

**ADVISING THE NEW ENTERPRISE:
PEOPLE ISSUES IN AN AUSTRALIAN FUNDS MANAGEMENT BUSINESS.**

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ABSTRACT

Small enterprises are often portrayed as static businesses with little sophistication and consistency in their human resource management practices. However, small enterprises can be characterized on a number of dimensions including complexity, sophistication, market position, value, industry, managerial versus entrepreneurial management and so on. The case of Axedale describes the stages of development in a small enterprise that deals with “the top end of town”. It provides a professional investment service to wholesale clients and, even though it is still a young firm, it has billions of dollars under investment.

The case describes the changes in organizational structure and leadership, and importantly, the attention given to human resource practices. Sophisticated recruitment, selection and extended realistic job preview/employment trial practices together with continuous daily objective performance assessment - albeit in a firm that stresses long-term value - along with paired/team bonus payments, a mix of entrepreneurial and, on occasions, somewhat autocratic management style, enrich our understanding of the range of characteristics of small firms. What makes this case different is the in-depth knowledge the researchers have of the people in the firm, which provides unique insights into the functioning of this influential enterprise in the financial services industry in Australia. The highly paid employees perform intensive knowledge work, the results of which can affect the well-being of thousands (if not millions) of people in their older years.

Although the firm has been successful to date, the risks it faces, particularly in human resource management issues, but also in its narrow client base, are noted.

INTRODUCTION

Even though small firms account for the employment of the majority of workers in Australia (and, of course, in many other countries including the USA), small enterprises have almost been totally overlooked by the human resource management literature (Hornsby and Kuratko, 2003; Kaman, McCrathy, and Tansky and Heneman, (2003); Wilkinson, 1999). It has generally been assumed that small firms will be informally organized and have informal human resource management practices, but just as de Kok and Ulhaner (2001) found many exceptions to this expected pattern, Axedale – the focus of this paper – also forms an exception as it could be described as an entrepreneurial firm with formalized human resource management policies. Kaman et al (2001) suggest that human resource management practices in small firms might vary from autocratic, controlling and inconsiderate to modern, “high commitment” approaches. Axedale does have some high involvement human resource management practices, but they sit within an autocratic framework, thus suggesting that the literature tends to be somewhat too simplistic to encompass the complexity of small firms.

For service firms, the resource-based view of the firm – which suggests that long-term competitiveness will be dependent on resources that are durable and difficult to imitate and substitute - points to the importance of human resources and their management in the road to success. The efforts to get this part of the business correct will be the focus of this paper.

The business - which to preserve anonymity we have called Axedale Funds Management Ltd - was established in 1999 as a joint venture between a major international finance house and a small team of experienced, highly motivated and talented Australian investment specialists. The latter had worked in large Australian financial institutions and were attracted to the possibilities of setting up a boutique concern which they considered could compete effectively with what they saw as more cumbersome organizations. The aim of the new enterprise was to offer a professional investment service to wholesale clients (i.e. those with more than AUD2 million to invest) utilizing a disciplined, systematic and transparent investment process. A major component of this approach was its investment process incorporating strategic analysis, cash flow forecasting and valuation modeling. It was considered that such a disciplined approach together with knowledge of local markets, when combined with the financial backing, intellectual ‘know-how’ and systems support of the international partner, would ensure high levels of investment excellence and client service.

The major role in establishing this enterprise was taken by one person – whom we have called Peter Davies – at that time 36 years of age. He had previously been employed in a major Australian bank and whilst there had been involved in some teambuilding activities with one of the authors who had carried out consultancy activities in that organization. The other three founders – also highly talented financial professionals – were aged between 34 and 46. Peter Davies and his colleagues were acutely aware that the success or otherwise of their new venture would depend upon attracting and retaining talented individuals. Their view was that if they could gain a good reputation among their clients and be successful in developing an organizational culture that facilitated teamwork, they would enjoy a significant competitive advantage in the industry. In particular, three factors were seen as critical. One was a system of shared beliefs in both the investment philosophy and the processes developed. Another was the desirability of having

complementary skills and personalities within the team. The third was to recruit individuals of various ages. They appreciated that the development of the venture would be a challenging and demanding experience and thus it was important they complemented and supported each other. It was decided to seek some outside assistance in achieving these aims and the writers and another colleague have worked with Axedale with varying degrees of involvement since that time.

