
The Bureaucracy Measurement Index

&

A systematic way
for companies to
assess the burden
of red tape

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Executive summary



Most large organizations struggle with bureaucracy, which can slow a company's ability to respond to market changes and distract the company from building the differentiating capabilities it needs to grow. There is a clear need for a simpler and more aggressive approach to bureaucracy.

To address this problem, we have developed the Bureaucracy Measurement Index (BMI), a quantitative means to assess the level of bureaucracy within a company, compare it to benchmarks for that industry, and highlight problem areas.

The BMI breaks down all work that a company does into a hierarchy of processes and assigns a score to each. The score incorporates three elements:

- Performance, defined as the efficiency and effectiveness by which the company can execute the process
- Impact, defined as the relative weight of that process on the company's overall mandate
- Risk, defined as the probability of a negative event occurring due to process-related decisions

Critically, the BMI assessment allows companies to be strategic and targeted in how they address their organization. Because it factors risk into the equation, companies can set the right level of oversight for a particular function. In this way, the BMI can help companies make cuts where they're needed while also identifying and investing in differentiating capabilities that will help the company unlock growth.

Once companies have identified burdensome processes or functions, a new tool known as robotic process automation (RPA) can be used to handle rote, manual, repetitive tasks without requiring highly standardized processes. In that way, RPA improves efficiency and reduces bureaucracy without sacrificing flexibility.

A tool for new challenges

Bureaucracy is an age-old challenge that plagues most large organizations. However, as the pace of business accelerates, the inherent costs of bureaucracy are going up because it hinders a company's ability to respond to market changes. Instead of focusing on building differentiating capabilities, employees and managers are burdened with inefficient and ineffective processes.

Another challenge is the increased level of regulation and controls now necessary in many core processes. In PwC's 19th annual CEO survey (www.pwc.com/ceosurvey), more leaders identified overregulation as a source of concern than any other issue (ahead of climate change, infrastructure, and access to capital). Bureaucracy takes a significant toll in time, money, and employee morale. People are less productive in a highly bureaucratic organization, and the company is ultimately less able to grow.

Compounding the challenge is that bureaucracy is difficult to analyze at an enterprise level. Some organizations apply benchmarks to measure things like waste and overhead, but these tend to analyze functions or sub-functions, levels too low to create change throughout the enterprise. By themselves, benchmarks are not enough.

As a result, companies that try to address bureaucracy often use blunt tools. They may not realize that some processes and oversight are valuable, and cutting or streamlining those processes may introduce new forms of risk. Without adequate planning, such measures have a modest success rate, at best. Eventually, bureaucracy creeps back in, and many companies ultimately end up deciding — consciously or unconsciously — to live with it.

To address this problem we developed an analytical, structured method to assess the level of bureaucracy within a company — and to allow companies to compare themselves against their competitors. We call this the Bureaucracy Measurement Index (BMI).

As the pace of business accelerates, the costs of bureaucracy are going up.

The BMI is a comprehensive means of gauging the level of effectiveness and efficiency of individual processes, business units, and the enterprise as a whole. Critically, the BMI utilizes industry-specific performance benchmarks and it factors in an organization's risk profile and growth priorities. In this way, it allows companies to accurately measure bureaucracy and be strategic, aggressive, and targeted in how they address it.

