What leads to administrative bloat? Modeling the dynamics of administrative cost and waste

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Paper Abstract

Administrative costs have been a growing concern in many industries, especially higher education and health care, impacting organizational efficiency, employee motivation, and health. Theoretical explanations for administrative growth have resorted to bureaucracies' will to expand themselves, which does not explain substantial variations in administrative costs among similar organizations. Empirical research has identified factors leading to the creation and removal of processes; however, there lacks a systematic understanding of how these mechanisms interact. Here, we propose a system dynamics model that studies how well-meaning behavioral heuristics for process creation and removal interact with process obsolescence to give rise to the level of administrative cost and waste. Our model predicts a critical threshold in management decision parameters that delineates two kinds of outcomes---sustainable equilibrium, where administrative cost is below resource constraint, and runaway administrative bloat, where administrative cost, dominated by obsolete processes, grows to resource capacity. The threshold is adversely affected by the obsolescence rate of administrative processes, due to changes in external environment or internal leadership. A short-term shock in obsolescence rate surpasses a critical threshold can transition the system from a sustainable state into the administrative bloat cycle, suggesting large shocks such as technology change or leadership transitions can be risk events for administrative bloat. Our model suggests administrative bloat is a contingent phenomenon rather than an inevitable one. To avoid administrative bloat, it is important to make a careful choice between structured and flexible solutions, accounting for the cost of errors and the anticipation of future obsolescence of codified processes. We also discuss how our model may be applied to generate insight from existing and future data.

For paper pre-print, see https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4840789