THE INDUSTRY CONTEXT

The total amount of funds under management in Australia is in the region of AUD900 billion (a billion, in Australia, is one thousand million), of which wholesale accounts for 64 per cent and retail for about 36 per cent. Of this total sum, some AUD650 billion is represented by superannuation assets which were boosted as a result of the introduction by the Australian government of a superannuation (i.e. pension) guarantee levy in 1992. Initially this levy was for 3 per cent of an employee's salary and increased to 9 per cent in 2002. As a consequence, superannuation assets are estimated to grow at a compound average growth rate of nearly 12 per cent each year.

Typically, the industry is divided into three types of fund managers: large fund managers have more than AUD20 billion under management; medium sized managers have from AUD5 to AUD20 billion under management and the small fund managers have less than AUD5 billion under management. (PricewaterhouseCoopers, 2003). Industry consolidation has taken place over the past few years and the top ten firms in the industry account for almost 67 per cent of the market. Nevertheless it is still fragmented with some 65 participants and with no one fund manager having more than a 10 per cent share. Relatively low fixed operating costs and the low capital intensity of the industry made it possible for a number of smaller Australian equities managers, such as Axedale, to emerge in recent years. Such boutique organizations gain clients by offering superior long-term investment performance than their larger counterparts.

The Australian market did not suffer from the same volatility as some other OECD markets in recent years. A PricewaterhouseCoopers (2003) survey reports that negative employment growth occurred during the three-year period to 2003, with both profits and revenues down in the previous year. Respondents to this 2003 survey indicated that they anticipated that revenue growth in future years would come primarily from existing customers, but investment market performance and winning customers from competitors were also seen as important factors. In this industry a fraction of a percentage point is critical and, as a result, the pressure on performance is constant. One client removing a mandate, therefore, can have a dramatic effect, especially in the case of a smaller firm.

AXEDALE: STAGES OF DEVELOPMENT

The start-up (1999 – 2001)

Although from the outset the potential vulnerability of an organization being heavily dependent on one person was recognized, the major lead in setting up Axedale was taken by Peter Davies. This interesting, intelligent and focused person possesses great reserves of energy and a high determination to succeed. His role was critical not only in the negotiations involved in establishing the firm, but also in gaining business (i.e. investment mandates) and in the selection and leadership of the analysts.

Initially, the organization consisted of three divisions, viz. Investment Management, Client Services and Business Operations. The Investment Management Division was headed up by Peter Davies and three analysts he had previously worked with, together with another two recruited the following year – one from elsewhere in the financial services industry and one from asset consulting. The Client Services Division was headed by another financial services professional and the Operations Division was led by an experienced administrator. The heads of these divisions were required to provide leadership in terms of the day-to-day management and strategic direction of their respective areas.

In order to encourage retention, all senior members of staff were offered equity participation. This is consistent with the research that has found profit sharing to increase organizational commitment (Coyle-Shapiro, Morrow, Richardson and Dunn, 2002). Corporate governance was provided by a Board of Directors (consisting of a chairperson and two other members from the international finance house, an independent non-executive director, Peter Davies and the Head of the Axedale Business Development Division). An Executive Management Committee, consisting of two Axedale representatives and two from the joint venture partner hold meetings monthly to oversee business operations, marketing and client service matters. An Investment Management Committee, comprising of the members of the Investment Management Division, meets weekly.

The new enterprise was fortunate in taking over the lease and fittings of high quality office accommodation at a prestigious location in the centre of the city. Visitors to the firm arrive at an attractive reception area and are shown into an impressive boardroom. In this respect their image to the outside world was of an established, successful and much larger organization. Similarly, this small enterprise also had some of the other attributes normally associated with major concerns, such as a detailed human resources manual which was a modified version of the human resource manual of the joint venture partner.