Segment and score the processes

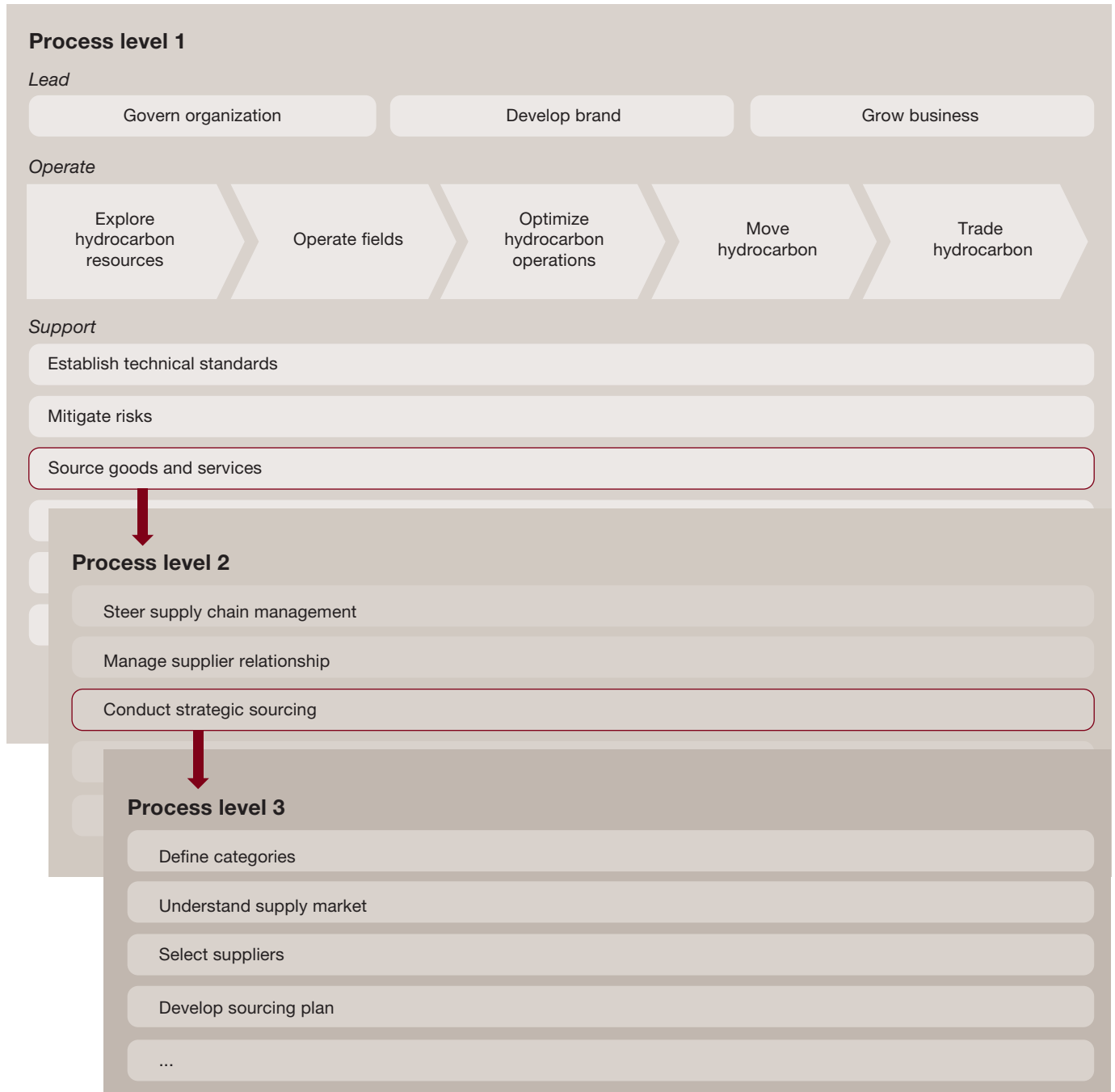
The first step in the BMI methodology is to unbundle the enterprise into a hierarchy of segmented processes and sub-processes (*see Exhibit 1, next page*). Each process and sub-process is scored on three dimensions: performance, risk, and impact (*see Exhibit 2, page 9*).

The performance score considers the efficiency and effectiveness by which the company can execute a given process. Performance also gauges processes where quality is more important than productivity. For example, the quality of an audit process is more important than the sheer number of audits a firm can perform. Conversely, for other processes — such as the handling of claims at an insurance company — clear benchmarks exist for how efficiently they should happen, and the time required to execute them is a fair metric for overall performance.

The second scoring element is risk, in terms of both the probability of a negative event occurring from a specific process, and the consequences of that event, including financial, operational, reputational, and other parameters.

Third, the BMI looks at the impact of specific processes on the business and scope of requirements for the organization's employees. Bureaucracy affects employee morale and shapes the culture of companies. At a manufacturing company that sells low-margin commodities, efficient production processes on assembly lines would have a high degree of impact on the business (and bureaucracy in those processes would be a bigger problem than in other companies). For a technology firm, by contrast, innovation through R&D has a far higher impact, both because it drives the business and because this kind of company tends to reinvest a much higher proportion of its revenue in R&D. (For more, see "[The 2015 Global Innovation 1000: Innovation's New World Order](#)," by Barry Jaruzelski, Kevin Schwartz, and Volker Staack, *strategy+business*, Oct. 27, 2015.)

