

Analysing the bureaucratic burden in Germany – How can a noticeable reduction in bureaucracy be achieved?

On behalf of the Initiative Neue Soziale Marktwirtschaft (INSM)

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Analysing the bureaucratic burden in Germany - How can a noticeable reduction in bureaucracy be achieved?

Analyse zur Bürokratiebelastung in Deutschland – Wie kann ein spürbarer Bürokratieabbau erreicht werden?

Michael Holz, Annette Icks, Sebastian Nielen

Abstract

This study analyses the current bureaucratic burden on companies from a holistic, process-oriented (model) perspective – the so-called regulatory cycle. On the basis of a quantitative enterprise survey, an international comparison and a literature analysis, a phase-oriented, holistic action plan for a noticeable reduction of the bureaucratic burden is developed. According to the results, companies perceive a significant increase in the bureaucratic burden, with psychological costs, opportunity costs and indirect follow-up costs also being highly relevant. Bureaucracy reduction and regulation in Germany should therefore be thought more holistically, strategically and in terms of a paradigm shift – away from the idea of control and towards more practicability, meaningfulness and proportionality of regulatory norms.

JEL: D73, K2, L5, L26

Keywords: *bureaucracy, bureaucracy reduction, action plan, international good practice, SMEs*

Zusammenfassung

Diese Studie untersucht die aktuelle Bürokratiebelastung von Unternehmen aus einer ganzheitlichen, prozessorientierten (Modell-) Perspektive – dem sog. Regulierungskreislauf. Auf der Grundlage einer quantitativen Unternehmensbefragung, eines internationalen Vergleichs sowie einer Literaturanalyse wird ein phasenorientierter, ganzheitlicher Aktionsplan zur wahrnehmbaren Verringerung der Bürokratiebelastung entwickelt. Den Ergebnissen zufolge nehmen die Unternehmen eine deutlich gestiegene Bürokratiebelastung wahr, bei der auch psychologische Kosten, Opportunitätskosten und indirekte Folgekosten hohe Relevanz haben. Bürokratieabbau und Regulierung sollten daher in Deutschland stärker ganzheitlich, strategisch und im Sinne eines Paradigmenwechsels – weg vom Kontrollgedanken und hin zu mehr Praxistauglichkeit, Sinnhaftigkeit und Verhältnismäßigkeit der Rechtsvorschriften – gedacht werden.

Schlagwörter: *Bürokratie, Bürokratieabbau, Aktionsplan, internationale Good Practice-Beispiele, KMU*

Table of contents

List of illustrations	II
Executive summary	V
1 Introduction	1
2 Starting points for bureaucracy reduction on the "origin side"	3
2.1 The regulatory cycle	3
2.1.1 Development of a policy roadmap and selection of policy instrument(s)	5
2.1.2 Design of new regulation or modification of existing one	6
2.1.3 Implementation of regulation	7
2.1.4 Monitoring and ex-post evaluation of regulation and regulatory instruments	7
2.1.5 Regulatory culture: The 4 C's – co-ordination, co-operation, consultation and communication	9
2.2 Overview of Germany's strengths and weaknesses in the area of bureaucracy reduction and better regulation	11
2.2.1 Progress made and strengths	11
2.2.2 Weaknesses and need for improvement	14
3 International comparison	20
3.1 Germany's position in international comparative studies	20
3.2 Good practice examples from the Netherlands and the UK	22
3.2.1 The Netherlands	23
3.2.2 UK	32
4 Company survey	40
4.1 Data basis	40
4.2 Perception of the bureaucratic burden	41
4.2.1 Distribution by perception types	42
4.2.2 Development of the bureaucratic burden and experiences made in dealing with bureaucracy	45
4.2.3 Assessment of the bureaucratic burden	47
4.3 Assessment of bureaucratic regulations	52
4.4 Dealing with bureaucracy	55
4.5 Reducing bureaucracy / policy assessment	61
5 Conclusion / policy recommendations	71
Literature	75
Appendix	82

List of illustrations

Figure 1:	Components of the regulatory cycle	4
Figure 2:	Components of the Dutch programme to reduce the regulatory burden for entrepreneurs	24
Figure 3:	Regulatory burden matrix	31
Figure 4:	Overview of the main phases of the reformed Better Regulation Framework	34
Figure 5:	Distribution of the sample by employment size classes and economic sectors	40
Figure 6:	Distribution of companies by perception types in 2018 and 2023	42
Figure 7:	Current company situation by perception types	44
Figure 8:	Development of the bureaucratic burden over the last five years	45
Figure 9:	Experiences with bureaucracy	46
Figure 10:	Components of the bureaucratic burden	47
Figure 11:	Components of psychological costs by perception type	49
Figure 12:	Psychological costs compared to cost and time requirements	51
Figure 13:	Burden from various bureaucracy components	52
Figure 14:	Bureaucratic burden caused by a small number of regulations	53
Figure 15:	Assessment of bureaucratic regulations	55
Figure 16:	Dealing with bureaucratic requirements	56
Figure 17:	Dealing with bureaucratic requirements by size class	58
Figure 18:	Effects on business activities	59
Figure 19:	The relation between control and trust	63

Figure 20:	Politics shows sufficient appreciation for our entrepreneurial activities	64
Figure 21:	Politics wants to reduce bureaucracy	65
Figure 22:	Top 3 proposals for reducing bureaucracy	66
Figure 23:	Consideration of entrepreneurial (experience) knowledge in the legislative process	69
Figure 24:	Willingness to participate in the reduction of bureaucracy	70

List of overviews

Overview 1:	Germany in international comparison	20
Overview 2:	Characteristics of the three perception types	41
Overview 3:	Policy recommendations for individual aspects of the regulatory cycle	72
Overview A1:	Milestones of bureaucracy reduction and better regulation in Germany	82

Executive summary

The policy measures that have been gradually implemented since 2006 have not yet led to a noticeable reduction in bureaucracy. In this study, we analyse the current bureaucratic burden from a holistic, process-oriented (model) perspective – the so-called regulatory cycle. Based on a quantitative enterprise survey, an international good practice comparison, and a literature analysis, we also draw up a phase-specific, holistic action plan for a noticeable reduction in bureaucracy.

Progress is hampered by systematic weaknesses

The German regulatory system continues to exhibit fundamental weaknesses. These include, in particular, the ("multi-dimensional") limited practicability of bureaucratic regulations, the insufficient (early) involvement of external expertise, but also the well-known backlogs in the areas of e-government, administrative and register modernisation. There are also starting points for improvements in the important (overarching) area of (co-operation) culture.

Companies perceive a significant increase in bureaucracy

More than 90% of enterprises report an increasing bureaucratic burden over the last five years. Two thirds of all companies are currently categorised as belonging to the "Grumbling Type", a quarter to the "Pragmatic Type" and only 7% to the "Unencumbered Type". Approx. one third of the enterprises of the Grumbling Type assess their current company situation as (very) poor. For these enterprises, the opportunity costs of bureaucracy are particularly high, because urgently needed, scarce company resources are taken away from productive value creation.

Companies complain about high regulatory density

For a good 60% of enterprises, the bureaucratic burden stems from many different legal regulations. The vast majority of companies feel that they are overly controlled by the legislator and would like to see more trust and room for manoeuvre. In addition, companies consider the transaction costs for finding, understanding and applying the legislation to be very high and the content of the regulations often disproportionate and not very meaningful. Only some 40% of enterprises are confident that they are implementing the legal norms in full.

Bureaucratic burden goes beyond time and cost requirements

For the majority of companies, the "psychological" costs of dealing with bureaucracy (e.g., anger, powerlessness, flight instinct, confusion) are at least as important, if not more so. In addition, enterprises expect a further increase in the negative effects of bureaucracy in future, e.g., on investment and competitiveness. With regard to the promotion of entrepreneurship, it is particularly worrying that almost eight out of ten companies assume that bureaucracy will (further) spoil the enjoyment of their entrepreneurial activities in future.

Companies' priorities for bureaucracy reduction

Reduction of reporting and documentation obligations, acceleration of application and approval procedures, rigorous digitalisation of administrative services and procedures as well as systematic avoidance of bureaucracy in the legislative process and in impact assessments are of particular urgency for enterprises. Companies would like to see greater appreciation from policy makers for their entrepreneurial activities and greater consideration of entrepreneurial expertise in the legislative process.

Good practice policy approaches in the Netherlands and the UK

The focus of the new, qualitatively oriented Dutch programme to reduce bureaucracy is on measures aimed at increasing the practicability and implementability of bureaucratic regulations in close co-operation with business associations and companies. Current reforms in the UK aim at examining alternatives to legal norms at an early stage in the legislative process and at promoting a cultural change in the regulatory system. In the UK, bureaucracy and regulation – in the sense of a paradigm shift – are being considered much more strategically and broadly than in Germany.

Bureaucracy reduction as a continuous, iterative process

The action plan we developed as part of our study for a noticeable reduction in bureaucracy covers all phases of the regulatory cycle. Bureaucracy reduction and better regulation in Germany should also be thought more holistically, strategically and in terms of a paradigm shift. It is a highly complex iterative process that through the interaction of the various stakeholders has to be constantly optimised and adapted to changing external conditions.

1 Introduction

Highly complex economies and societies need regulations to ensure their ability to function – for example, to guarantee product safety, occupational health and safety, environmental protection and to reduce transaction costs. Bureaucratic regulations that impose co-operation and information obligations on companies are also necessary for the fulfilment of the tasks of public authorities. Additional important functions of bureaucracy are to ensure neutral decisions by the authorities, to guarantee legal and planning certainty and to prevent corruption.

Bureaucracy – understood as public regulation including information obligations – therefore undoubtedly has its *raison d'être*. However, depending on the specific form it takes, bureaucracy also causes compliance costs for companies to varying degrees and can restrict entrepreneurial freedom of action (e.g., through bans or costly requirements). These monetary and non-monetary costs can therefore significantly impair the competitiveness and profitability of companies. In addition, bureaucratic burdens on companies also arise from non-governmental regulation, e.g., from self-governing organisations of the economy, standardisation institutes or due to requirements within value chains (Holz et al. 2019).

In principle, there should be an "optimal" level of bureaucracy – which is difficult to determine empirically – that sufficiently guarantees the functioning of the economy, society and the state and at the same time does not place an excessive burden on companies. For many years, however, academic studies and surveys have provided a multitude of indications that the actual level of bureaucracy in Germany significantly exceeds this "optimal" level. A fundamental study by IfM Bonn on SMEs' perceptions of bureaucracy revealed a high level of discontent with bureaucracy, with the result that almost half of all enterprises do not feel able to fulfil all bureaucratic requirements (Holz et al. 2019). Companies not only see the bureaucratic burden as a key obstacle to growth (Holz/Icks 2023; Icks/Weicht 2023; Röhl et al. 2023), but also feel that their innovation activities are significantly hampered by bureaucracy (DIHK 2015). The vast majority of enterprises also perceive an increase in bureaucracy over time (Sage 2015, among others). However, as bureaucracy is an important location factor in international competition, an excess of bureaucratic requirements can also significantly affect the location decisions of growth-oriented (lead) companies and may have negative consequences for suppliers, customers and the economy as a whole.

The political players have long recognised the importance of reducing bureaucracy. A range of measures and procedures that has been steadily expanded since 2006 aims to reduce bureaucracy and ensure better regulation. The measurements carried out by the Federal Statistical Office (Statistisches Bundesamt 2023) show a downward trend in bureaucracy costs and a changing development of compliance costs over time.

In the current coalition agreement, the German government (Bundesregierung 2021) has explicitly set itself the task of developing a systematic procedure for reviewing the bureaucratic burden of laws and regulations that also foresees the regular involvement of relevant stakeholders.

Overall, there is a discrepancy between the perceived very high and increasing bureaucratic burden from the perspective of companies on the one hand and the official data from the Federal Statistical Office on the other. All in all, the various efforts made by economic policy actors to reduce bureaucracy do not appear to have achieved a significant improvement yet.

The aim of this study is to provide a (cursory) overview of the status and development, causes and policy approaches to improving the bureaucratic burden in Germany by analysing the literature. A particular focus is placed on the gap described above between the perception of companies on the one hand and the official figures and the efforts of economic policy makers on the other. What explains this discrepancy? What are the most important factors standing in the way of a noticeable improvement? And how could a substantial reduction in bureaucracy be achieved?

In addition to this, a brief comparative analysis will be carried out for two selected European countries that are characterised by innovative and successful approaches in the area of bureaucracy reduction. The aim is to generate concrete suggestions for policy design in Germany. In order to empirically substantiate the results obtained in the two previous modules, a quantitative company survey will be conducted for selected topics.