As mentioned above, Peter Davies had gained experience of a number of psychometric instruments whilst working with his previous employer, the major Australian bank. To assist in integrating the members of this new organization, they were provided with opportunities to complete and receive confidential individual feedback from the Cattell 16 Personality Factor Instrument; the Watson-Glaser Critical Thinking Appraisal and the Myers Briggs Type Inventory. All agreed to participate. These tests were administered to enable those concerned not only to provide some understanding of their likely interactions with others, but also to give them an objective assessment of their abilities and potential for development. Although encouraged to share their results with one another, the decision to do so or not was left to the individuals concerned. One approach where the results were shared by all concerned was based on the Belbin Team Role Model, with which Peter Davies had become familiar in his previous employment and considered might provide some useful insights for understanding how the new team would function.

The Belbin Team Role Model

The Belbin (1993) approach to team building and effectiveness began in the United Kingdom at what was then the Administrative Staff College (now the Henley Management College) in 1969. Belbin invited course members attending a senior

residential general management program to complete a battery of psychometric instruments before competing in teams in a one-week computerized business game. Each team had an observer who recorded the behaviour of the individuals concerned every thirty seconds using a system developed from Bales' (1950) interactive process analysis. Using the data obtained, the researchers then analysed the personality characteristics and critical thinking abilities of the various teams, comparing the successful with the less successful. With greater experience and insight into team functioning, Belbin and his co-workers began to predict before the game what the finishing order of the various teams would be.

It was from these investigations, some of which were later carried out at the Australian Management College, that Belbin defined eight team roles. A ninth role was added at a later date. Belbin (1981) defines a team role as: "A pattern of behaviour, characteristic of the way in which one team member interacts with another so as to facilitate the progress of the team as a whole." Brief details of these team roles are shown at Figure 1. Later, two further developments took place. One was the introduction of a Self-Perception Inventory designed to give users some insight into their own team role. The other was what Belbin (1988) terms a computer-based Human Resource Management System - Interplace - which produces reports based on both self-perceptions and assessments by independent observers.

A member of the Belbin research team, Mottram (1982), suggested that certain combinations of team roles made for more effective teams and noted that the team role of an individual was not necessarily associated with his or her functional role. He noted that the most effective managers seemed to be those that recognized their own best team roles correctly; perceived the most effective contribution they could make in the situation or the team they were working in and were prepared to work to their strengths rather than allow their comparative weaknesses to affect their performance. Mottram went on to propose that the ideal team consists of individuals occupying a range of the Belbin roles, although different team roles are likely to be seen as crucial at various stages in the growth of an organization. For example, someone with the Shaper role would be likely to be important in getting a project started, whilst the follow-through activities of a Completer Finisher could ensure its completion.

The results obtained from administering the Belbin questionnaires within Axedale are shown in Figure 2. These suggest that, with the exception of the Implementor team role, this was a well-balanced group. Three individuals, one of which was Peter Davies, were found to have the Shaper team role as their most preferred or secondary team role. Belbin (1993) describes a person in such a role as: "Challenging, dynamic, thrives on pressure. Has the drive and courage to overcome obstacles," and suggests that individuals with this team role can provoke others and hurt people's feelings. Fisher, Hunter and Macrosson (2000) suggest that such a person is likely to have: "A proneness to frustration and irritation and an inability to recover situations with good humour or apology." Experience suggests that Shapers have difficulty in working with one another unless the boundaries of their roles are very closely defined. Nevertheless, the drive associated with this team role would be expected to be particularly useful in a start-up situation, although a strong sense of direction has the risk of being seen as authoritarian.

By way of contrast, the Team Worker role was the most preferred role of only two people, one of these being the part-time non-executive director and the other a junior analyst. Team workers are mild, sociable individuals with a concern for others. They are good listeners, perceptive and operate with great sensitivity in work situations. The absence of anyone with the Implementer role was not surprising amongst this ambitious and highly-educated group. Typically, Implementers are people whose loyalty and interest lie with their organization and are not particularly concerned with the pursuit of self-interest.