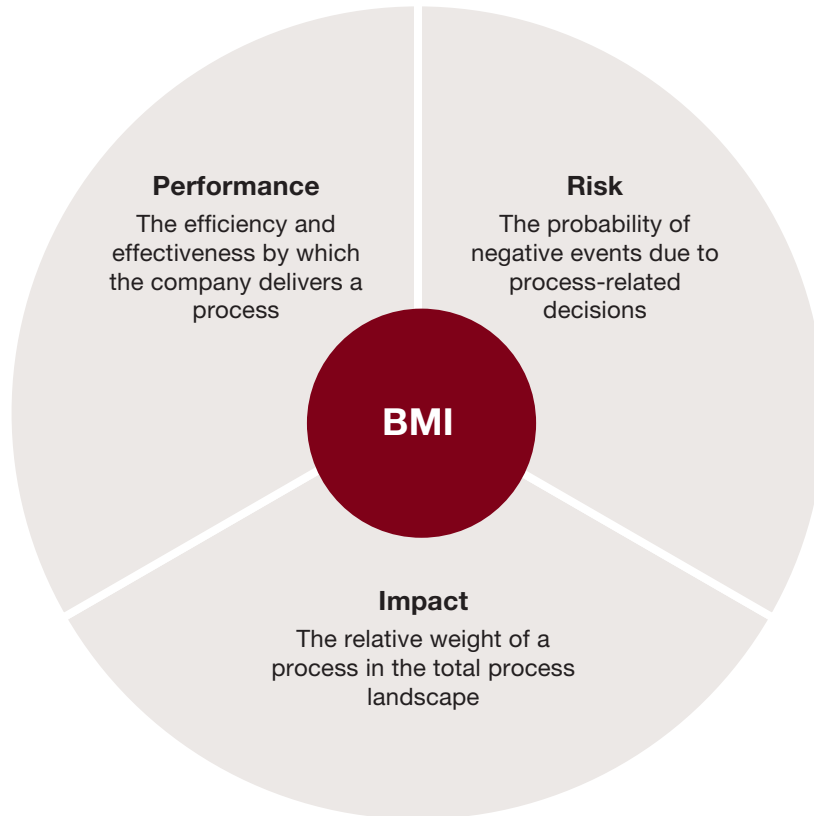
Exhibit 1
Segmenting process landscape, using an oil and gas company example



Source: Strategy& analysis

Exhibit 2

Components of the Bureaucracy Measurement Index (BMI)



Source: Strategy& analysis

Prioritize problem areas

Because each process and sub-process receives a quantitative score, executives have the transparency they need to quickly scan through all work the company does and easily identify the biggest problem areas.

Significantly, a high bureaucracy score does not necessarily mean that management teams should prioritize that area; rather, the relationship between performance and risk is more important (*see Exhibit 3, next page*). The biggest priority should be processes that are highly underperforming, have a substantial impact, and have little risk. There is little danger in streamlining these processes.