2 Starting points for bureaucracy reduction on the "origin side"

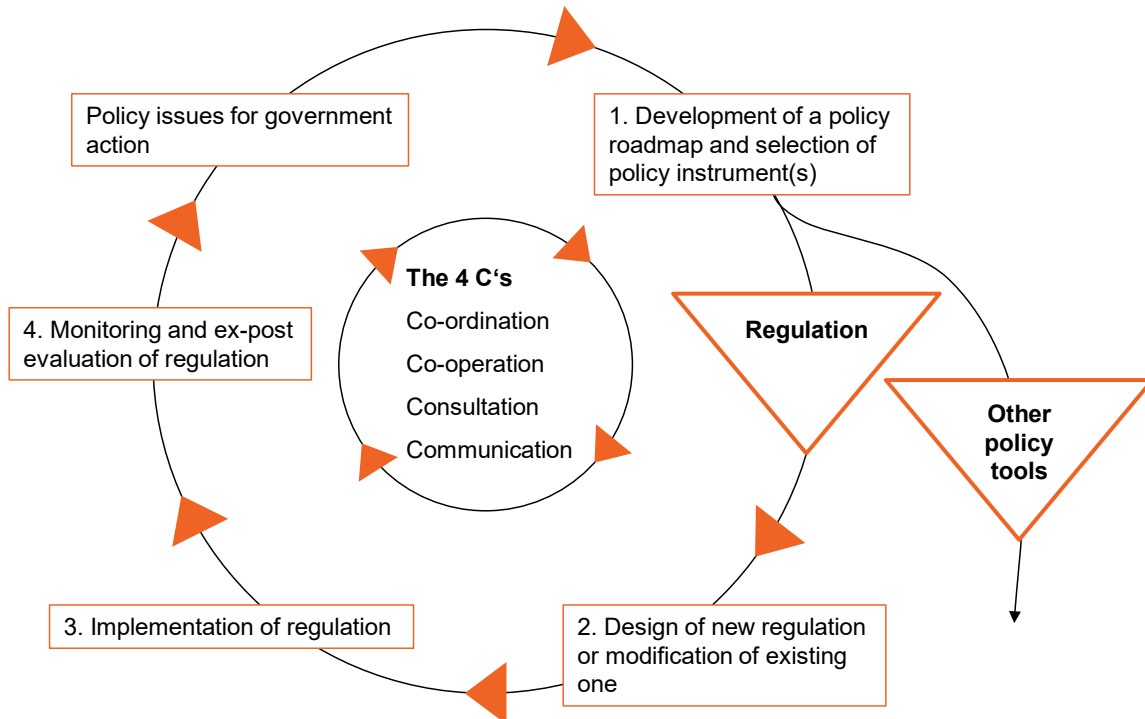
The overarching aim of this study is to answer the question of how a noticeable reduction in bureaucracy can be achieved and which (economic) policy measures are conducive to this. In order to answer this question, it is appropriate to first analyse systematically and in a process-oriented manner how and where bureaucracy arises or can be prevented and reduced. Only by looking at the entire process of bureaucracy creation, one can determine which levers are available to noticeably reduce the bureaucratic burden and how they interact.

To this end, we first use an ideal-typical cycle model to describe how public regulation and, as a result, bureaucracy – defined as the effort required to comply with legislation – is developed, implemented and evaluated. We then outline the progress Germany has already made in reducing bureaucracy and improving regulation. Finally, we provide an overview of the areas of the regulatory cycle where Germany has weaknesses and specific need for improvement.

2.1 The regulatory cycle

Ideally, the regulatory cycle can be divided into four phases – selection of the policy instrument, design of regulation, implementation of regulation, monitoring and ex-post evaluation. In addition to the institutions, instruments and measures pertaining to the regulatory cycle, the way in which the various actors and stakeholders interact at all levels also plays a central role. Thus, cultural aspects such as co-ordination, co-operation, consultation and communication are also of great importance across all phases (cf. Figure 1).

Figure 1: Components of the regulatory cycle



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Source: OECD 2011.

Overall, the regulatory cycle outlines the genesis, implementation and review of state regulation. The ultimate aim of regulatory norms is to regulate the behaviour of the norm addressees – i.e., companies in the economic sector, among others – and to steer it in certain directions, e.g., through decrees and interdictions or specific incentive systems. The time and (monetary) costs incurred by companies in complying with legal (regulatory) provisions are generally referred to as compliance costs in Germany (Statistisches Bundesamt 2022).¹ The amount of compliance costs or the level of bureaucratic burdens on companies is therefore largely determined by the quality or the specific requirements of the regulatory provisions and how they are developed, implemented and reviewed. The more proven elements of good governance are observed and implemented in the individual phases of the regulatory cycle and the more account is taken of the corresponding cultural (interaction) aspects, the more likely it can be assumed that the regulations to be followed by companies will be accompanied by reasonable bureaucratic costs. Measures and instruments that have a

¹ In this study, we use various terms such as bureaucracy, bureaucratic burden and regulatory burden synonymously. They refer to the efforts incurred by companies in complying with government legislation.

systematic impact on each regulatory proposal therefore have a more lasting effect than individual ad hoc measures aimed at reducing the bureaucratic burden on a selective basis.

Conversely, it is of course also true that the less the tried and tested "good governance" elements are applied, the greater the bureaucratic burden. Over the years, the OECD (2012) recommendations on regulatory policy and governance have established themselves as a frequently cited (reference) standard in terms of good governance. The individual phases and key contents of the ideal-typical regulatory cycle are outlined below with reference to the OECD recommendations.²

2.1.1 Development of a policy roadmap and selection of policy instrument(s)

The regulatory cycle usually begins with policy makers identifying certain tasks and problems that they believe require regulation.³ Policy makers then develop a policy roadmap, define the objectives to be achieved and consider which instruments can be used to meet these objectives and what (approximate) costs, benefits and knock-on effects are associated with each instrument. The policy procedures should explicitly provide for the consideration of various alternative options for achieving the policy objectives, i.e., in addition to regulatory solutions also non-regulatory alternatives (e.g., co-regulation, self-regulation by the business community, setting of standards, voluntary commitments, etc.). Only this way, the instrument or combination of instruments with the greatest net social benefit can be identified. It is advisable to involve experts, affected stakeholders and innovative policy approaches (from abroad or at regional level) in the policy formulation process at this early stage in order to broaden the spectrum of possible solutions and to be able to better assess modes of action and trade-offs.

² The OECD recommendations are formulated in the form of 12 theses with a number of sub-points. However, they have not been assigned to the regulatory cycle or specific phases.

³ Whether and which form of regulation is considered necessary depends, among other things, on many different socio-economic factors, such as the prevailing economic and socio-political ideas of policy makers and the (media) public, the level of prosperity, the importance of other important legal and protected goods, such as environmental protection, sustainability, participation, etc.

2.1.2 Design of new regulation or modification of existing one

If the policy makers decide in favour of regulation as the optimal instrument for achieving the objective, this is followed by the phase of designing the new regulation in a decision-making process based on factual evidence. If it can be assumed that the regulatory proposals under discussion will have a significant impact on the norm addressees, an ex-ante assessment of costs, benefits and risks should be carried out (i.e., a regulatory impact assessment within a formal legislative process). In addition to quantifying direct costs and time requirements, the ex-ante impact assessment should also (qualitatively) present the effects on other economic, social and ecological aspects such as SMEs, innovation, competitiveness, distribution effects and sustainability.

In accordance with the "Open Government" principles (OECD 2003), which focus among other things on transparency and participation in the regulatory process, policy makers should work together with relevant stakeholders when developing new regulations to ensure that they are as effective and proportionate as possible. The relevant stakeholders often have practical (experiential) knowledge of how rules work in practice, how they can be implemented most efficiently and what interdependencies there are with other regulations and procedures. The relevant actors should have the opportunity to comment on the regulatory proposals, for example, in the context of consultations. In order to enable qualified co-operation, policy makers should provide them with all necessary documents and data and allow them a reasonable period of time to comment.

When designing the new regulation, its subsequent practical implementation – for example, with regard to administrative and approval procedures, forms, digitalisation, control procedures, etc. – should already be taken into account. The legislator should therefore co-operate with all institutions involved (e.g., at regional or municipal level) at an early stage in order to develop efficient and needs-based implementation and enforcement strategies for the new regulation. By differentiating between various risk groups (each with specific regulatory requirements), risk-based approaches can help to ensure that the main regulatory objectives are achieved effectively and that compliance costs are minimised at the same time. In the case of regulations with a significant economic impact, a review mechanism should be included in the regulations, e.g., the obligation to carry out an ex-post evaluation after a certain period of time or an automatic sunset clause.

2.1.3 Implementation of regulation

The administrative procedures and formal requirements with which new regulation is implemented in practice often have a major impact on how companies perceive the bureaucratic burden and the extent to which the regulatory objectives are actually achieved.

The authorities responsible for implementing and monitoring regulation should make full use of the opportunities offered by information technology and set up one-stop shops – both physical and virtual. In this way, the service delivery can be more streamlined and user-focused. However, the necessary technical and legal prerequisites must be created for this, such as digitally compatible laws, compatibility of IT systems and software programmes, solutions to interface problems, linking of data sources, creation of a common business identification number, cross-departmental alignment of key (legal) terms, etc. In addition to promoting e-government as an important lever for reducing bureaucracy, efforts should also be made to modernise the administrative system in order to build up capacities for proactive and efficient regulatory management. The scarce resources of inspection authorities can also be relieved through more risk-based controls.

The correct implementation of regulation by companies can also be promoted by offering suitable information and advisory services and making all regulations easily accessible – e.g., with the help of complete and up-to-date legislative and regulatory databases. The regulatory texts and supplementary instructions should be written in plain language so that the norm addressees can easily understand and apply them. Policy makers should also ensure that appeal and court procedures for reviewing the legality of official decisions by public authorities are effective and accessible at reasonable cost.

2.1.4 Monitoring and ex-post evaluation of regulation and regulatory instruments

Due to incomplete information, it is generally not possible to fully and correctly anticipate all the benefits and costs of new regulations ex ante. In addition, both the underlying regulatory issues and the technological, economic and societal environment can change substantially over time. Policy makers should therefore set up mechanisms and institutions that regularly review the effectiveness and proportionality of existing regulations and regulatory instruments in co-operation with relevant stakeholders.

In case of legislation with significant (economic) impacts, ex-post evaluations should analyse whether the regulation is still necessary, how effectively and efficiently the intended objectives are achieved and to what extent unintended consequences have occurred. Consultation with relevant stakeholders is crucial in order to determine the actual cost and knock-on effects of the regulations and to be able to develop user-oriented recommendations for improvement. Ex-post evaluations should be holistic and also take into account practical implementation aspects such as administrative procedures and digitalisation options.⁴

As the number of existing regulations is significantly higher than the increase in new regulations, systematic ex-post evaluations can help to reduce the administrative burden by identifying outdated, inadequate or inefficient regulations and, if necessary, abolishing or replacing them. In order to track the development of bureaucracy reduction over time, it is advisable, for example, to measure bureaucracy costs and compliance costs regularly – e.g., annually – with the help of special indicators⁵ and to make the results available to all stakeholders and the public. Additional information on aspects that are difficult to quantify (such as psychological costs, opportunity costs and effects on competitiveness, innovation and foreign trade) can be collected, for example, with the help of qualitative company surveys. Special rules that link existing regulation with the increase in regulation (e.g., "one-in, one-out") can also provide an incentive and discipline to contain regulatory costs.

In order to achieve progress towards a noticeable reduction in bureaucratic burdens, it is not enough to simply evaluate the regulatory provisions and the underlying administrative procedures. Rather, the key instruments used in the various phases of the regulatory cycle to reduce bureaucracy and improve regulation should also be regularly evaluated (e.g., ex-ante impact assessments, consultations, ex-post evaluations, status of e-government).

In addition to the organisational anchoring of the topics of "Better Regulation and Bureaucracy Reduction" at ministerial level, an independent body with a

⁴ Ideally, ex-post evaluations also analyse the interaction with other legislation or measures, insofar as they are relevant to overarching life events or economic situations.

⁵ Indicators based on the standard cost model generally measure the time and direct costs incurred in complying with government legislation. However, psychological costs, opportunity costs and broader effects, e.g., on innovation and competitiveness, are not captured by the indicators. Hence, the indicators can provide an approximate, but not complete, picture of the burden of bureaucracy from the company's perspective.

regulatory oversight function (e.g., the National Regulatory Control Council (NKR) in Germany) is particularly important. A well-functioning supervisory body is an indispensable prerequisite for the effective implementation of regulatory policy. It acts as a public advocate and driver for better regulation and the reduction of bureaucracy. Depending on the country-specific organisation, the range of tasks of this supervisory body include: reviewing the quality of impact assessments, conducting studies to increase regulatory efficiency throughout the regulatory cycle, co-ordination of ex-post evaluations (also for the further development of ex-ante impact assessments), training and guidance in relation to impact assessments and strategies to improve regulatory outcomes.

The results of monitoring and evaluation are then fed into the regulatory cycle as input again. The conclusions and policy recommendations serve to increase the effectiveness and efficiency of regulation and the instruments used, and to adapt them to changing external conditions. Better regulation and the bureaucracy reduction are therefore continuous, iterative processes that are ideally constantly evolving and optimised.

2.1.5 Regulatory culture: The 4 C's – co-ordination, co-operation, consultation and communication

The success of effective and proportionate legislation and a noticeable reduction in bureaucracy also depends on the trusting co-operation between the various state actors and the relevant stakeholders. Cultural (interaction) aspects play a central role here. These can be summarised with the 4 C's – co-ordination, co-operation, consultation and communication.

According to the recommendations of the OECD (2012), policy makers at the highest political level should commit to an explicit whole-of-government policy for regulatory quality. At the same time, they should adopt an integrated co-ordination approach that considers policies, institutions and tools as a whole, at all levels of government and in the various phases of the regulatory cycle. The whole-of-government approach aims to ensure the horizontal⁶ and vertical co-ordination of regulatory activities in order to improve the coherence and

⁶ In addition to (inter-ministerial) co-ordination at federal level, this also includes, for example, the co-ordination and exchange of information and experience between municipalities or federal states.

interaction of measures and stakeholders, optimise the use of resources and promote synergies and innovations resulting from a multi-stakeholder perspective.⁷

Co-operation – the next component of a regulatory culture – goes beyond coordination. The focus is on creating co-operation structures so that all relevant players and stakeholders can contribute their respective competences and expertise to the regulatory cycle and work together in a trusting and results-oriented manner. It is important to check whether all relevant stakeholders are involved in the process and whether they can actively shape the development of solutions. An essential prerequisite for the creation of a culture of co-operation is the opening of a productive dialogue between the various stakeholders and (government) levels.

Closely linked to the co-operation aspect, is the consultation of external stakeholders. The various interest groups should be systematically involved in the regulatory process from the outset and in all phases of the regulatory cycle. On the one hand, they play an important role in determining optimal, practicable solutions. On the other, norm addressees tend to accept regulations more readily, the stronger they have been involved in the regulatory process (OECD 2021). If consultation processes only take place for formal reasons and have no real influence on finding solutions, this not only wastes scarce resources, but also undermines trust, willingness to co-operate and the regulatory culture as a whole. However, policy makers must of course also ensure that consultations are not unilaterally dominated by well-organised lobby groups ("regulatory capture").