Despite the espoused interest in teams, as mentioned above, the investment analysts in Axedale worked on their own, reporting to Peter Davies in his role as the Chief Investment Officer. Each member of the team, in addition to their responsibilities for researching, analyzing and making security selection decisions in particular Australian Stock Exchange sectors, was also responsible for the development and implementation of a part of the investment process.

All the employees initially recruited were accustomed to the leadership of Peter Davies and expressed admiration for his abilities as a fund manager. They pointed out to the writers that he had gained a national award for his performance as a fund manager and suggested that he could greatly enhance his salary if he were to leave and join one of the larger finance houses. All these factors – his role in setting up the business, the admiration and respect of his colleagues, his personal drive and demonstrated competence – combined to give Peter Davies a special status in Axedale. Nevertheless, several members of staff mentioned that they experienced difficulties in their dealings with him, reporting that he rapidly dismissed any concerns they might express and had a distinct tendency to dominate all discussions. He was seen as particularly competent in putting forward his views and had a distinct need to win any arguments.

In the first year of operation, the results obtained were above expectations with Axedale Funds Management exercising control over AUD1.1 billion in funds.

The second phase (2001 – 2002)

The initial success was reinforced the following year when the funds under management increased to AUD2.4 billion and the number of staff went up from six to fifteen. Shortly into this period, however, a number of mandates were withdrawn and by the end of 2002 the total amount of funds under management had been reduced to AUD1.3 billion. The management team was determined to rectify this situation and amongst other steps commissioned the writers to carry out an organizational review involving every member of staff. This culminated in a two-day offsite retreat.

Before this event took place the writers interviewed each member of staff, during which time they asked them to complete a short questionnaire. It was found that members of the firm were proud to work for it. On a five-point scale, for example, the average score for job satisfaction was 4.75 and that for satisfaction with the firm as an employer 4.5. The staff perceived the strengths of the firm to be its professional quality; the investment process that had been established; its people and particularly the diversity of personalities; their achievements in the short period of existence as a firm; the strength

of the joint venture arrangement; the equity sharing by staff and their team skills – although some were perceived not to be team players. The staff said they liked the generally relaxed environment; the smallness of the firm; its openness; the work ethic and their colleagues.

On the other hand, the reduced performance of the firm was seen as a major issue and raised by everyone. Reasons put forward for this could be summarized as a lack of clarity concerning the strategy of the business, the mechanistic nature of the investment process and the levels of stress experienced by some members of the Investment Management Division. These issues were all discussed in a very open and extremely frank manner and plans were drawn up to address them.

With regard to strategy, several said that they considered that there was no clearly-articulated vision. A few believed that the Board was aware of the strategy, but that this had not been disseminated. What was made very clear, they said, was the need to perform, exemplified by the expectation that they should work long hours and by the daily posting of the results of each analyst's stock selections. Sadler-Smith et al (2003) refer to obsession with measurement and performance management as being indicative of a non-entrepreneurial style. However, in this type of business it might be seen as a necessity, given its fiduciary responsibilities and how the market will assess the firm. Several put forward the view that all was in place for outstanding performance in the future, but that the enormous difficulties in developing an organization from scratch had been under-estimated by all concerned. Some of the staff stated that their aim was to make a lot of money and take early retirement. It was also evident from the interviews that the team had no shared vision except to make money, which is not generally considered as sufficient to drive the performance of an organization in the longer term – usually a more noble purpose is perceived to be necessary (Albrecht, 1994; Grant, 1998).

The investment process attracted a great deal of comment from the members of the Investment Management Division. This was seen as complex and took far longer than had been anticipated for those not familiar with it to be able to use it. Some analysts considered that this process was given undue emphasis and that the very complicated models in use should be subject to review. A few believed that the use of such a process caused delays which could prove to be costly.

Although many respondents had commented favourably about the openness and relaxed environment in the firm, there were many more comments about the lack of effective communication. Some felt that there was insufficient information provided to them on how well the firm was doing overall, some felt isolated and wanted fewer "closed doors". There was a feeling that it was sometimes hard to obtain a positive decision, that people were viewed as performance generators rather than as human beings and treated as children rather than as mature professionals. Some said that Peter Davies was not open to new ideas and not good at listening.

