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## UBS adopts Jeff Bezos's 'two pizza rule'

By Dawn Cowie 12 October 2018

UBS Asset Management is creating small autonomous operational units in a bid to replicate the success of Amazon's "two pizza" rule.

The rule asserts that if a team cannot be fed with two pizzas, then it is too big. It was introduced by Jeff Bezos, chief executive officer of online retail giant Amazon, to boost productivity by encouraging independent thinking in small groups and avoiding groupthink.

Next year UBS AM plans to roll out micro service units with no more than 10 people in each, comprising expertise from across the IT, data, compliance and operations functions.

Each unit focuses on a single service area, such as reconciliation or performance measurement and attribution, and has a team leader who has full responsibility for delivering and improving the service.

Thomas Heinzl, chief operating officer at UBS AM, says: "We are trying to abandon [the] top-down command and control framework.

"The idea is to run micro services using a concept that Amazon uses – having teams that can be fed with two pizzas. We have to create small teams and give them autonomy."

A new committee made up of senior operations managers will have oversight of the units but no decision-making powers. The committee will challenge each team on its approach and provide coaching about how best to achieve their targets.

Mr Heinzl says the aim is to improve the quality and efficiency of the firm's operations by "delegating authority to the people who are closest to the business".

"Everyone bears more responsibility and accountability. We want them to tell us how to do the work, rather than the other way around," he says.

The fund house ran two pilots this year to test out the structure. "Guys who had been in very tight processes all of a sudden could go out and do things differently," says Mr Heinzl.

“After two weeks we saw that people behaved differently.”

The firm hopes that giving people more autonomy will create a better working environment, help to attract better people and get better results.

“We believe that this is going to take us further than coming up with the next big project or piece of infrastructure, which can be outdated or overtaken by developments in the industry or the technology space by the time you plug it in.”

Greater autonomy does not mean looser controls. “We follow the principle – don’t do what you cannot measure.”

Operations is well suited to greater delegation of responsibilities because it is relatively easy to measure outcomes and quickly spot any deterioration in service, he says.

Although it is early days, Mr Heinzl expects that a lot of the improvement in service will come from having more standardised, integrated data that everyone can trust.

The creation of the autonomous units is the latest in a series of projects aimed at improving operational efficiency and quality at UBS AM in the past two years.

This includes Project Unify, which will replace back-office IT infrastructure that is more than 20 years’ old.

So far the firm has shifted about one-third of its back-office operations on to a new core platform. It has also reduced the number of applications it uses by 20 per cent. It plans to cut a further 20 per cent over the next two to three years.

At the start of last year, the firm also began a project to create a global operating model, rather than the previous boutique structure, where each boutique had its own operations and IT.

“We standardise as much as we can but no more,” says Mr Heinzl. For example performance measurement and attribution are relatively homogenous wherever the portfolio is managed.

However, client reporting is one of the least standardised areas as lots of clients have specific requests, he says.

Under the new model, portfolio managers are treated more like clients and the aim is to build up service information that is comparable to what an external vendor would provide.

UBS AM has roughly 450 key performance indicators used to measure how it is performing in terms of service level, cost and response time.

This will help the asset manager to decide which services are better run in-house and co-located with portfolio managers, and which to outsource.

The firm has offshored about one-third of its operational activities, mainly to Poland. Over time this is expected to rise.

Centralising the operating model and making changes to the technology platform have not yet reduced headcount as the firm has been redeploying people. For example a number of people are now involved in testing out or using new technologies.

However, the size of the operations team is expected to fall over time as the firm automates more processes, says Mr Heinzl.