore influence their attitudes or practices. Neither owner-manager nor employees see their interests as being served, however the concessional alteration may continue to operate.

Any gains that are made by employees through intersubjective negotiation are informal and without guarantee, even if accepted as custom and practice in the firm. However, such informality does not preclude individuals being held accountable to the mutual (mis)recognition that surrounds such adaptation or adjustment. Implicit rules and

understandings (Brown et al., 2010) and unspoken expectations (Nadin and Cassell, 2007) are an outcome of this intersubjectively engaged mutual adjustment process. This was most clearly played-out in the present study in terms of the 'shadow' commission rates at SciRec and 'shadow' targets at FinRec. In both cases, particular expectations that were not formally or even explicitly agreed upon but developed from a series of assumptions and unacknowledged adaptations, undermining the formal policies that were in place. Thus, intersubjective negotiation arrived at provisional 'shadow agreements' that had crucial implications for performance within these firms.

As processes of mutual adjustment, these intersubjectively negotiated guessing games and shadow agreements can encounter elements of dysfunction that influence the organization's development. Adaptations made on the basis of guesswork may require company resources but still be unnecessary and unsuccessful, potentially creating frustrations in the employment relationship and increasing pressure on the organization. This matters to informal, adhocractic environments such as those in sPSFs because there may be few formal mechanisms effectively setting out a basis for decisions or more explicit, formal negotiations. Furthermore, with owner-managers in close proximity to employees the environment lends itself to regular, ongoing, informal adaptation. An intersubjective guessing game around the nature of power and alternatives within the organization can lead employees and employers to seek to

become more likeable, more in-tune with what is perceived to be required to maintain one's competitive advantage. Intersubjectivity can therefore form the basis of a mutual adjustment that frequently reacts or (re)negotiates, coming to underlie, and potentially undermine, more explicit forms of negotiation around the employment relationship.

Currently, research into small firms, and sPSFs, is primarily concerned with explicit actors whose interests, the pursuit of those interests and the negotiation required for their achievement, can be identified (Nadin and Cassell, 2007; Ram and Edwards, 2003: 722). We argue that explicit instances of (in)formal negotiation cannot be understood as discrete events disassociated from ongoing, everyday intersubjective negotiations. The mutually adjusting nature of employment relationships and working practices emerges as a result of this intersubjective negotiation as parties seek to secure their interests without recourse to potentially problematic explicit negotiation. These negotiations have important consequences for the organization as they give rise to potentially dysfunctional outcomes that satisfy neither owner-manager nor employee interests.

Conclusion

This paper has addressed the under-researched and under-developed concept of mutual adjustment in sPSFs. This is partly in response to the need for a more balanced,

context-sensitive understanding of the nuances of employment relationships in small firms (Blackburn, 2005; Harney and Dundon, 2006). We have argued that the mutual adjustment that develops from explicit instances of (in)formal negotiation cannot be understood as discrete events disassociated from ongoing, everyday intersubjective negotiations. We found that, frequently, there were only very limited explicit negotiations over the development of employment relationships or working practices.

In negotiating, for example, around an employee's pay, owner-managers would frequently base this on the employee's perceived value and not on any direct engagement with that employee. In assessing this value, employers had few objective measures available and rarely attempted to find or develop them, confidently relying instead on their own perception of valuable expertise. There need not be any 'real' value conferred by an individual's skills or place within the organization. We have suggested that it is therefore not only any 'objective' state of external factors, such as the labour market, that influences the development of employment relationships within the firm but the perception of an individual or situation by those in negotiation with them. In this context, some employees received pay rises or other bonuses without seeking or expecting them. Mutual adjustment can therefore become founded on a largely unspoken, intersubjective guessing game.

We suggest that this may be particularly prominent in small firms, and ambiguity-intensive sPSFs, where employment relationships are conducted in close physical proximity and explicit negotiations may expose the raw power dynamics of the firm, no longer obscured by the informality and friendliness of day-to-day collaboration. Explicitness may also create greater pressure to justify ambiguity-intensive skills or outputs and interdependency in the employment relationship may blur the balance of power within the firm, leaving neither party certain of their position relative to the other. In the absence of explicit negotiations, recognized by all parties where 'stakes' can be discussed until a mutually acceptable value is reached, the significance attached to various actions or comments relies heavily on mutual (mis)interpretation and (mis)recognition. However, such informal, adhocratic development does not preclude individuals being held accountable to the mutual (mis)recognition that surrounds such adaptation or adjustment. Implicit rules and understandings and unspoken expectations are an outcome of this intersubjectively engaged mutual adjustment process.