Concern was expressed about whether or not the teams were performing as well as they should. The analysts considered that they were constrained by attempting to outperform the industry averages. Although they were each supposed to take an interest in the activities of another analyst in order to provide back up, the pressure of work they experienced and lack of any reward for this resulted in only spasmodic attempts to do so. Levels of stress and conflict were reported to be high. Staff worked very long hours (actually 8.00am – 6.00pm during the week and at least one day at the week end) and any

overtime – for which payment was not made – had to be recorded in a register. Leaving the building at lunch time was seen to be disapproved of. As a result of these factors, several of the more junior staff reported that they found the organizational climate at that time to be oppressive.

The difficulties in leadership concentrated mainly on Peter Davies. Whilst applauding his achievements in the quest for technical excellence, his outstanding contribution to the marketing of Axedale and his drive to succeed, some of the analysts experienced difficulties in their dealings with him. He was perceived by all as being intellectually able, but a very dominant person. Several saw him as not being prepared to listen to their views and to impose his own. Whilst his prerogative as Chief Investment Officer to make final decisions was fully accepted by all, many thought that he would be wise to engage far more in genuine consultation before arriving at a final decision. His strong work ethic was seen to make him intolerant of those who worked fewer hours or whom he saw as less committed. It was said that when he was under pressure he could be curt and dismissive of his colleagues and sometimes did this in front of others. Finally, although it was recognized that he was generous with his time (with some, but not all the analysts), they felt that he was somewhat ‘distant’ and not an easy person to deal with. To assist Peter Davies in overcoming some of the interpersonal difficulties reported, one of the authors was asked to work with him in this task over the next couple of years and monthly meetings between them took place to assist Peter achieve this goal.

The keys to success in this industry were perceived to be team stability, relationships with assets consultants and with the superannuation industry as a whole, together with the capabilities and know-how of all staff. Within Axedale, the problems to be faced were how to cope with predicted growth, the ownership structure and consolidation in the industry. Also of some concern was how to manage the succession of the two older members of the team, in terms of replacement of their skills base but, importantly also of their management of client relationships and cost issues.

Although some of the feedback that he received must have caused him some personal concern, Peter Davies was remarkably open to what had been reported and a number of changes were made. He decided to relinquish the management of all his existing stocks to enable him to concentrate on portfolio investment decisions, the investment process and employee development. The Head of the Business Development Division was appointed as Chief Operating Officer in which role he was to determine the Axedale strategic direction, be responsible for managing the relationship with the joint venture partner and oversee the Operations Division.

At this time it was also decided to make redundant a member of the Investment Management Division. This was a most difficult task to undertake as the person concerned had been one of the original employees of the business. In the experience of the writers, such a step is frequently avoided, with the founder often preferring to wait until the person concerned reaches retirement age.

The third phase (2003 – 2005)

At the beginning of this period funds under management remained at AUD1.3 billion, but some 80 per cent of these funds had been mandated by one client organization. Fortunately, this client approved of the investment strategy adopted and was seen as

unlikely to remove their mandate. During the year a further mandate of AUD82 million was made by a prestigious institution.

Some further organizational changes were made within the Investment Management Division. The analysts were grouped into teams of two, each lead by a senior analyst. The performance objective of each team is to generate at least 1 per cent excess return over the industry average per annum over a three to five year period. In this new team arrangement, two-thirds of an analyst's performance bonus arises from the joint effort of the team and this is assessed in purely quantitative terms. The remaining third is assessed on qualitative factors. It is very much in the interests of the analysts, therefore, to work well with their partners as their bonuses will depend on both how they and their partner's stock responsibilities perform.