Communication can make a significant contribution to ensuring ongoing support for the establishment of a regulatory culture. An open dialogue and regular exchange with the relevant players and stakeholders is essential for creating an environment of mutual trust and co-operation. In order to improve acceptance and implementation of regulatory provisions, their objectives and benefits should be clearly communicated. Also between the individual levels of government, exchange of information and transparency should be strengthened in order to

⁷ The creation of a whole-of-government policy for regulatory quality begins with analysing "who does or should do what" in the individual phases of the regulatory cycle and how the various state and private actors (should) interact. Therefore, a key challenge for policy makers is to gain a more comprehensive picture of the "regulatory landscape" and the (intended) distribution of tasks.

reduce information asymmetries and guarantee a joint approach. In order to inform companies, other stakeholders and the general public about the status and development of bureaucracy reduction and better regulation, regular reports on the results of regulatory policy and reform programmes should be published. Among other things, these should show how individual regulatory instruments, e.g., impact assessments, public consultations and reviews of existing regulations, work in practice.

Bureaucracy reduction and better regulation are highly complex tasks where a multitude of government and administrative institutions on different levels must co-operate with relevant stakeholders at all stages of the regulatory cycle and in the context of rapidly changing technological, economic and societal conditions. This implies that there are no "quick (permanent) solutions" and that bureaucracy reduction and better regulation must be seen as continuous, iterative processes that must be constantly optimised and adapted to changing external conditions. In this context, it is advisable to rethink from time to time the fundamental importance and objectives of bureaucracy as well as the instruments and measures used and to redesign them if necessary.⁸

2.2 Overview of Germany's strengths and weaknesses in the area of bureaucracy reduction and better regulation

2.2.1 Progress made and strengths

In general, economic policy makers have long recognised the importance of reducing bureaucracy. This is reflected, among other things, in the range of institutions, measures, programmes and procedures that have been continuously expanded since 2006 with the aim of reducing bureaucracy and ensuring better regulation.⁹

An important milestone in 2006 was the creation of the National Regulatory Control Council (NKR), which monitors that the least bureaucratic and least burdensome ways of achieving the objectives of regulation are chosen. The NKR's primary task is to scrutinise draft legislation by the Federal Government to ensure

⁸ For example, regulation that was appropriate fifty years ago against the backdrop of a specific societal, technological and economic context is no longer up-to-date today and must be adapted and modernised in line with current conditions and priorities ("update", "regulation or bureaucracy 2.0").

⁹ A detailed description of the measures implemented since 2006 can be found in Overview A1 in the appendix.

that compliance costs for citizens, companies and the public administration have been presented in a methodical and comprehensible manner. Beyond the fulfilment of its core tasks, the Regulatory Control Council is characterised – also in international comparison – by its holistic approach to bureaucracy reduction and better regulation. The NKR analyses in detail a multitude of important issues related to legal and administrative simplification and develops well-founded, practice-oriented policy recommendations.

Also in 2006, a specific unit of the Federal Statistical Office was established as a centre of expertise for methodological issues and particularly complex cost calculations. To record the costs caused by bureaucracy, the Federal Statistical Office is tasked with the regular measurement of bureaucracy costs and compliance costs. Based on the measurement results, various indicators – the bureaucracy cost index, the burden barometer and the annual change in compliance costs – are formed which reflect the bureaucracy burden in Germany. In addition, the Federal Statistical Office regularly surveys citizens and companies on their satisfaction with public administration services (life event surveys). Policy makers receive further information on the extent of bureaucratic burdens on companies through surveys and polls conducted by research institutes, business associations and business chambers.

Over the years, policy makers have taken various measures to limit the increase in bureaucracy-related costs. These include the quantitative target of reducing the annual bureaucracy costs arising from statutory information obligations for companies ("paperwork") by a total of 25%. This target was achieved in the period from 2006 to 2012 through a series of specific bureaucracy reduction measures. In 2015, the Federal Government introduced the "one in, one out" rule at federal level ("bureaucracy brake") as a limiting mechanism for the development of annual compliance costs. This means that new cost burdens may only be introduced to the extent that existing burdens are reduced elsewhere (compensation).¹⁰ Not least in order to comply with the "one in, one out" rule, the Federal Government passes bureaucracy relief laws at irregular intervals.

¹⁰ In the period from 2015 to mid-2022, the cost burden on the economy fell by €3.1 billion in accordance with the "one in, one out" rule. Since the "one in, one out" rule allows for exceptions (e.g., the implementation of EU law), it does not fully reflect the total change of the bureaucratic burden. Calculations by the NKR (2022) including the exceptions result in an increase in the burden of around €4.3 billion or a reduction in the burden of around €1.4 billion without including the minimum wage increase.

The measures intended to prevent the creation of excessive bureaucracy within the regulatory cycle include since 2016 the consideration of SME concerns in the regulatory impact assessment (SME-test),¹¹ the EU ex-ante procedure for determining the costs of EU law for Germany and the ex-post evaluation of federal regulations, which has been mandatory since 2013. Already during the legislative process, the NKR pays increased attention to ensuring that the criteria, indicators and data basis for the later ex-post evaluation are defined in the draft regulation (NKR 2021).

The Act to Improve Online Access to Administrative Services (Online Access Act, OZG), which came into force in 2017, obliges the federal, state and local governments to also offer their administrative services digitally via administrative portals by the end of 2022. The OZG was thus intended to serve as the starting signal for a sustainable transformation and digitalisation of public administration. However, the goals set with the OZG for the digitalisation of administrative processes have so far been far from being achieved – partly due to complex federal structures, different levels of digitalisation and a heterogeneous IT landscape (cf. IW Köln's "Digimeter" of public authorities (2023)).¹²

The recently introduced digital and practice checks are promising new instruments. The digital check is intended to ensure that implementation and digitalisation aspects are considered from the outset in the legislative process and that new laws are designed to be digital-friendly. Practice checks examine whether (existing) laws and their implementation can be less bureaucratic. In workshops with relevant experts, e.g., from companies and public authorities, specific practical cases – e.g., a (typical) business life event or an investment project – will be analysed together. The aim is to develop practical proposals for reducing bureaucratic obstacles and simplifying administrative procedures.

The constantly expanding range of institutions, measures and procedures demonstrates the awareness of the problem and also the will of politicians to reduce the bureaucratic burden. However, for a number of reasons, the

¹¹ According to the NKR (2020), however, the SME-test has not proven effective, partly due to its lack of practical relevance (i.e., unrealistic estimation of burden effects).

¹² Originally, 575 public services were to be available online by the end of 2022. Nine months after the deadline, however, only 145 of these services are accessible online across Germany.

measures and instruments are not effective or are not sufficient to achieve a noticeable improvement.

2.2.2 Weaknesses and need for improvement

Despite the progress Germany has made with regard to better regulation and bureaucracy reduction, various analyses – in particular by the NKR – show that there is still a fundamental need for improvement in many areas of the regulatory cycle. Based on the analyses of the NKR (2022, 2021), this chapter outlines key weaknesses in six overarching areas that stand in the way of an effective reduction in bureaucracy and practical, proportionate regulation. The detailed analyses of the German Regulatory Control Council show that the lack of an effective reduction in bureaucracy that can be felt by companies is often less due to problems of knowledge (what to do) but rather to problems of implementation.

- **Increasing the practicability of legal requirements**

Many enterprises complain about unrealistic, meaningless bureaucratic requirements that place a disproportionate burden on their business activities. The NKR (2022) also criticises that regulations are often not designed in a way that is appropriate for the target group and suitable for implementation. In future, policy makers should therefore place much more focus on the practicability of laws.

Particular importance should be attached to involving experts, relevant stakeholders and norm addressees as early as possible. New instruments such as the practice check (so far focussed on existing laws) and open laboratory formats can make a valuable contribution to gaining an evidence-based insight into the reality and practice of the norm addressees and to identifying the costs, side effects and interactions of the envisaged regulations. Furthermore, politicians should not commit to a specific regulation at an early stage, but rather use key issues papers to provide guidelines for the regulations, which are then developed by the ministerial departments together with experts from the field. In this way, a structured co-operation and feedback process can produce effective, practical and unbureaucratic solutions that politicians had not previously considered and thought of.

With regard to improving the practicability of laws, too little consideration has been given so far to the corresponding administrative procedures. Content and implementation of legislation should therefore be understood more as a unit. Since the regional or municipal level is often responsible for implementation, this

requires improved co-operation between the various government levels. The newly introduced digital check can provide valuable assistance here. As part of this new tool, the ministerial departments must demonstrate for the entire implementation process how the required administrative procedures can be carried out digitally. To do this, it is necessary to analyse the whole process in detail, map it visually and show which authorities are involved.

An improved practicability of legal requirements through the involvement of various relevant stakeholders can only be achieved if sufficient time is available for co-operation and sufficient participation deadlines are set within the legislative impact assessment. Although the joint rules of procedure of the federal ministries stipulate that the participation of addressees and the involvement of other ministries should take place as early as possible and with a sufficiently large time window (usually four weeks), the ministries regularly allow the parties involved only a few days for examination and provision of comments. In general, substantial contributions cannot be made in this short period of time. Even worse, for the participation of business associations, federal states and local authorities, there are no minimum deadlines set at all (NKR 2022). In order to utilise the important practical knowledge of these stakeholders for achieving an unbureaucratic and practicable design of legal requirements, attention should urgently be paid to sufficient participation deadlines. This is crucial for better regulation and the reduction of bureaucracy.

- **Advancing e-government in a holistic and targeted manner**

Germany is now one of the laggards within the EU in terms of e-government. By digitalising and streamlining administrative services and implementing the "once-only" principle, companies could be effectively relieved of bureaucratic burdens – primarily in the regulatory implementation phase.

The NKR (2022) proposes putting the architecture and organisation of e-government on a new footing as part of the reform of the Online Access Act (OZG). Against the backdrop of federalism, the basic aim is to achieve the right (practicable) balance between standardisation and diversity and between centralisation and decentralisation. A largely centrally designed and operated federal IT platform should essentially consist of various basic infrastructure components (e.g., company and citizen accounts, eID, data exchange infrastructure, cloud infrastructure, payment functions) as well as clearly defined standards and interfaces. This stable (central) platform should then serve as a foundation for the (decentralised) development of diverse but interoperable specialist procedures

and special services that can take into account the specific requirements of the municipalities. Competition and diversity in the decentralised development of needs-based software is not a problem in this concept, as these can be embedded in the overall structure across different authorities and administrative levels by means of orchestrating specifications such as interfaces and standards. Since not all (decentralised) authorities want to develop their own software solutions, an app store for the administration – also referred to by the NKR (2022) as a federal “IT department store” – could act as a distribution platform to facilitate the identification, procurement and distribution of pre-tested programmes that are compatible with the standards of the federal IT network. Reducing transaction costs in this way could further accelerate the process of advancing e-government in Germany.

In order for e-government to develop its full potential from the users’ perspective, significantly higher priority must also be given to register modernisation and public data management as essential foundations. To prevent authorities from requesting data more than once (“once-only” principle), existing public databases must be made transparent and easier to use, for example with the help of the newly developed administrative data information platform (VIP)¹³ of the Federal Statistical Office. However, this presupposes that the relevant data fields (e.g., important terms such as income and profit) are defined in the same way across all procedures or broken down into various demarcated and precisely defined sub-modules (which can then be combined accordingly for the respective administrative procedure).

The digitalisation of permit and approval procedures is also one of the many tasks within the scope of e-government. In all permit procedures, the files should be kept digitally so that all authorities involved have equal access to the procedural documents and an easy overview of the status of the procedure. In addition, barriers to digitalisation such as written form requirements should be removed.

¹³ For the first time, the web-based VIP provides a comprehensive overview of which data is collected where in the public administration and for what purposes (Statistisches Bundesamt 2023a).

- **Reorganising administrative responsibilities according to efficiency aspects**

The distribution of administrative responsibilities across the various government levels, as regulated by constitutional law, was implemented at a time when e-government and administrative digitalisation were still beyond imagination. Digitalisation now makes it possible to restructure administrative services and responsibilities – even across government levels – and to realise efficiency and effectiveness potentials in the process. For example, by reorganising the division of labour in accordance with the "Government as a Platform" principles (fortiss 2021; O'Reilly 2011), certain administrative services could be more centralised, thus enabling lower costs with larger quantities and higher quality (NKR 2021a). As a result, standardised sub-processes or cross-sectional tasks without a specific local reference (such as income verification) would no longer be provided decentrally in each individual municipality, but rather in specialised supra-regional or Germany-wide service centres – where they might also be processed automatically. This organisational redistribution would enable efficiency gains and economies of scale, as each individual municipality would no longer have to build up and maintain its own expertise, resources and IT infrastructure at high fixed costs. According to a report by the Potsdam Institute for eGovernment (2014), the organisational (re)design potential of e-government could be used in particular for spatial and inter-agency networking without compromising fundamental principles of state organisation. Against the background of the opportunities associated with e-government, however, it would be necessary to reinterpret the central principles of German state organisation – administrative federalism, municipal self-administration and departmental sovereignty.

Based on these considerations, a group of larger municipalities proposes in the so-called "Dresden Demands" (IT Planungsrat 2021) that the mandatory tasks assigned to the municipalities by the state or federal government (e.g., issuing ID cards, vehicle registration or re-registration) should be more centralised. The digitalisation of these procedures should be carried out by the level of government that has legally defined this task, i.e., the federal or state government. As a result of this relief and in view of increasingly scarce personnel and financial resources, the municipalities could then concentrate more on their core competences and become active in the areas in which they have their very own potential to shape the future (including public services, social affairs, culture, education, sport and new future-related tasks such as mobility, the environment, health and resilience).

- **Improving the methodology for indicators and evaluations**

The increasing bureaucratic burden perceived by companies is only imperfectly reflected by statistical indicators measuring the bureaucracy burden such as the bureaucracy cost index or the annual change of compliance costs. Consideration should be given here to the extent to which the existing indicators could be modified, supplemented with new components or to what extent new instruments could be introduced in general. The existing indicators focus exclusively on the direct time and costs required to fulfil the respective legal requirements. Other important factors that significantly influence the perception of the bureaucratic burden are not taken into account. These include, for example, psychological costs (cf. Chapter 4.2.3), opportunity costs as a result of tying up important company resources in bureaucracy as well as follow-up costs due to the restriction of entrepreneurial freedom of action with effects on growth, innovation and foreign trade. The unconsidered aspects listed above are of a highly company-specific or qualitative nature and are therefore difficult to capture using existing instruments. Although there is a qualitative measuring instrument in the form of the Federal Statistical Office's life-events surveys, this only focuses on a narrowly defined sub-area of the bureaucratic burden – the satisfaction of enterprises with eleven specific administrative services. However, the aspects not yet covered could be captured and analysed with a new, regularly conducted company survey. The aspects that have not yet been taken into account should – as far as possible – also be included in the regulatory impact assessments so that they provide a more realistic picture of the actual bureaucratic burden.