These findings have important implications for practitioners because they emphasise that everyday actions can be vested with significance and form processes of ongoing negotiation regardless of whether they are intended as such. Negotiations around the employment relationship are influenced by parties' intersubjective assessment of their

power position relative to others in the organization and therefore their sense of how far their interests are satisfied or others' interests accommodated in everyday actions. Potentially dysfunctional or maladaptive 'shadow agreements' can therefore develop within firms that may undermine explicit policies and practices and become especially problematic as firms seek to grow and to introduce greater degrees of formality. By viewing mutual adjustment as informed by and informing these intersubjective negotiations, parties to an unspoken 'deal' might only learn of the bargain through its breach, when the aggrieved party explicitly draws attention to what had been 'agreed'.

This raises questions for practitioners about how conduct in the workplace is interpreted by others and how these factors influence working relationships and practices. It means that attempts to explicitly negotiate around an aspect of the employment relationship need to be understood in light of any existing implicit agreements that may have formed over time. Failing to consider how current practices may represent 'agreements' to one party risks provoking open and disruptive negotiation as that party seeks to explicitly assert its subjectively understood assessment of its bargaining power in the organization.

There are many opportunities for future research, for example investigating how processes of mutual adjustment relating to specialists compare to other employees in

the same firms. There are interesting questions to consider regarding whether our findings could be extended to different types of sPSF as well as other types of SME and possibly larger professional organizations, together with comparative cross-cultural studies informed by different approaches to employee relationships. One important implication of our findings for researchers is the need for sensitivity to intersubjective forms of negotiation that may not always be recognized by research participants and thus may elude researchers. Explicit incidences of (in)formal negotiations should be understood as occurring within a context of everyday, ongoing intersubjective negotiation that informs mutual adjustment. We suggest that this requires a shift to greater depth in the study of individuals' perceptions and the ways in which their relative positions are structured in intersubjective mutual (mis)recognition.

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Appendix: Table 1

Company	Sector	Activities	Employees	Data Collection	Interviews in phase one	Contact in intervening period	Interviews in phase two
ComCo Communications firm based in Northern England, clients nationwide.	Media / public relations, design and communications	Focused initially on local small businesses and local authorities across UK. Latterly has moved into representing international clients' UK operations alongside local authority work, less small firms work	14 in both phases plus associate staff as required (some personnel changes)	Initial meeting to agree access. Observations (93 hours on-site), semi-structured interviews, reading company documentation; informal discussions before / after normal working day	**5** (1x owner, 3x account manager, 1x designer)	Meeting with managing director, e-mail contact with (former) director	**9** (managing director, 2x directors, 3x account manager, marketing manager, marketing assistant, design manager)
SciRec Recruitment firm based in Eastern England, clients nationwide.	Recruitment	Specializing in recruitment of staff for science industry clients	6 in both phases (although personnel had changed)	Initial meeting to agree access. Observations (142 hours on-site), semi-structured interviews, reading company documentation, company team meetings, after work social activities	**6** (owner, 2x consultants, operations manager, 2x administrators)	Meeting with owner, telephone contact with owner, e-mail contact with operations manager and other staff members	**6** (owner, 3x consultants, recruitment manager, administrator)
FinRec Recruitment firm based in Northern England, clients nationwide.	Recruitment	Specializing in recruitment of staff for financial services industry	16 (phase one) 12 (phase two)	Initial meeting to agree access. Observations (113 hours on-site), semi-structured interviews, reading company documentation, informal discussions over lunch times and breaks	**8** (operations manager, 2x team leaders, 4x consultants, administration supervisor)	Meeting with owner and operations manager, e-mail contact with owner	**1*** (former team leader) *informal conversations were held with a variety of team members over the two week on-site period, e.g. lunch breaks and in the normal course of work

Table 1 : Summary of data collection