To assess how the changes made were seen by those concerned, a series of interviews was held in May 2003. Although a range of views was expressed, the outcome was generally positive with most of those seen reporting improvements in both performance and organizational climates. As one put it: "The whole place is now more cheerful and sociable." These impressions were confirmed by a response to the statement on a questionnaire: "The changes had left the organization more efficient," where the overall result was 4.1 on a five-point scale. Similarly, when scoring the statement: "The changes have resulted in a happier atmosphere," the overall result was again 4.1. (This result should be seen as only indicative, as due to some staffing changes, the group of people completing the scale on the second occasion were not identical to that which had done so on the first round.)

Generally, members of the investment teams spoke favourably about the support they now gained both from the Chief Investment Officer and the other member of their team. One spoke in glowing terms about the improvements that had taken place in communications and reported that - as a result of the changes that had taken place - everyone throughout the firm had become more aware of what the portfolio was doing. Several mentioned that the quality of decision-making had improved significantly, claiming that the analysts had become more confident, and thus bolder in making investment decisions.

Paradoxically, when the first series of interviews had taken place in 2002, the long hours of work had been a cause of complaint by the younger members of the firm. On this occasion, however, two of them were critical of what they saw as the lack of commitment to the firm by some of their senior colleagues. In particular, they expressed concern at the amount of time that senior people were spending in working at home and felt that this practice made it difficult to develop team spirit. Evidence to support that this view was more generally held was provided by the responses to the statement: "People at all levels in this organization work very hard." On a five-point scale, the overall score obtained was 3.9 whereas previously it had been 4.38. Overall the responses to the questions on job satisfaction and satisfaction with Axedale as an employer remained at high levels, but were slightly lower than on the previous occasion.

Most of those interviewed were positive in their comments about the changes in the role of the Chief Investment Officer, although some provisos were made. All approved of his decision to relinquish the management of an equity portfolio. Many referred to the improvements that had occurred in the way that Peter Davies carried out his role. Others appreciated that the role was still evolving and that Peter was also still developing in the

role. He was still held in awe by some of his colleagues, who commented on his experience in the industry and how valuable this was to Axedale. Two expressed the view that he did not exercise his power of veto over choice of stocks often enough and believed that this was due to his confidence having been shaken by some recent mistakes he had made. Others believed that these had provided a useful learning experience for him in that it enabled him to see more clearly that people did make mistakes and, as a result, had made him more tolerant. Two believed he should concentrate more on portfolio management and the understanding of major risk positions and spend less time on the development of models. There were still some criticisms of his management style with several reporting that they found it difficult to ascertain what he was thinking or feeling. What they sought was a more relaxed and informal relationship with him.

The criticisms were by no means restricted to Peter Davies. The four founders as a group were seen to be wanting in a number of respects and were portrayed by their critics as followers rather than leaders. As one put it: "If Peter doesn't see the need, the other founders are not strong enough to stand up and say so." Such a situation - where the founder is surrounded by a group of loyal lieutenants - is by no means rare in entrepreneurial concerns, but was perhaps surprising in an organization consisting of high-calibre individuals where so much overt attention was given to teambuilding.

A further organizational change was made with the appointment from within the organization of a Head of Research, responsible for identifying new stock investment opportunities and reviewing the research process and major assumptions underlying the strategic analysis of the research teams. Another analyst was made redundant. It was also recognized that the investment process which had been developed in the 1990s had been untested in the "bear market" and changes were introduced to make this more robust in dealing with different market situations.

As a result of partner mergers and takeovers, the ownership of the original Axedale joint venture partner has changed on two occasions. It would appear that the business philosophy of the present partner may not align as closely to Axedale as was previously the case, and it is possible that there may be some changes in the joint venture relationship in future years.

During this time the funds under management increased to AUD2.97 billion, with Axedale providing investment advice for funds of AUD312 million under in-house management. A recent survey by Intech Investment Consultants (2005) reported that Axedale had achieved a return in excess of nearly 36 per cent on its investments during the last year with the firm's performance ranked in the top 10 of the 57 Australian fund managers included in the survey.

CONCLUSIONS

Peter Davies stated his motivation for establishing Axedale was the building of an organization. As he put it: "I want to create a business that goes well beyond me and I will judge my success by the development of Axedale." In the six years of its existence Axedale has grown and carved a niche for itself in the Australian financial services industry.