The bureaucracy cost index and compliance costs map the (direct) time and cost requirements which are associated with all analysed legislation for the economy as a whole; thus, from an overarching perspective. However, for specific enterprises – of a certain size, belonging to a certain sector and with certain business events – only part of the entirety of all regulations is relevant. The existing indicators are therefore unable to show how high the bureaucratic burdens are for specific companies or types of company and how these develop over time. This shortcoming also means that policy makers do not have a clear picture of how high the actual bureaucratic burden is for specific companies. Although corresponding calculations with compelling results have already been carried out in individual cases and for individual sectors by research institutes, chambers of commerce and management consultancies (cf. Icks/Weicht 2023, Bex et al. 2020, Deloitte 2021), it would significantly increase the level of

information available to policy makers and other relevant stakeholders if these were carried out regularly and for different economic sectors.

- **Driving forward the modernisation of public administration**

The extent of the bureaucratic burden perceived by enterprises is also significantly influenced by contacts with the authorities, for example in the handling of permit and approval procedures or when complying with information and documentation obligations. In contrast to the private sector, public administration is often still characterised by an underdeveloped user orientation. Companies therefore often complain about lengthy procedures, unclear responsibilities and too little information and support in fulfilling the various bureaucratic requirements. The modernisation of public administration is thus also an important instrument for reducing bureaucracy.

3 International comparison

3.1 Germany's position in international comparative studies

This chapter attempts to provide a brief overview of how Germany ranks in international comparisons in terms of its bureaucratic burden. However, there are no international comparative studies so far that analyse the overall bureaucracy burden for individual companies (types). The studies to date generally focus on individual aspects, such as e-government, efficiency of public services, time and cost requirements for individual administrative procedures or the existence of various policy instruments in the legislative process. These can only provide an approximate reflection of the bureaucratic burden on enterprises or the quality of the regulatory system.

In addition, comparisons are also made more difficult by the different sizes of the populations. Overall, with regard to our research objective, the informative value of the international studies is rather limited. The studies considered here (cf. Overview 1) can therefore only provide a rough indication of how high the bureaucratic burden is for German enterprises and how Germany can be categorised internationally in terms of its handling of legislation and regulation. Nevertheless, a few trend statements can be derived for Germany.

Overview 1: Germany in international comparison

Organisation Source	Contents	Year	GER rank
OECD Source: OECD (2022): Better Regulation Practices across the European Union, Paris.	Stakeholder engagement in developing primary laws --> EU comparison	2021	20/27
	Stakeholder engagement in developing subordinate regulations --> EU comparison	2021	18/27
	Regulatory impact assessment for developing primary laws --> EU comparison	2021	3/27
	Regulatory impact assessment for developing subordinate regulations --> EU comparison	2021	2/27
	Ex post evaluation for primary laws	2021	2/27
	Ex post evaluation for subordinate regulations	2021	2/27

Continued Overview 1: Germany in international comparison

Organisation Source	Contents	Year	GER rank
OECD Source: https://goingdigital.oecd.org/en/indicator/58	OECD Digital Government Index 2019	2019	26/31
European Commission Source: https://digital-strategy.ec.europa.eu/en/policies/desi	The Digital Economy and Society Index (DESI) – Digital public services	2022	18/27
World Bank Source: https://www.theglobaleconomy.com/rankings https://de.theglobaleconomy.com/Germany/	Government effectiveness	2021	25/191
	Regulatory quality	2021	12/191
	Rule of law	2021	16/191
	Voice and accountability	2021	10/191
World Bank Source: World Bank (2020): Doing Business: Comparing Business Regulation in 190 Economies, Washington .	Doing Business	2020	22/190
IMD World Competitiveness Center Source: https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-competitiveness-ranking/2023	World Competitiveness Ranking – Government Efficiency	2023	27/64
Bertelsmann Source: https://www.bertelsmann-stiftung.de/de/unsere-projekte/sustainable-governance-indicators-sgi https://www.sgi-network.org/2022/Good_Governance/Executive_Capacity	Good Governance Indicators – Good Governance Ranking	2022	9/41
Transparency International Source: https://www.transparency.org/en/cpi/2022	Corruption Perceptions Index	2022	9/180
Stiftung Familienunternehmen Source: https://www.familienunternehmen.de/laenderindex-familienunternehmen	Country index: Regulation	2022	19/21

Source: Own compilation.

Looking at the formal requirements for legislation and regulation, Germany performs well in a European and international comparison. In the area of legal framework conditions that guarantee legal certainty for companies and reduce corruption, for example, Germany receives good marks. Germany also ranks highly when formal criteria such as the implementation of regulatory impact assessments or ex-post evaluations are used as the basis for the assessment.

However, the existence and use of regulatory instruments say nothing about the impact they achieve. If we look at the quality of regulation, Germany achieves significantly worse results: For example, the country ranking of the Stiftung Familienunternehmen and the World Bank's Doing Business indicator show a high level of regulatory intensity for Germany (ranked 19th and 22nd respectively). Regulatory barriers exist, among other things, due to the number of legal provisions to be observed and the administrative procedures to be followed, as well as the time required. This also applies to foreign trade and setting up a company.

Decisions on the design of bureaucratic obligations are often taken with little reference to realistic impact analyses. This is mainly due to the inadequate involvement of external expertise (e.g., from enterprises or business associations) in the legislative process, as comparisons by the OECD show.

The result regarding the digitalisation of public authorities and administrative procedures is hardly surprising: In studies by both the OECD and the European Commission, Germany lags well behind other European countries.

The comparison of the indicators analysed here can only provide an initial indication of the bureaucratic burden and quality of regulation in the individual countries. The existence of formal instruments or the implementation of individual measures say nothing about the actual bureaucracy burden in companies. To improve comparability of the bureaucratic burden in the various countries, not only should formal criteria be analysed, but ideally concrete measurements of the actual bureaucratic burden in companies should also be carried out.

3.2 Good practice examples from the Netherlands and the UK

All countries with a market economy and the rule of law fundamentally face the same challenge of adequately regulating a wide range of life events, including economic ones, while at the same time not overburdening the addressees of the legislation and the administrative authorities responsible for implementing it with excessive bureaucratic obligations. It therefore makes sense to take a look

across the border and see how other countries deal with this challenge. The Netherlands and the UK are two countries that have long been known for their innovative and successful measures to reduce bureaucracy and improve regulation. In addition to (cursory) literature and internet research, we therefore conducted semi-structured expert interviews with ministries of economics, regulatory oversight bodies and business organisations in both countries in order to obtain suggestions for policy making in Germany.¹⁴

3.2.1 The Netherlands

The Netherlands is one of the pioneers of bureaucracy reduction and better regulation. The Netherlands developed the Standard Cost Model (SCM), which has become the worldwide standard for measuring (direct) bureaucracy costs. On its basis, the country had set two quantitative (macroeconomic) reduction targets (one of 25 % and the other of €2.5 billion). The Netherlands regularly performs above average in international comparisons – for example regarding instruments for reducing bureaucracy, efficiency of the public sector and e-government. An Advisory Board on Regulatory Burden ("Adviescollege toetsing regeldruk", ATR) was set up back in 2000, which also provided start-up support for the German Regulatory Control Council six years later. In contrast to Germany, the topic of e-government does not play a prominent role in economic policy debates on reducing bureaucracy due to the progress already made there. Nevertheless, there are also challenges that are equally important in both countries, such as the question of how excessive bureaucratic burdens from EU law can be prevented or how the municipalities and provinces or federal states can be involved in the process of reducing bureaucracy.

New qualitative policy approach to reducing bureaucracy: "Workable–Measurable–Noticeable–Findable"

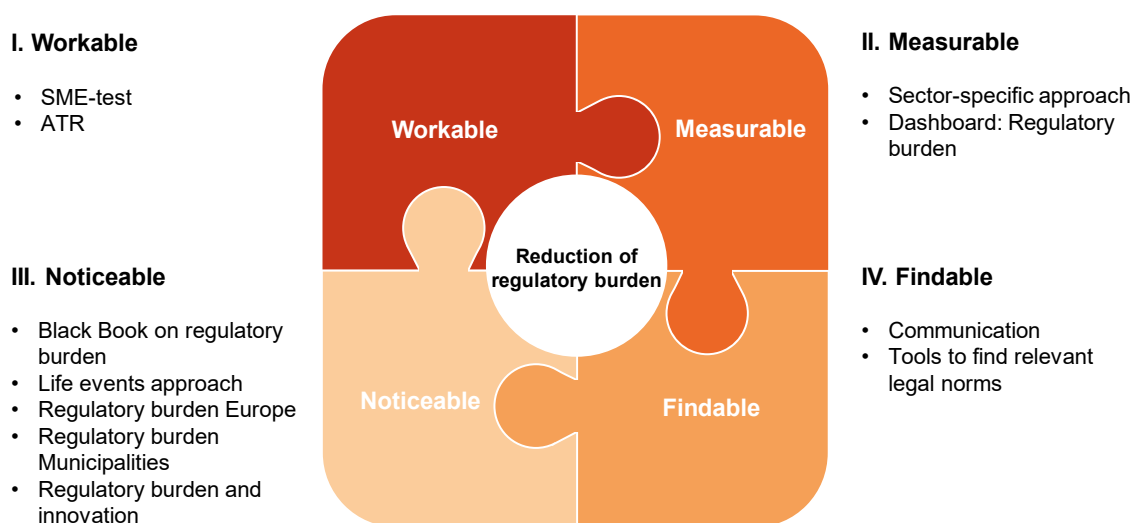
Based on the realisation that quantitative (macroeconomic) bureaucracy reduction targets often do not lead to a noticeable bureaucracy reduction for enterprises,¹⁵ the Netherlands realigned the content of its bureaucracy reduction policy in 2022 with the "Programme to reduce the regulatory burden for

¹⁴ We would like to thank all of the interviewees who provided us with interesting and multi-layered insights into the good practice measures presented in this study.

¹⁵ Above all, purely quantitative (macro) targets do not guarantee that precisely those regulations will be simplified that are perceived as burdensome by companies or that the reduction will be achieved in those sectors that suffer relatively most from the bureaucratic burden.

entrepreneurs – rules that work and reduce burdens" (EZK 2022). In particular, those components have been incorporated into the programme that pursue a qualitative approach. Overall, the new programme aims to review existing and new laws in close co-operation with entrepreneurs and business associations, identify (implementation) difficulties and solve them together. In addition, wherever possible, regulations are to be simplified in a targeted manner and in line with the perceived burden. In this way, the Dutch government aims to increase the practicability, implementability and proportionality of regulation and achieve a noticeable reduction in the bureaucratic burden. The programme is made up of four – not always clearly distinguishable – building blocks, each of which has a keyword to illustrate its objective: (I) Workable – (II) Measurable – (III) Noticeable – (IV) Findable (cf. Figure 2). Annual progress reports should provide information on the results achieved in the individual areas (for 2023, cf. EZK 2023).

Figure 2: Components of the Dutch programme to reduce the regulatory burden for entrepreneurs



Source: EZK (2023).

The first building block ("Workable") currently includes an SME-test and the Dutch "Advisory Board on Regulatory Burden" ATR ("Adviescollege toetsing regeldruk"). The SME-test, which was introduced in 2018, aims to increase the practicability and implementability of new laws. To this end, virtual online

meetings are being held where five to ten SME entrepreneurs discuss specific implementation difficulties and opportunities for improvement (see more details in the "SME-test" section below).

The ATR carries out very important work that is valued by all relevant stakeholders in politics, economy and society. As a large part of the annual bureaucratic burden in the Netherlands is directly or indirectly attributable to EU law, the ATR will in future be tasked with systematically analysing the impact of new regulatory proposals from the European Commission ex ante and assessing potential bureaucratic burdens for the Netherlands. It has not yet been decided how exactly the analysis will be carried out and to what extent enterprises will also be consulted – e.g., as part of an SME-test.¹⁶ A second extension of the mandate includes the option of a formal advisory role for the ATR in the development of political solutions at a very early stage of the political decision-making process. In this way, considerations regarding possible bureaucratic burdens and implementation difficulties should be taken into account at an early stage of policy development.

Within the second building block ("Measurable"), a sector-specific approach is being pursued in order to identify and simplify the legislation that causes the greatest bureaucratic burden for selected sectors in co-operation with enterprises and business associations (see more details on the "SME indicator companies" project in the following section). In addition, the current progress of the programme to reduce the bureaucratic burden on entrepreneurs is presented on a special website (<https://www.regeldrukmonitor.nl>) in the form of a dashboard. This also includes a detailed monthly report – going back to 2018 – on the development of the so-called regulatory pressure costs ("regeldrukkosten"), broken down into structural (periodic) costs and one-off costs. The cost presentations for a completed full year also show the extent to which the relevant costs are attributable to national or EU law.

¹⁶ Here, issues such as confidentiality and timing must also be taken into account. SME-tests are usually carried out at a relatively early stage in the legislative process. If the test is carried out too early, enterprises perhaps cannot be invited because the EU legislative proposal may not yet have been published. – In addition, the extent to which the national ex-ante review of EU law can be organised effectively and efficiently overall should also be considered more in principle. If each EU country carries out its own (extensive) review, a lot of resources will be tied up. A greater centralisation of the assessment procedures with the involvement of national stakeholders could be an approach worth considering.