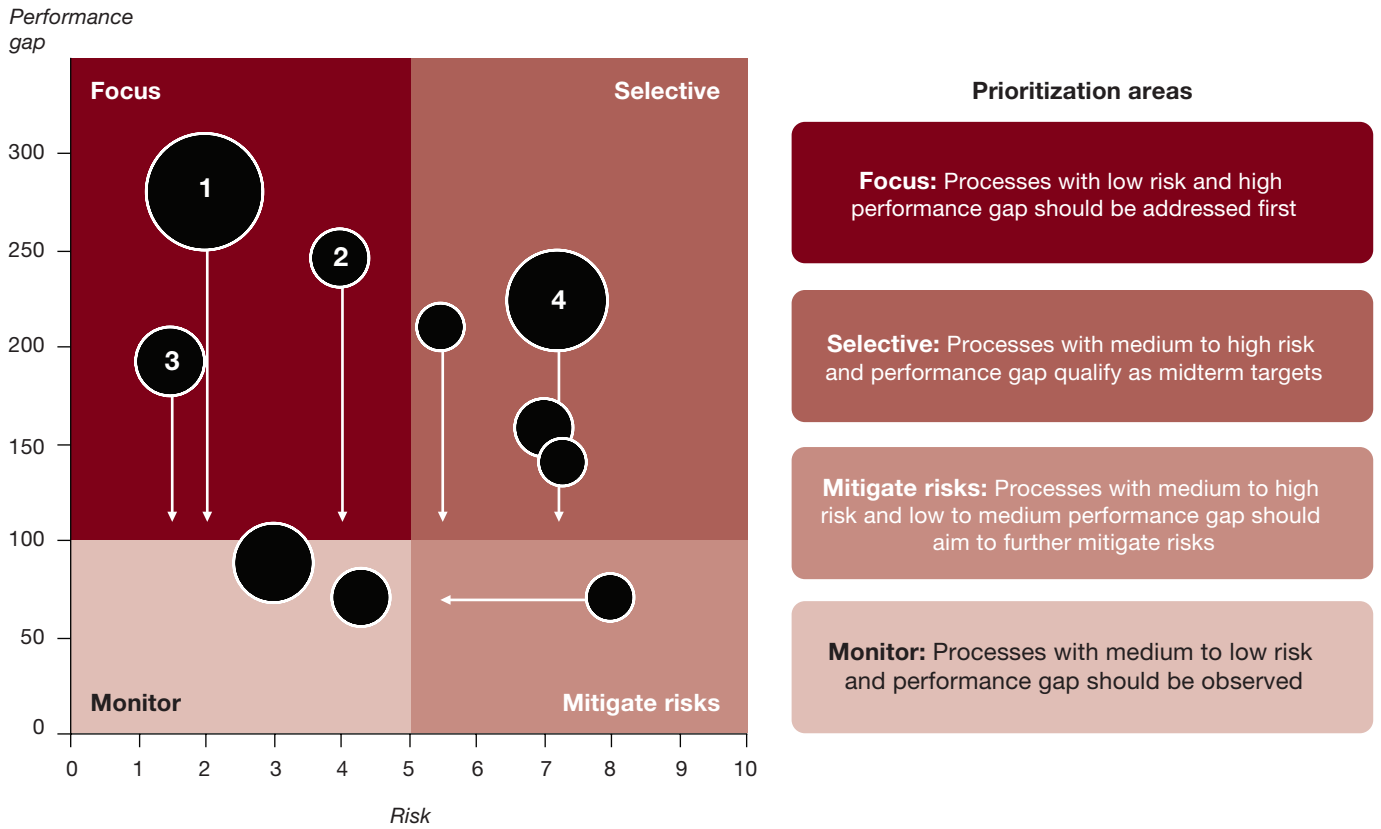
By contrast, companies should tread lightly in how they treat processes that entail high risk, even if they are highly bureaucratic. Removing bureaucracy may seem to be a good move, but not if it exposes the company to new vulnerabilities. And in some cases — such as processes with exceptionally low bureaucracy and high risk — companies may want to *increase* the amount of control and oversight. In other words, these processes may actually suffer from insufficient management.

Reducing bureaucracy offers clear cost advantages in improving the efficiency and effectiveness of individual processes and business functions, in a risk-adjusted way. Yet it also helps companies focus on building differentiating capabilities. Once they are freed from unnecessary layers of bureaucracy, companies have the transparency they need to distinguish between the things they need to be merely good at and those in which they need to excel — the capabilities that truly differentiate them from the competition. Doing so is critical for companies that want to stay ahead of their competitors, yet very few are able to do this successfully. (See “[How Ready Are You for Growth?](#)” by Ashok Divakaran and Vinay Couto, *strategy+business*, Autumn 2013.)

For example, a consumer technology company may have differentiating capabilities in understanding customer behavior, developing innovative new products, and getting them to market quickly. Rather than simply cutting bureaucracy wholesale in these areas, the company may determine that they actually need greater oversight. Management may

Once they are freed from unnecessary bureaucracy, companies have the transparency they need to distinguish between the things they need to be merely good at and those in which they need to excel.

Exhibit 3
The prioritization of process areas



Note: Size of bubble represents impact of process; number indicates priority level.

Source: Strategy& analysis

also decide that they require an additional investment of resources (in time, capital, or management attention). Only by assessing bureaucracy in a granular way can companies look at individual capabilities and see where they need to be streamlined and where they need to be supported in order to help the company compete.