The success achieved is due to a number of factors. A major factor was the choice of the joint venture partner which has played an important role throughout. The normal financial risk associated with setting up a business has been reduced as the international finance house has provided financial backing. In addition, the joint venture partner has been important in giving systems support in a number of areas and guidance to those managing this new enterprise. Association with this major international finance house has also enabled Axedale to develop the ethos and characteristics of a larger professional organization, likely to foster confidence in its clients or potential clients. The firm was also particularly fortunate in acquiring the lease and fittings of the offices at a prestigious location. The general ambiance would be expected to assist in projecting the professional image of the organization.

In the view of the authors, however, the attention and importance given to human resource management issues were significant factors determining its success. Experience in the financial services industry has led to the view that human resource policies in this field are not generally regarded as crucial, although this is not the case for some of the larger finance houses which have very sophisticated human resource practices. Many roles in financial services require a high level of intellectual ability and, normally, a quantitative background. Frequently, those involved appear to be more interested in ideas and concepts than in people and their management. As a result, tasks associated with what are seen as the main purpose of the business – making investment decisions or the development of a theoretical model for investment purposes – are highly regarded. On the other hand, management issues – such as devising an appropriate reporting structure, developing an organizational culture and the development of individuals – are often seen as less important or even peripheral.

The situation at Axedale was very different. A keen interest in people issues and an understanding of how important these could be in determining the success or otherwise of an enterprise were mentioned by Peter Davies in the first discussions held with him. Interestingly, he also mentioned that when negotiations were underway to establish Axedale, the joint venture partner had expressed interest not only in the backgrounds and experience of the individuals concerned, but also in how they would perform as a team. Thus from its earliest days considerable attention was paid to the management of people and, in particular, to recruitment and the development of team spirit.

Of course, there have been problems and on occasions the management of individuals could have been better. In the early days, for example, young, inexperienced analysts were given major responsibilities and, as a result, experienced considerable work pressures. Again, in an organization which from its beginning had many of the trappings of a bureaucracy – detailed job descriptions and complex performance assessment of individuals – it might be expected that there would be some conflict between these control mechanisms and the need for the personal initiative, flexibility and entrepreneurial flair required. Such conflicts certainly occurred, but were dealt with in a constructive manner. In considering some of the difficulties discussed above, it should also be borne in mind that the management of talented people – often with delicate egos and strong opinions – is notoriously difficult to achieve, but is critical for the survival of such a knowledge-based enterprise.

Generally, the firm has been fortunate in the selection of its staff. Some assistance in assessing candidates' intellectual abilities, motivation and the likelihood of whether or not they would fit in the Axedale culture has been provided by the authors. In every

case, however, it has been made clear that any test results (which were always first discussed with the applicants) should be regarded as additional data to assist in the decision-making process, and that the decision on whether or not to hire remained the responsibility of the management. Should a top performing analyst leave to join a competitor, there is always the danger that the funds they manage will be transferred by their clients to the new employer. It is significant, therefore, that not one of the Axedale analysts has resigned, thus demonstrating that the strategies adopted for employee retention have been successful to date. The status Axedale now enjoys in the marketplace is such that it now mainly recruits analysts from a major Australian business school. Successful applicants for employment are required to complete a three-month period as an intern and, if deemed suitable after this initial period, are offered a full-time position.

Peter Davies and his colleagues have demonstrated considerable courage and judgement in coping with the problems encountered. They modified the investment process, reduced staffing levels which included retrenching one of the original team members, achieved considerable reductions in operating costs (with the founders agreeing to a substantial reduction in their own reward packages), and worked hard at gaining new and retaining existing mandates.