Measures within the third building block ("Noticeable") aim to identify bureaucratic obstacles in various areas and contribute to a noticeable reduction in bureaucracy. Suggestions for reducing regulatory burdens include:

- the Black Book on the regulatory burden (a collection of 84 bureaucratic obstacles compiled by the largest SME business association in 2022),
- the life events approach, which uses the customer journey method to holistically analyse perceived regulatory obstacles in connection with important events and changes in the life cycle of a company, e.g., company foundation, financing, liquidation,
- Regulatory burden Europe: (1) Avoiding unnecessary burdens through new regulations (improving the legislative process and the use and quality of instruments such as consultations, evaluations and impact assessments by integrating practical assessments from practitioners), (2) eliminating specific bottlenecks in existing regulations (e.g., by means of the "Fit for Future" platform),
- Regulatory burden Municipalities: (1) Co-operation with the Association of Local Authorities VNG to improve the support services of municipalities (and their communication) for companies and to disseminate examples of municipal good practice, (2) Complaints mechanism: Municipalities inform the responsible policy makers at national level about complaints and implementation difficulties with national laws,
- Regulatory burden and innovation, inter alia:
 - Establishment of demonstration rooms (living labs), e.g., for innovative start-ups,
 - Pilot project "AskSenna": innovative chatbot-based website that systematically picks up signals from innovative start-ups and scale-ups about obstructive laws and offers support in overcoming bureaucratic challenges (<https://asksenna.nl>).

Within the fourth building block ("Findable"), economic policy focuses on better communication and support in complying with regulation. The aim is to make it easier for enterprises to find, understand and apply the regulations relevant to them. This should also help to reduce discontent and confusion on the part of companies. For example, so-called regulatory aids ("regelhulpen") have so far been created for around 15 different use cases – from climate protection to cyber security, from foreign trade to innovation (RVO 2023). These are interactive digital tools that explain complex (regulatory) issues for companies by going through a decision tree. As a result, the company receives tailored advice or a

personalised step-by-step plan.¹⁷ In addition, the potential of emerging regulatory technology ("RegTech") for the creation of a special information tool for enterprises will soon be examined as part of a feasibility study. If feasible, the tool should use artificial intelligence and machine learning to create up-to-date overviews on the obligations arising from laws and regulations that must be observed by a particular enterprise in its specific situation. Ideally, RegTech can ensure that enterprises, supervisory authorities and legislators gain a better and easier insight into the specific regulations to be fulfilled.

Due to the close co-operation with companies and business associations, the new Dutch approach to reducing regulatory burdens appears to be more labour-intensive and time-consuming than the traditional, quantitatively oriented reduction of bureaucracy according to the "one in, one out" principle or on the basis of a concrete (macro) reduction target. On the other hand, it also promises to be more effective, more transparent and more participatory. The reduction of bureaucratic burdens is not imposed on enterprises from "above" and without their active participation, but is carried out in co-operation with the companies and using their practical experience and knowledge. Ideally, the legislation that creates the greatest burdens can thus be identified and noticeably simplified. With the new qualitative approach, not only direct (statistically measurable) bureaucracy costs (time and costs) can be addressed, but also psychological costs, opportunity costs and follow-up costs of the bureaucratic burden.

The new programme to reduce regulatory burdens is generally viewed positively and as a progress by the business associations, especially because a number of measures are also being implemented in co-operation with them. Nevertheless, they plead for the continuation of setting quantifiable (macroeconomic) bureaucracy reduction targets, as the regulatory burden has increased by more than €5 billion since 2018 and concrete, accountable net reduction targets would be urgently needed.¹⁸ Furthermore, the business associations are also in favour

¹⁷ Examples of regulatory aids include: "SME Climate Work" on the opportunities and obligations of the climate agreement (<https://regelhulpenvoorbedrijven.nl/mkbklimaatwerk/#/>), the "Export Guide" (<https://regelhulpenvoorbedrijven.nl/exportwijzer>) and the "Energy Saving Check" that entrepreneurs can use to check which energy-saving obligations they have to fulfil (<https://regelhulpenvoorbedrijven.nl/wetcheckerenergiebesparing>).

¹⁸ During the Dutch cabinet period from October 2017 to the end of December 2021, 90 % of structural and 54 % of one-off regulatory costs were attributable to EU regulations (EZK 2022). If quantitative (macroeconomic) reduction targets relate (largely or exclusively) to national legislation, this would possibly focus the bureaucracy reduction on areas of law that have not primarily contributed to the build-up of the regulatory burden in the first place.

of anchoring exemptions for SMEs more firmly in the legislation, deleting legal norms that cannot be implemented and reducing the costs for external consultants (Baas 2023, Koninklijke Metaalunie 2023, Metaalkrant 2023).

SME-test

As an important policy measure within the "Workable" building block, the SME-test introduced in 2018 aims to increase the quality and implementability of new laws by incorporating practical SME expertise and to indirectly reduce potential bureaucratic burdens (EZK 2023a). At a relatively early stage in the legislative process, a minimum of five and a maximum of ten SME entrepreneurs discuss the practical feasibility of new legislative proposals in an online meeting lasting approx. one to two hours, which is chaired by a "neutral" chairperson (not affiliated with the responsible ministry). Representatives from business associations are deliberately not invited to the online meetings, since the focus is on the direct practical experience of the entrepreneurs. Moreover, company owners should also feel that they can "speak freely". Business associations can submit their comments during the internet consultation, which takes place later and is regularly organised for all new legislative proposals. For each SME-test, a new panel of experts is appointed. The participants should cover different company size categories and specialisations. Ideally, the entire process from the preparation of the SME-test until the composition of the results report should take four weeks. The results of the SME-test must be included in brief form in the explanatory text accompanying the legislative proposal in question. It must also explain how and why the key comments and recommendations of the SMEs have been considered (or why not).

SME-tests are to be carried out for all new legislative proposals that are likely to have a major impact on SMEs.¹⁹ By mid-2023, a total of 61 SME-tests had been carried out to date, half of which had an impact on the legislative proposals under discussion. In some cases, they led to significant legislative changes or even

¹⁹ The SME-test is also a mandatory ingredient of the new policy compass ("Beleidskompas"), which is the central working method for policy development by the national central government (Rijksoverheid 2023). The policy compass sets out a process structure based on the idea of a cycle with five steps for policy development. At each step, the responsible parties must consider, among other things, which stakeholders need to be involved. The compass offers practical guidance and best practices for each step and identifies contacts who can provide further assistance. The aim of the policy compass is to ensure that the process of policy development or legislation is carried out carefully, that all relevant interest groups are involved, that all quality requirements are taken into account and that various alternative courses of action are considered.

to the proposal being withdrawn. As a rule, they result in a streamlining or optimisation of certain practical contents of the proposed legislation. The SME-test was evaluated in 2021 with fundamentally positive results: the legislative specialists from the ministries involved and the participating entrepreneurs almost always rated the SME-test as useful. Based on a recommendation from the evaluation, the SME-test since then always includes a question which asks whether there are less burdensome alternatives to the proposed legislation under discussion.

The key added value of the SME-test compared to other more formal and unrealistic instruments with a similar objective (e.g., the test with the same name in Germany) lies in the concrete inclusion and interaction of the multi-layered expertise and knowledge of SME entrepreneurs and in the high practical relevance of the content discussed. In contrast, the content of the internet consultations is often more abstract in nature. Furthermore, entrepreneurs are often reluctant to produce lengthy written statements – not least due to time constraints – preferring instead to discuss specific practical challenges and develop solutions in dialogue with each other.

The biggest challenge for the SME-test is the timely acquisition of sufficient entrepreneurs willing to participate. In order to refute the possible objection of "hand-picked" companies, it is not the responsible ministry that invites participants, but the co-operating largest SME business association in the Netherlands. Although the business association has a database of more than 1,000 enterprises of different sizes, sectors and with different legal interests that are generally willing to participate, it can sometimes be difficult to acquire at least five participants at short notice. An SME-test is now only scheduled and prepared if the business association has previously declared that the proposed legislation is sufficiently important for SMEs and that it is likely that enough participants can be found.

An SME-test in a similar form – primarily with representatives of affected business organisations and implementing authorities – is also to be carried out in future for selected laws that came into force a year ago and for which there have been multiple complaints from enterprises and public authorities regarding major implementation difficulties and bureaucratic burdens.

SME indicator companies

The new tool of "SME indicator companies" was used in 2022 to determine the total regulatory burden for six ideal-typical companies of different sizes from six different sectors (hairdressing salon, hotel, fashion business, mechanical and plant engineering, construction company, meat producer) (Sira Consulting 2023).²⁰ The SME indicator companies are designed in such a way that the majority of the legal obligations they have to comply with also apply in a similar way to other SMEs with employees in the sector in question. The total regulatory burden for each of the six ideal-typical companies was determined by means of empirical surveys of four to five reference companies per sector that had as many similar characteristics as possible. The industry-specific results were discussed with various industry experts and other enterprises from the same sector.

In the study, the regulatory burden of an SME indicator company is assessed for each individual legal obligation to be observed not only on the basis of costs, but also on the basis of implementability/practicability issues and assigned to one of four assessment categories. By linking the cost and implementability assessment, each legal obligation can be mapped in a so-called regulatory burden matrix (cf. Figure 3). This gives economic policy makers an indication, for example, of which regulations cause particularly high costs and are at the same time considered by companies to be impossible or difficult to implement (high regulatory burden). Similarly, there are obligations that cause relatively low costs but are judged to be impossible or difficult to implement (high perceived regulatory burden). Legal obligations that cause high costs but are easy to implement are categorised as "high regulatory costs". Finally, there is no need for economic policy action in the case of regulations whose implementation is simple and causes only low costs (low regulatory burden).

²⁰ The consulting firm carrying out the analysis already used this tool in a similar form in 2019 for a study on the bureaucracy burden in the German hospitality industry on behalf of the Association of German Chambers of Industry and Commerce (DIHK) (Bex et al. 2020).

Figure 3: Regulatory burden matrix

		Regulatory costs			
		Business as usual	Low	Average	High
Implementability	Unworkable	High perceived regulatory burden Regulatory costs are low, but the obligations are impossible or difficult to implement. This may be due to rules being unclear or having limited relevance to information or activities within business operations. Reduction measures will be noticeable because they eliminate annoyances.		High regulatory burden The costs of complying with legal obligations are high and at the same time, companies find the obligations impossible or difficult to implement. Reduction measures will therefore be noticeable for companies.	
	Poor				
Implementability	Average	Low regulatory burden The costs of complying with legal obligations are low and companies consider workability as good or average. Measures to reduce these obligations will only have a limited impact.		High regulatory costs Regulatory costs are high, but implementation is feasible. Reduction measures for these obligations are directly noticeable in financial terms. In terms of ease of implementation, little effect is to be expected.	
	Good				

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Source: Sira Consulting (2023).

By evaluating the individual legal regulations according to cost and implementation aspects, an overview can be drawn up of the obligations that place the greatest burden on companies in the six sectors analysed. Based on the results of the study, economic policy will develop a programme with specific bureaucracy reduction measures in consultation with the responsible ministries and business associations. Among other things, economic policy will examine the extent to which more thresholds can be introduced for those obligations that entrepreneurs perceive as difficult or impossible to implement.

According to the results of the study, the SME indicator companies have to comply with a total of 71 to 93 legal obligations. The costs of the regulatory burden range from €38,000 to over €240,000 per year – the range depends on the size of the company and the type of activity.²¹ 15-45 % of the total regulatory burden is accounted for by internal costs and 55-85 % by external costs. For around 70 % to 90 % of obligations, implementability is rated as appropriate to good,

²¹ In contrast, Icks/Weicht (2023) identified a significantly higher number of legal regulations to be observed and a higher absolute cost burden for companies in the German mechanical and plant engineering sector.

while 10 % to 30 % of obligations are perceived as difficult or impossible to implement (Sira Consulting 2023). This is often due to the fact that the obligations are too complex or unclear or do not fit well with business practice. The study therefore shows that when drafting legislation, careful consideration should be given to how the impact of the obligations on SMEs can be taken into account as far as possible.

3.2.2 UK

Like the Netherlands, the UK is one of the pioneers of bureaucracy reduction and better regulation. The beginnings of bureaucracy reduction date back to the 1990s. At that time, however, the reduction of regulatory burdens was mainly achieved through (predominant) deregulation activities and was not very methodically oriented and steered. Over time, however, policy makers have increasingly refined and optimised the range of measures. The British regulatory system now occupies top positions in many international comparisons. Bureaucracy and regulation are also often viewed from a strategic perspective in terms of the extent to which they promote innovation and growth and contribute to overall economic prosperity. The special features of the British regulatory system include the tradition of "common law" and a large number of independent regulatory authorities at local, regional and national level, which have their own responsibilities with regard to the enactment and implementation of legislation (Cabinet Office 2017).

Reform of the Better Regulation Framework (BRF) and strengthening of informal cultural change

With effect from 19 September 2023, a far-reaching reform of the British legislative process ("Better Regulation Framework", BRF) came into force, following broad internal and external consultation (DBT 2023). The BRF regulates the legislative process in the sense of a cycle²² and ensures that the principles of better regulation are applied when the government develops proposals for new UK legislation. The reform involves fundamental changes, particularly in the following three areas.

²² Cf. the iterative so-called "ROAMEF cycle", which consists of the following phases: Rationale – Objectives – Appraisal – Monitoring – Evaluation – Feedback (HM Treasury 2022).