This method includes risk elements directly in the equation. As a result, companies can set the right level of oversight for a particular function. By applying the BMI, management teams can objectively determine how they are performing against their industry peer group, prioritize the

most problematic areas, and gauge the success of measures they take to reduce bureaucracy over time. In addition, the assessment helps companies identify and invest in differentiating capabilities that will help unlock growth.

One means for reducing bureaucracy: Robotic process automation

Once companies have identified bureaucratic processes or functions, they can move with more speed, scale, and aggressiveness to address these opportunity areas. Companies can choose from several approaches, including improving processes, eliminating activities, or radically automating. Recently, a new technology known as robotic process automation (RPA) has shown promise as a feasible, low-cost approach.

RPA is a productivity software capability that operates in conjunction with existing IT systems and automatically performs repetitive manual activities. Earlier productivity measures typically required that all processes be highly standardized, which hinders a company's agility and responsiveness. RPA is smarter than that and does not require centralized standardization.

It can generate efficiencies, reducing bureaucracy and costs while still preserving flexibility. These attributes are the central premise behind Strategy&'s *Fit for Growth** concept, which organizations apply to build differentiating capabilities, transform their cost structure, and reorganize for growth.

Examples of what RPA systems can do:

- Access multiple spreadsheets, find specific information, validate it, and enter it into the company's ERP system
- Enter data that multiple computer users can share
- Use optical character recognition technology to pull data from fields on a PDF

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A real-world application

The real value of the BMI methodology isn't simply the measurement process but rather how a company uses the information to reduce bureaucracy, focus on differentiating capabilities, and improve performance. Implementing these types of changes has obvious benefits. But a company can achieve greater impact when the improvements are part of a larger-scale *Fit for Growth** transformation. We've found that companies get the greatest return on investment when they take a holistic approach that aligns their strategy, resources, and all parts of the organization to their common goals. This idea may seem obvious, but it's harder to get right than most people think. More on how this works can be found at strategyand.pwc.com/global/home/what-we-think/fitforgrowth. For example, we applied this model to a major global oil company and found that it scored several times higher than the median for its industry. The company took specific steps to reduce bureaucracy, including changing the way it made decisions regarding capital projects.

This is a common problem area at many companies. To approve an expenditure of US\$500,000, how many people need to sign off? (And how high in the organization does the final decision get made?) For procedural requests, can one person give the official approval, or does it require a committee? And does the company effectively balance controls against risk?

At one company we worked with — as with many large and established companies — the control model for these decisions was simply too cumbersome. Many people, including senior executives, were involved in approving requests. This merely complicated matters without reducing risk in any material way, and it was out of line with benchmark companies in the industry.

The company needed to push decision-making authority down to lower levels — to the extent that such a move was in line with the company's

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risk tolerance. Specifically, the company adjusted its control for capital expenditures to better align with industry standards. For capital expenditures of more than \$30 million, the final approval would continue to lie with the board or executive committee. Yet for many other decisions, particularly budgeted items below that threshold, the company pushed approvals down to business unit leaders.

Pushing decision-making authority down in this way leads to a number of benefits. First, it generates buy-in by empowering people to do their work more independently. It also concentrates accountability, in that people cannot hide behind a committee or a number of co-approvers if a decision turns out to be wrong.

More important, pushing control authority down in an organization frees up senior people to focus on topics with greater strategic value, such as the company's competitive position, large-scale capital investments, and other areas that have a correspondingly bigger impact on the company's performance. As a result, adjusting the control authority in this way increases productivity and makes the company more agile.

Conclusion

Bureaucracy is a problem with deep roots in many organizations, but the BMI gives leadership teams a systematic way to address it, by quantifying bureaucracy at the level of individual processes as well as for the overall enterprise. As a result, companies can objectively gauge their performance, and identify the departments and functions that most need to be improved.

Moreover, BMI methodology can become an ongoing capability that helps a company continue to assess bureaucracy over time. Management can see whether remedial actions have generated the intended impact, uncover new areas of bureaucracy, and monitor how changes in the market trigger corresponding changes to risk and impact. In this way, the BMI methodology is not a one-time project but an ongoing effort that continues to deliver benefits over time.

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