The organization structure has been changed to meet new demands and over time the leadership has become more shared as those involved have become more experienced. The new structure appears to be working well, particularly after the appointment of the Chief Operating Officer. Peter Davies – recently appointed as Executive Chairman in addition to his role as Chief Investment Officer - has modified the ways in which he plays the latter role. As he put it: “I see myself in a role akin to that of the coach in football. In other words, I’m concerned with recruiting good talent, inspiring the staff and getting rid of those no longer able to perform.” Rousseau (2001) argues that knowledge workers have considerable power to negotiate their employment conditions and expect flexibility and idiosyncratic deals in their employment relationships. Thus family friendly policies and greater work-life balance may be called for to prevent burn-out. There is some evidence that this is occurring in Axedale as analysts are now actively discouraged from working at week ends and are given five weeks annual holiday. On average they work some 50 hours a week. As a fledgling organization is unlikely to have the financial resources to attract and retain the services of an outstanding analyst from one of their competitors, the development of able, young people is important in fostering team spirit and employee retention.

Given the lack of a shared vision, and the reliance of the firm on knowledge workers with distinct competencies, it is likely that further adjustments to the human resource policies and modus operandi will be required. As a consequence, the adoption by Axedale of the human resource policies of their much larger joint venture partner, for example, may no longer be appropriate in future years as the firm adapts its policies to meet the needs of its staff and the markets served. The importance of adapting human resource practices in this way, of course, has relevance to many small enterprises and particularly those employing mainly knowledge workers.

As to the wisdom of involving consultants in the task of developing such an organization, Peter Davies has summed this up as follows:










“Long-term stability is a critical ingredient of a sustainable high performance funds management organization. However, most

managers of funds management teams ignore the science of team structure and team management. Using consultants has provided our team with frameworks that make individual differences an enduring team strength in terms of skills, personalities and ages... and the formula seems to work.”

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Figure 1: The nine team roles (Belbin, 1996, p.122)

<i>Roles and descriptions – team-role contribution</i>	<i>Allowable weaknesses</i>
	<p>Plant: Creative, imaginative, unorthodox. Solves difficult problems.</p> <p> Ignores details. Too preoccupied to communicate effectively.</p>
	<p>Resource investigator: Extrovert, enthusiastic, communicative. Explores opportunities. Develops contacts.</p> <p> Overoptimistic. Loses interest once initial enthusiasm has passed.</p>
	<p>Co-ordinator: Mature, confident, a good chairperson. Clarifies goals, promotes decision-making, delegates well.</p> <p> Can be seen as manipulative. Delegates personal work.</p>
	<p>Shaper: Challenging, dynamic, thrives on pressure. Has the drive and courage to overcome obstacles.</p> <p> Can provoke others. Hurts people's feelings.</p>
	<p>Monitor evaluator: Sober, strategic and discerning. Sees all options. Judges accurately.</p> <p> Lacks drive and ability to inspire others. Overly critical.</p>
	<p>Teamworker: Co-operative, mild, perceptive and diplomatic. Listens, builds, averts friction, calms the waters.</p> <p> Indecisive in crunch situations. Can be easily influenced.</p>
	<p>Implementer: Disciplined, reliable, conservative and efficient. Turns ideas into practical actions.</p> <p> Somewhat inflexible. Slow to respond to new possibilities.</p>
	<p>Completer: Painstaking, conscientious, anxious. Searches out errors and omissions. Delivers on time.</p> <p> Inclined to worry unduly. Reluctant to delegate. Can be a nit-picker.</p>
	<p>Specialist: Single-minded, self-starting, dedicated. Provides knowledge and skills in rare supply.</p> <p> Contributes on only a narrow front. Dwells on technicalities. Overlooks the 'big picture'.</p>

**Figure 2: AXEDALE FUNDS MANAGEMENT LTD
Distribution of Belbin Team Roles - November 1999**

NAME	PL	RI	CO	SH	ME	TW	IMP	CF	SP
PETER DAVIES	3			1		9			2
HEAD OF BUSINESS DEVELOPMENT		1	3	2			9		
SENIOR ANALYST	3	9			1	2			
ANALYST	1	3	9						2
SENIOR ANALYST	9	3		2	1				
NON- EXECUTIVE DIRECTOR		3	2	9		1			
SENIOR MANAGER - BUSINESS OPERATIONS	9				2			1	3
SENIOR ANALYST	9				2			1	3
ANALYST		1	2		9	1			

1 = Most preferred role 2 = Secondary role 9 = Least preferred role