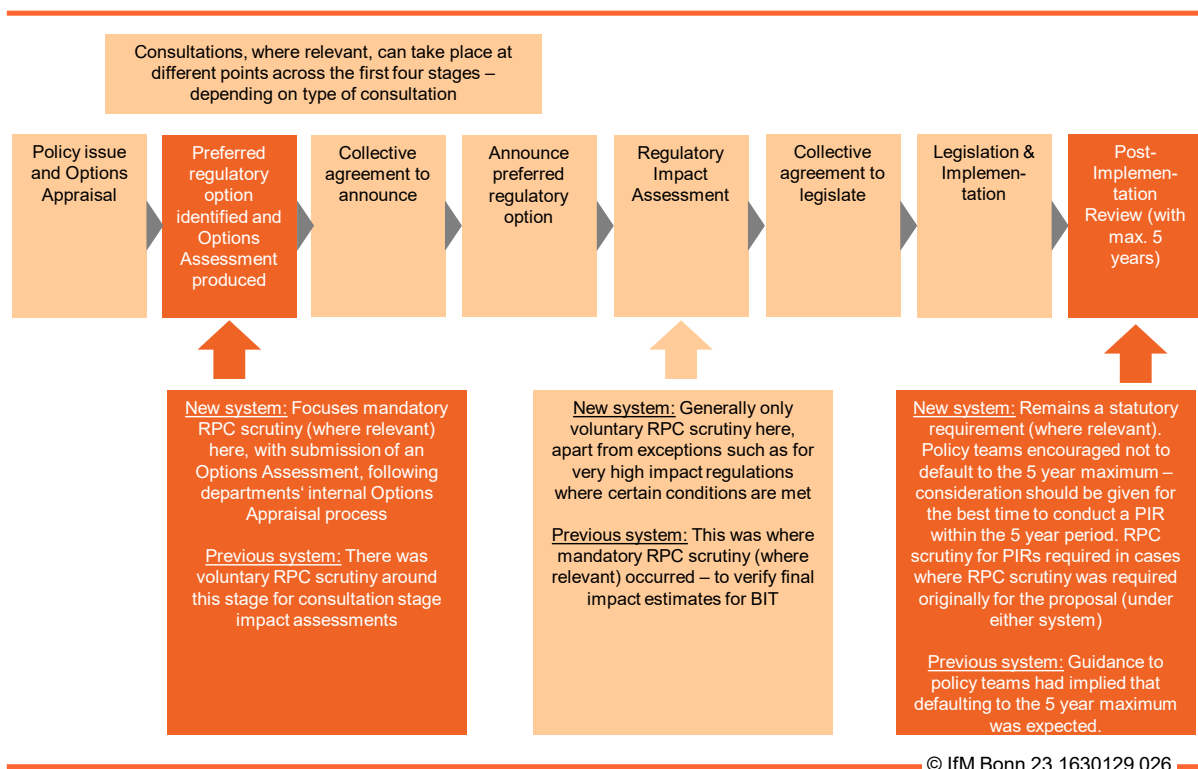
Early scrutiny of non-regulatory alternatives: As outlined in chapter 2, a fundamental problem in the legislative process in many countries is that politicians or the responsible ministries commit themselves too early to specific instruments and programmes to achieve objectives and do not (or not enough) consider possible alternatives with greater efficiency and less bureaucratic burden. The reform of the BRF addresses this shortcoming: In a change to previous practice, the scrutiny mandate of the British regulatory oversight body – the "Regulatory Policy Committee" (RPC) – will be shifted significantly forward in the regulatory process (cf. Figure 4). In future, the review is to focus primarily on assessing the arguments in favour of statutory regulation in order to ensure that government only regulates with legislative norms where and to the extent that it is absolutely necessary.²³ This is intended to ensure that the responsible ministries comprehensively examine the possible use of alternatives to statutory regulation (e.g. no regulation, voluntary commitments, co-regulation, etc.) at an early stage of policy development. The new procedure generally applies to all regulatory projects with an (expected) equivalent annual net direct cost to business (EANDCB) of at least £10 million. In these cases, the line ministries must carry out an options assessment (OA) and submit it to the RPC for scrutiny. The options assessment should set out in a transparent and evidence-based manner which option has been selected and for what reasons, and should also include an initial cost-benefit analysis.

The standardised contents of the options assessments include (1) the rationale for intervention, (2) the different options considered to deliver the policy objective, including alternatives and assessments of the impact on micro and small enterprises (SaMBA), (3) the approach taken for selecting the best option from a shortlist produced, (4) the "scorecard" with initial estimates²⁴ of the expected cost burden on companies, the net benefits for society and the economy and the wider impact of the planned statutory regulation on foreign trade, innovation and net zero climate targets and (5) an initial (M&E) plan for monitoring after entry into force and for subsequent ex-post evaluation.

²³ Cf. DBT (2023a): "*Ensuring regulation is a last resort, not a first choice.*"

²⁴ At this early stage of the regulatory process, only estimates and trend statements are possible.

Figure 4: Overview of the main phases of the reformed Better Regulation Framework



Source: DBT 2023.

In the further course of the legislative process, the responsible ministry independently carries out a (conventional) Regulatory Impact Assessment (RIA), which only has to be examined by the RPC if the expected cost burden for the economy amounts to at least £100 million per year.

Better evaluation: With the reformed Better Regulation Framework, more emphasis will also be placed on the timely ex-post evaluation of laws that have come into force ("Post-Implementation Review"; PIR). This essentially involves ministries comparing estimated with actual effects (including unintended consequences) in order to assess whether the objectives of the measures have been achieved, whether the objectives are still valid and relevant and whether they could be achieved more efficiently. The post-implementation reviews are to be scrutinised by the RPC only if the regulatory impact assessment was also subject to scrutiny beforehand.

Wider impact assessment: The third major change compared to previous practice is that a wider assessment of impacts on society, businesses, households and the business environment (e.g., competition and innovation), international trade and investment, environment and decarbonisation is carried out within the

options assessments. Where possible, an analysis of distributional effects and non-monetised impacts should also be presented.

Overall, the reform of the Better Regulation Framework aims to ensure that government regulation is proportionate and is only applied where alternative, non-regulatory approaches would either fail to achieve the desired policy outcomes or would only do so at disproportionate cost. By basing ministerial decisions on a robust cost-benefit analysis of the various options, the BRF helps to ensure that new legislation is only enacted where there is clear evidence that it will deliver positive outcomes for the economy and society, and that it is implemented and enforced in a way that minimises the burden on business and consumers and takes into account other policy objectives such as innovation and competition.

Cultural change: In addition to the formal redesign of the Better Regulation Framework, capacity building and the associated strengthening of a culture of co-operation within the UK regulatory system is also of key importance. This process, often explicitly referred to as "culture change", aims not only at sensitising the various government authorities for the use of suitable analytical tools and at training them accordingly. It also aims to promote a culture of early, open communication (e.g., between the Regulatory Policy Committee and the specialised ministries) and a culture of often informal exchange of information and experience. The corresponding advisory and training services offered by the British Regulatory Policy Council (RPC) include the development of guidance documents for ministries, regulatory authorities, companies, interest groups and NGOs involved in the regulatory process (RPC 2019), as well as e-learning courses (e.g., effective consultations, cost-benefit analysis, ex-post evaluations) and specific training sessions for analysts and policy professionals (in the specialised ministries). The overarching aim of the cultural change is to establish an open culture of knowledge sharing with regular meetings and clear lines of communication throughout the regulatory system. Although the individual stakeholders (e.g., RPC and line ministries) have different responsibilities and competences (sometimes also control competences) within the formal Better Regulation Framework, close contact and informal exchange²⁵ should lead to a

²⁵ To promote a culture of co-operation, the RPC relies, among other things, on face-to-face meetings, attendance at events, speaking engagements, roundtables and seminars, regular working and senior level one-to-ones, reports and papers, social media, and working level engagement via the RPC secretariat (cf. Aepler et al. 2020).

commitment to a common goal ("world-best, growth- and innovation-promoting regulation")²⁶, which indeed can only be achieved together – and not alongside or against each other.²⁷

Cultural change is a long-term process that cannot be "imposed from above", but can only be promoted through information, counselling, training and appropriate incentives. The individual players in the various institutions involved should therefore also see themselves as active co-owners of the process to reach the common goal. However, a suitable try-and-error or learning culture is also required to achieve the objectives. Existing instruments (such as ex-ante impact assessments), but especially new instruments, do not necessarily have to be "perfect", but should be continuously improved through joint work and subsequent evaluation. This also includes, for example, the willingness to recognise that ex-ante assessments – in view of a rapidly changing environment and limited information – can generally estimate future costs, benefits and impacts only in an approximative manner, but not entirely correct.²⁸ Thus, in future, policy makers plan to place even greater emphasis on identifying any "blind spots" and unforeseen effects by systematically analysing (completed) ex-post evaluations. The findings ("lessons learned") should ultimately be used to further improve the quality of future ex-ante impact assessments and also to optimise existing policy measures – for example, by reducing the cost and time required to achieve a specific policy objective.²⁹ Hence, the term "innovation" plays an important role for the UK regulatory system in two ways: on the one hand, the regulatory measures taken should ideally help to promote innovation on the part of companies. On the other hand, however, it is also about achieving (new and existing) policy objectives with innovative measures that impose as little burden as possible.

²⁶ Cf. HM Government 2022.

²⁷ The RPC has repeatedly found out that regulatory impact assessments prepared by line ministries are of a higher quality and that the review process is easier and smoother if contact is made with the RPC during the preparatory phase. As the line ministries "internalise" the RPC's perspective over time through the many (informal) contacts, this not only increases the quality of the submitted ex-ante assessments, but also reduces the "transaction costs" in the regulatory process (reduced use of time and resources).

²⁸ Cf. RPC assessment of the ex-ante estimates: "*We 'guesstimate' that as well as we can.*"

²⁹ The importance of such a learning or try-and-error culture is succinctly illustrated by the assessment of the British RPC: "*If it turned out, you could have done this a lot cheaper and got the same effect – that is a fantastic thing to learn from an ex-post evaluation.*"

Business Perceptions Surveys

Bureaucracy reduction and better regulation are long-term processes. In order to ensure that the (policy) measures taken are going in the right direction and contributing to a reduction in red tape, the UK Department for Business and Trade has been conducting Business Perceptions Surveys every two years since 2007.³⁰ These are representative qualitative surveys of around 2,000 enterprises with at least one employee.

The surveys each cover several subject areas. The current survey from 2022 is structured as follows (cf. questionnaire in DBT 2023c):

- Company characteristics, company performance in the past year, challenges;
- Motivation for compliance with regulation, total time spent, development of the cost burden, components of the bureaucratic burden;
- Assessment of the government's approach to reduce bureaucracy;
- Dealings with national and local regulators;
- Use and cost of external compliance support;
- Expected changes to the bureaucratic burden in the next year.

The Business Perceptions Surveys are an important source of information for the government to assess how far the measures to reduce the bureaucratic burden have been felt by companies and where efforts need to be focused. In order to determine the extent to which enterprises actually perceive a noticeable reduction in bureaucratic burdens over time, the majority of questions asked are the same or very similar. In addition, current policy topics are also addressed in the surveys – in the current issue, for example, companies' assessments of the bureaucratic burden during the Covid-19 pandemic and during the Brexit transition phase. As longitudinal comparisons are of crucial importance for the informative value of the surveys, the methodology remains largely unchanged in terms of sampling, questionnaire design, fieldwork and weighting.

The Business Perceptions Surveys with their perspective on bureaucracy, regulation and policy (measures) are an important feedback instrument for policy development in the UK. The results are often cited in strategy papers by the UK government, for example, to highlight the success of existing policies or the need

³⁰ In the initial phase from 2007 to 2010, the surveys were conducted annually.

for improvement in certain areas (e.g., promoting innovation). Particular insights are gained from longitudinal analyses over time.

Rethinking bureaucracy and regulation

In Germany, economic policy discussions on the topic of bureaucracy often focus primarily on the reduction of reporting and information obligations ("paperwork"), the backlog in the area of e-government or on individual nonsensical or disproportionate regulations. These and similar aspects are undoubtedly important in order to relieve (individual) companies of bureaucratic obligations. In contrast, the economic policy discourse and the government's strategy papers in the UK appear to be more holistic, more strategic and seem to have a longer-term focus. As a result, the term "bureaucracy" is rarely used there. Instead, discourse and documents concentrate much more strongly on the quality of regulation, i.e., the legal framework within which companies operate and (can) generate added value.

The UK regulatory system – i.e., the (cycle) procedure in which regulatory norms are being developed, implemented and reviewed – ranks highly in many international comparisons. Many UK government strategy papers actively emphasise and communicate the high strategic importance and international pioneering position of the UK regulatory system. It is seen as a key success factor ("national asset") that contributes to innovation, competitiveness and ultimately societal prosperity.³¹

In the UK, the policy discourse therefore focuses less on small scale bureaucracy and the static categories of time and cost requirements. Instead, the focus is more on the importance of the regulatory system as a dynamic competitive factor in the international competition for attracting and maintaining innovative companies. If enterprises are excessively restricted in their development by sub-optimal legal framework conditions (including legal requirements and interdictions) and complicated permit procedures, this results in negative consequences and high follow-up costs for the individual company and, in aggregate, for the

³¹ Accordingly, the UK Department for Business and Trade (DBT 2023a) explains in its document "Smarter Regulation to Grow the Economy": "*The productivity of British businesses is the fundamental driver of our economic performance, and in turn the prosperity of every household. When we tie businesses up in red tape we limit their ability to innovate and hamper our national growth prospects*".

economy as a whole, which can (significantly) exceed the immediate time and cost effects.

Against the backdrop of rapid technological, economic and societal change, the UK government is endeavouring to adapt and develop the regulatory system and regulatory norms accordingly. As a result, the regulatory approach is to be reorganised in such a way that it promotes and stimulates innovation for the benefit of society and the economy as a whole. Regulation interpreted in this way would not serve traditional (outdated) monitoring and control purposes, but should rather constitute – in the sense of "regulation as a service" –an essential framework condition that supports competitiveness and innovation.

To this end, the UK government's white paper "Regulation for the Fourth Industrial Revolution" (HM Government 2019) identifies various key areas for action in order to adapt regulation to the new challenges. In addition, the expert committee of the Regulatory Horizons Council (RHC) identifies the implications of technological innovations with high potential benefits for the UK economy and society and advises the government on suitable forms of regulation (RHC 2023).

Another approach to rethinking bureaucracy and regulation is the policy approach of "ethical business regulation" (Hodges 2016), which is based on findings from behavioural economics. This involves moving away from conventional "command and control" approaches towards more risk-based "enable and motivate" approaches. This paradigm shift is illustrated, i.a., by new constellations where public authorities and companies make joint efforts – based on risk assessments – to achieve important protection goals in partnership and in a trusting exchange of information and experience. So-called "black sheep" must of course be sanctioned accordingly. If enterprises – intrinsically motivated and equipped with appropriate (trust) leeway – pursue important protection goals in this way, this does not only improve the effective achievement of policy objectives (cf. Blanc 2020), but also reduces bureaucracy. Furthermore, it is also more in line with contemporary ideas of how the state, companies and citizens should interact and co-operate in the 21st century. The "ethical business regulation" approach is already being successfully applied in a number of (business) sectors in the UK, e.g., civil aviation, the pharmaceutical industry and medical devices, water, energy, food standards, gambling, equality and human rights.

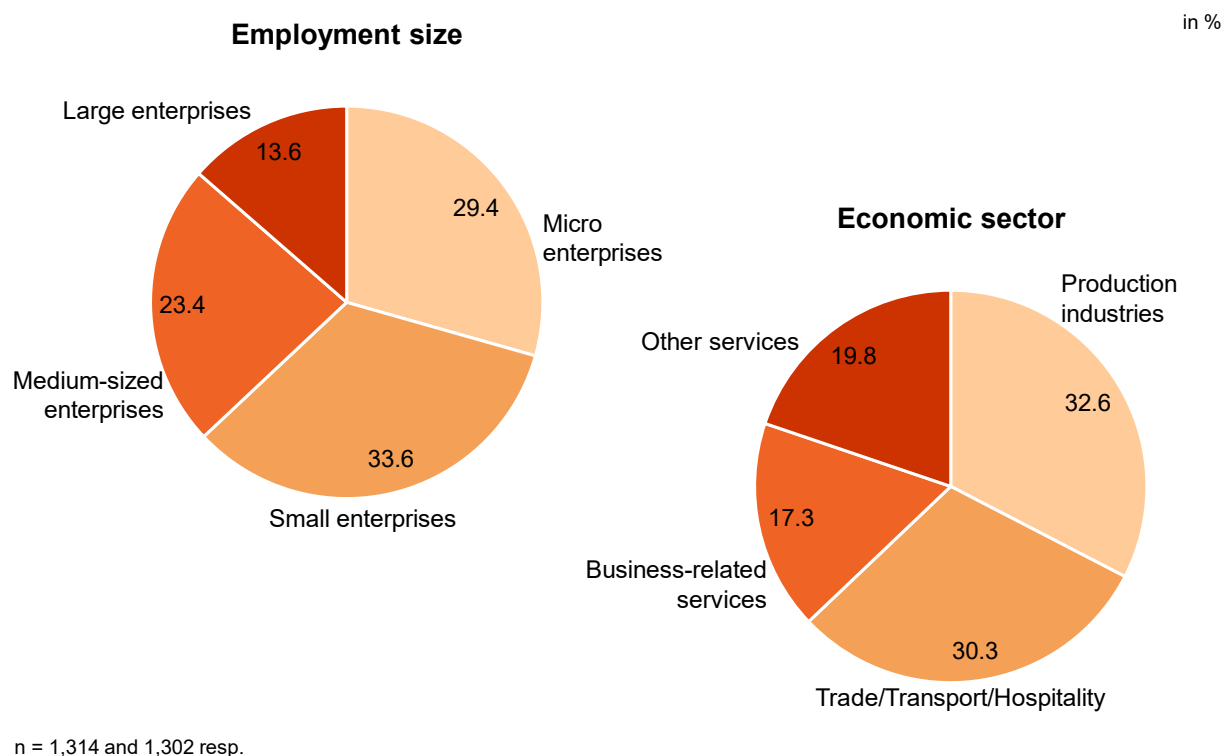
4 Company survey

4.1 Data basis

The nationwide company survey was conducted in August and September 2023 as an online survey. The companies addressed were selected by drawing a stratified random sample. The population consisted of all enterprises, both with and without employees, whose head office is located in Germany. The companies were contacted by e-mail. A total of 1,034 companies took part in the survey. This corresponds to a response rate of 3.2 %.

In addition, business associations and other intermediaries supported the survey by drawing attention to the survey via various channels, such as newsletters or homepages, or by contacting enterprises directly. Enterprises addressed this way participated via a separate link. A total of 291 companies took part in the survey in this way. This means that a total of 1,325 enterprises participated in the survey, which are distributed across different size categories and sectors as follows (cf. Figure 5).

Figure 5: Distribution of the sample by employment size classes and economic sectors



Based on employment size class and economic sector, we extrapolated the answers of the participating enterprises to the population of all companies in Germany. We can thus make representative statements about the entire enterprise population in Germany.

4.2 Perception of the bureaucratic burden

As part of a previous study on companies' perceptions of bureaucracy, IfM Bonn developed in 2019 three different perception types based on certain constituent characteristics of the bureaucratic burden (cf. Holz et al. 2019). We called these three perception types "the Unencumbered Type", "the Pragmatic Type" and "the Grumbling Type" (cf. Overview 2). Each perception type has homogeneous characteristics, but at the same time clearly distinguishes itself from the other types (cf. Schmidt-Hertha/Tippelt 2011). An explorative factor analysis shows a close statistical correlation between three characteristics.³² The perceived overall burden, the perceived efforts required to fulfil bureaucratic requirements and the degree of emotionality evoked by bureaucracy form the common factor: the perception of bureaucracy. We then combined the ratings of these three characteristics. This gives us a measurable (aggregated) value for the perception of bureaucracy. If the values are low, they reflect the Unencumbered Type. Medium values represent the Pragmatic Type, while high values represent the Grumbling Type.

Overview 2: Characteristics of the three perception types

Constituent features	Perception Type		
	The Unencumbered	The Pragmatic	The Grumbling
Perceived overall burden	very low	medium	very high
Perceived proportionality of efforts	reasonable	partly reasonable	disproportionate
Degree of emotionality evoked by the topic	very low	medium	very high

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Source: IfM Bonn 2019.

The Unencumbered Type generally considers the bureaucratic burden as being low or reasonable. They tend to assess bureaucracy on a factual basis and recognise the necessity that the implementation of bureaucratic obligations

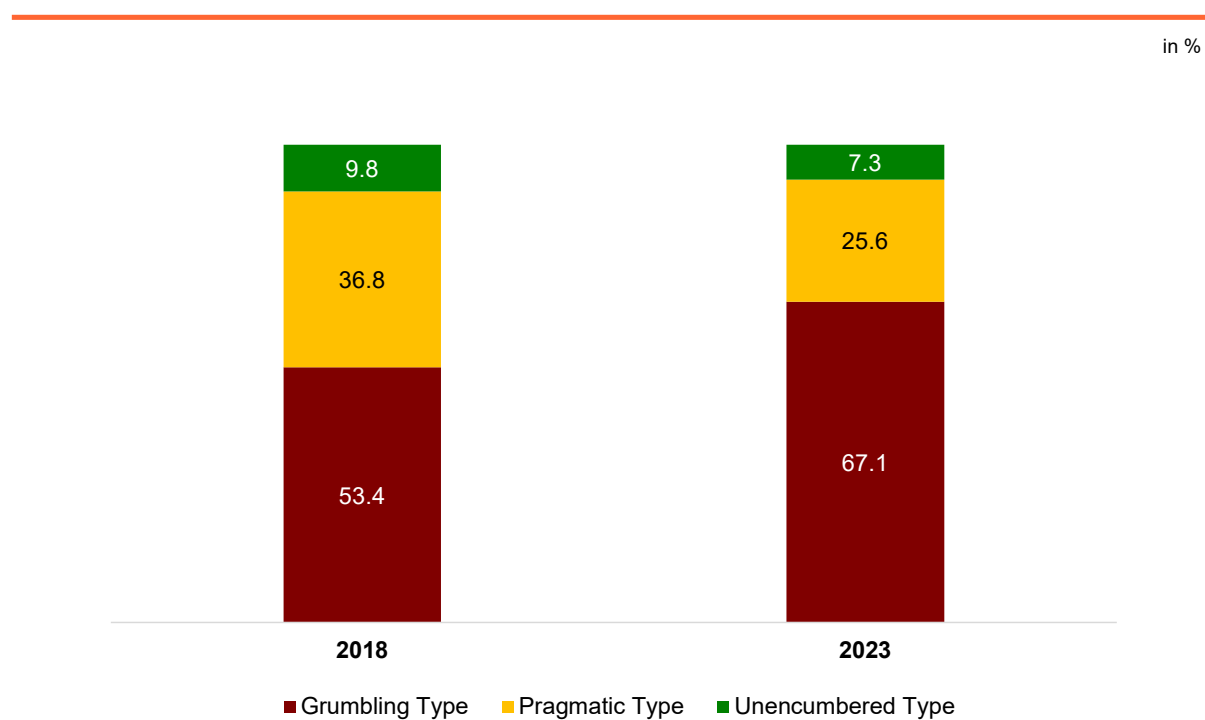
³² For exact calculation cf. Holz et al. 2019.

requires a certain but still proportionate amount of efforts. In contrast, the Grumbling Type feels excessively burdened and considers the required efforts to be disproportionately high. They have a very negative connotation of bureaucracy and associate a strong emotionality with the topic. While the Unencumbered and the Grumbling Type each mark the end of a continuum, the Pragmatic Type is located between them.

4.2.1 Distribution by perception types

The results of the current company survey show that a good two-thirds of all enterprises currently belong to the Grumbling perception type (cf. Figure 6).

Figure 6: Distribution of companies by perception types in 2018 and 2023



n = 1,210 and 1,232 resp.

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Source: Surveys of IfM Bonn 2018 and 2023; weighted values; own calculations.

Compared to the 2018 survey, the percentage share has therefore increased by almost 14 percentage points. At the same time, the share of the Pragmatic Type has fallen significantly from just under 37 % to 26 %. Companies of the Unencumbered Type form a minority in the overall business population. Their share fell from just under 10 % to just over 7 %. Taken together, these figures illustrate that a very high and increasing proportion of German enterprises are heavily burdened by bureaucracy.

In Western Germany and in Berlin, companies of the Grumbling Type (68 % in both cases) are more widespread than in Eastern Germany (57 %), where significantly more enterprises are of the Pragmatic Type (37.5 %). A differentiation by economic sector shows only minor differences. The Grumbling perception type is most frequently found in the "Trade, transport, hospitality" sector (71 %) and least frequently in the business-related services sector (approx. 63 %). Broken down by size class, the prevalence of the Grumbling Type initially increases with company size within the SME sector: the corresponding percentages for micro, small and medium-sized enterprises are 66 %, 73 % and 77 % respectively. Among large enterprises with at least 250 employees, the Grumbling Type is somewhat less widespread – with a share of around 73 % – than among medium-sized enterprises.

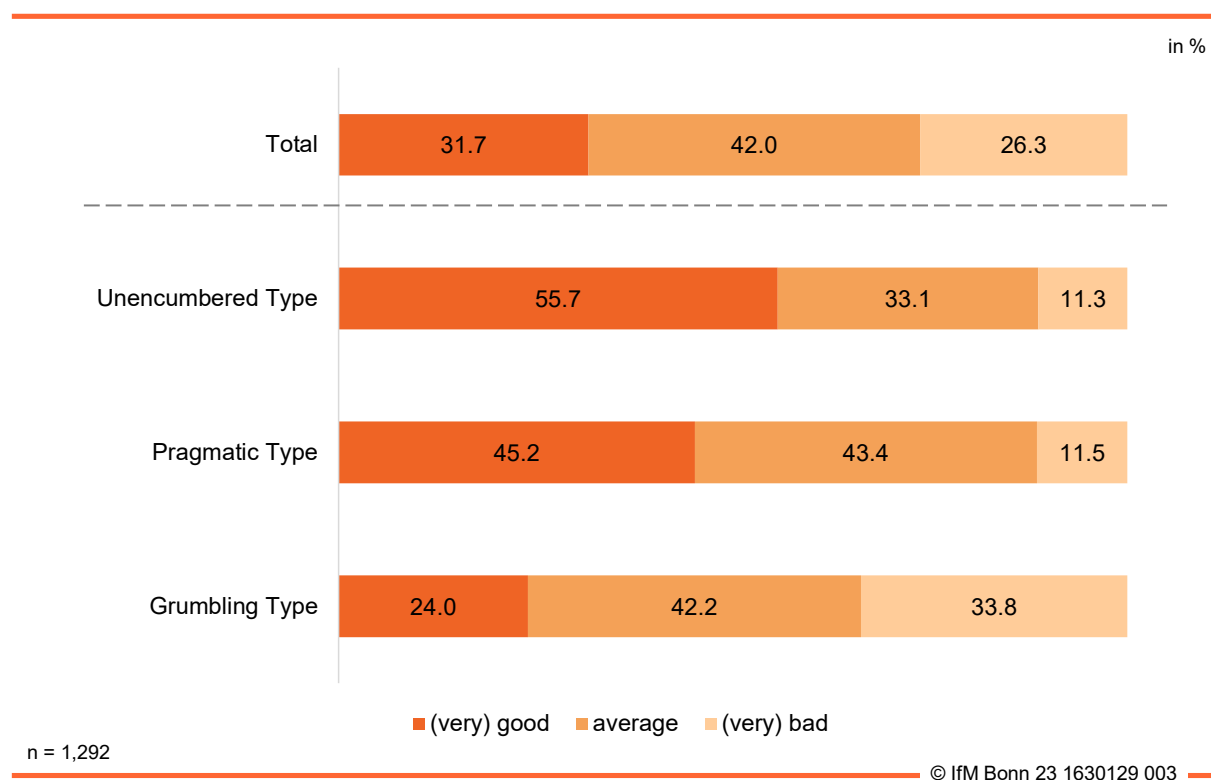
The broad perception of bureaucracy by companies (of different sizes) – which goes beyond pure cost aspects – is usually influenced by various – sometimes opposing – effects. These include fixed costs, specialisation and resource effects, but also possible exemptions and simplifications for smaller enterprises due to thresholds and industry effects. Furthermore, the (bureaucracy-relevant) entrepreneurial field of activity of companies often expands significantly with increasing size. As a result, larger enterprises often have to comply with a large number of bureaucratic requirements from different areas of law, including those relating to foreign trade, research and development, labour, environmental and climate protection, supply chain due diligence obligations, etc. Due to their greater availability of resources, large (group) companies can sometimes find it somewhat easier to fulfil this multitude of requirements than medium-sized enterprises, for example.

How burdensome and time-consuming companies perceive bureaucracy to be can also be significantly influenced by the enterprise's current business situation. In a crisis-ridden business situation, company resources are usually particularly strained and scarce. Time, financial and personnel resources that enterprises have to use to fulfil bureaucratic obligations are not available for the original entrepreneurial activity and value creation and therefore cannot make a direct contribution to overcoming the company crisis.³³ Complying with

³³ According to Icks/Weicht (2022), in a mechanical engineering company with 125 employees, around 3 % of annual turnover is tied up in bureaucracy each year. This corresponds to ten full-time employees. In a large enterprise with 3,500 employees, this figure is as high as 40 full-time employees (with a turnover share of around 1 %).

bureaucratic obligations is therefore associated with opportunity costs in terms of lost (original) value creation. In a corporate crisis, these opportunity costs are particularly significant and can therefore also have a considerable influence on the perception and assessment of bureaucracy. In the sense of an impact amplifier, a poor company situation can thus further increase the perceived burdens.

Figure 7: Current company situation by perception types



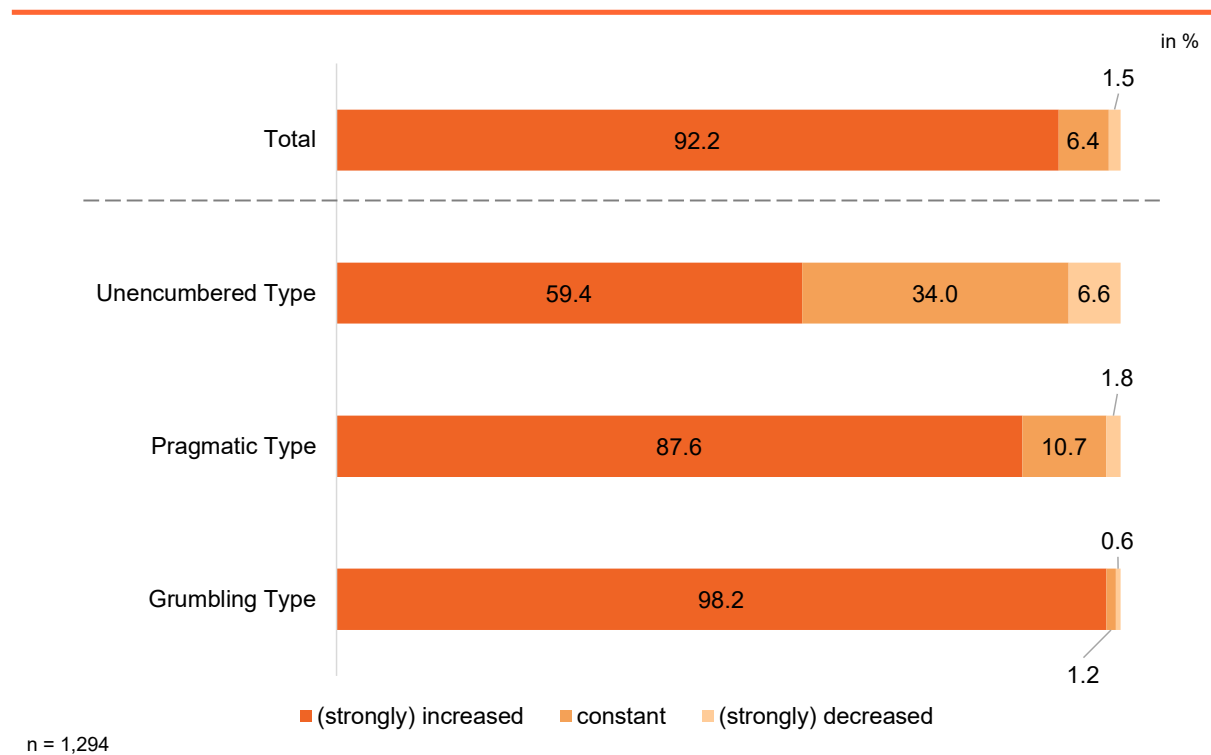
Source: Survey of IfM Bonn 2023; weighted values; own calculations.

At present, a good quarter of all enterprises and even a good third of enterprises of the Grumbling Type describe their company situation as poor or very poor (cf. Figure 7). Therefore, bureaucratic burdens currently have a particularly negative impact on a large number of companies in a crisis situation. In this respect, effective bureaucracy reduction measures – against the backdrop of a multiple political and economic crisis situation and high uncertainty – can make an important contribution to strengthening companies and relieving them from unnecessary burdens.

4.2.2 Development of the bureaucratic burden and experiences made in dealing with bureaucracy

The significantly increased prevalence of the Grumbling perception type leads to the assumption that enterprises have perceived a substantial increase in the bureaucratic burden in recent years. This is confirmed by the results of our company survey (cf. Figure 8).

Figure 8: Development of the bureaucratic burden over the last five years



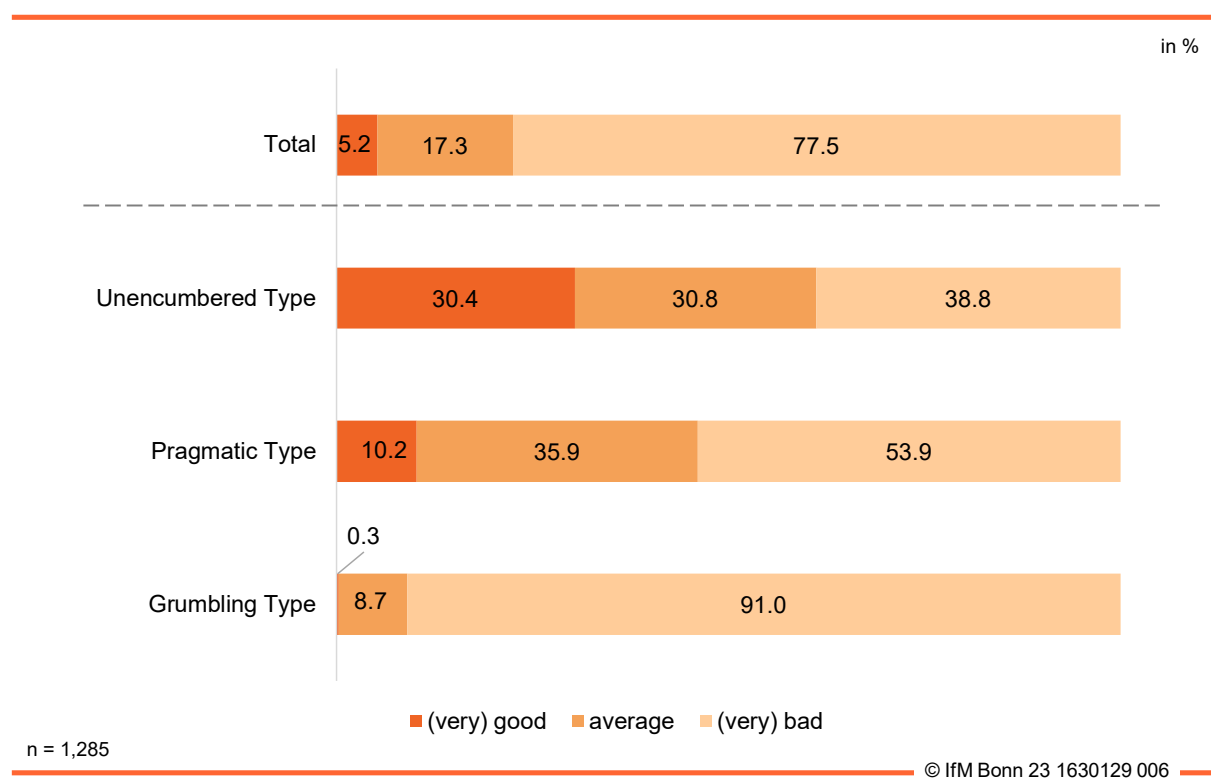
Source: Survey of IfM Bonn 2023; weighted values; own calculations.

A good nine out of ten companies report an increasing bureaucratic burden over the past five years; almost six out of ten (58 %) even describe the increase as very strong. Enterprises of the Grumbling Type characterise the increase significantly more often (70 %) as very strong than the other two perception types.

Looking at the results by employment size class and economic sector, there are only minor differences. Smaller enterprises perceive a (very strong) increase in the bureaucratic burden to a slightly lesser extent than larger enterprises. Just like the increased prevalence of the Grumbling Type, the (sharp) increase in the bureaucratic burden noted by the vast majority of enterprises also signals an urgent need for economic policy action.

The experiences that companies have had with bureaucracy in the past have a significant influence on their perception of bureaucracy. During their entrepreneurial activity, enterprises have many different points of contact with bureaucracy and therefore build up a (cumulative) wealth of experience over time, which is fed by a large number of individual impressions ("pool of memory").³⁴ However, these experiences of enterprises with bureaucracy are clearly negative for the majority of the companies surveyed (cf. Figure 9).

Figure 9: Experiences with bureaucracy



Source: Survey of IfM Bonn 2023; weighted values; own calculations.

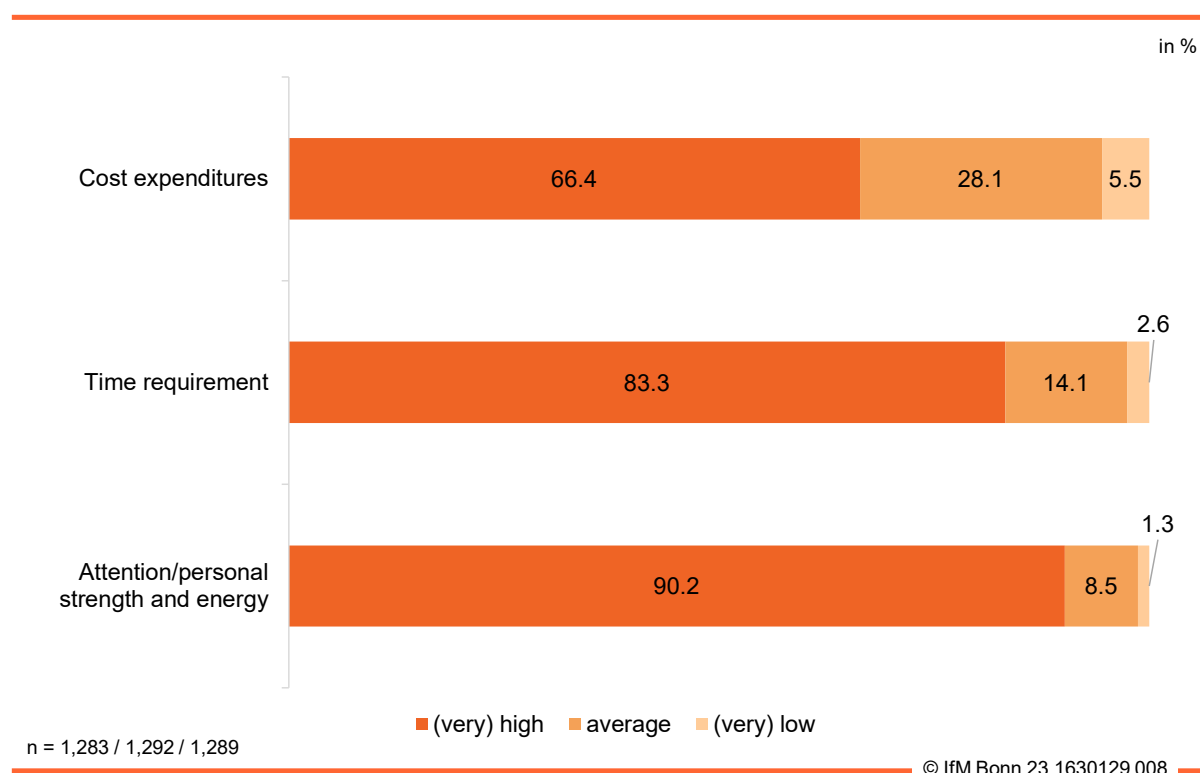
Overall, more than three quarters of companies have had (very) bad experiences in dealing with the bureaucratic requirements of the state. This is particularly true for enterprises of the Grumbling Type (91 %): Four out of ten even claim that they have had very bad experiences overall. However, the survey results also show that the companies' experiences with bureaucratic requirements are not universally negative, but rather differentiated. For example, just under a third of enterprises of the Unencumbered Type and around one in ten of the Pragmatic Type have also had good experiences with bureaucracy.

³⁴ Cf. Holz et al. (2019).

4.2.3 Assessment of the bureaucratic burden

Enterprises generally criticise the high efforts required for the fulfilment of bureaucratic requirements. The indicators for measuring bureaucracy based on the standard cost model – in Germany the bureaucracy cost index and the annual change in compliance costs – focus primarily on the (regular) time and costs requirements associated with the fulfilment of federal regulations. In addition, dealing with bureaucracy is often exhausting for many enterprises, as they have to invest a lot of personal energy and attention in order to comply with requirements that are not always perceived as meaningful and proportionate (cf. Holz et al. 2019). However, these more emotional and psychological aspects are not reflected in the official bureaucracy measurements – not least due to methodological difficulties in recording them.

Figure 10: Components of the bureaucratic burden



Source: Survey of IfM Bonn 2023; weighted values; own calculations.

In our survey, we therefore asked the companies how much time, cost and personal effort and energy they consider it takes to implement bureaucratic requirements (cf. Figure 10). Interestingly, enterprises were significantly less likely to assess the pure cost burden as high or very high (66 %) than the time required (83 %) or the personal effort and energy/attention required (90 %). In addition to the cost burden, which is already restrictive enough, especially in crisis-ridden

company situations, bureaucracy therefore places even greater demands on companies' reserves of time, personal energy and attention. Bureaucracy, which absorbs an excessive amount of time and personal energy, also restrains the joy of entrepreneurial activity (cf. Chapter 4.4), paralyses entrepreneurial dynamism and thus generally impairs the climate and conditions for entrepreneurship, innovation and growth.

The high importance of personal effort and energy as a factor in the bureaucratic burden is shared almost equally by companies of all sizes (between 90% and 94%). Even just under two thirds of enterprises of the Unencumbered Type state that they have to invest a high or very high level of personal effort and energy in order to fulfil their bureaucratic obligations.

Overstatement of the estimated costs

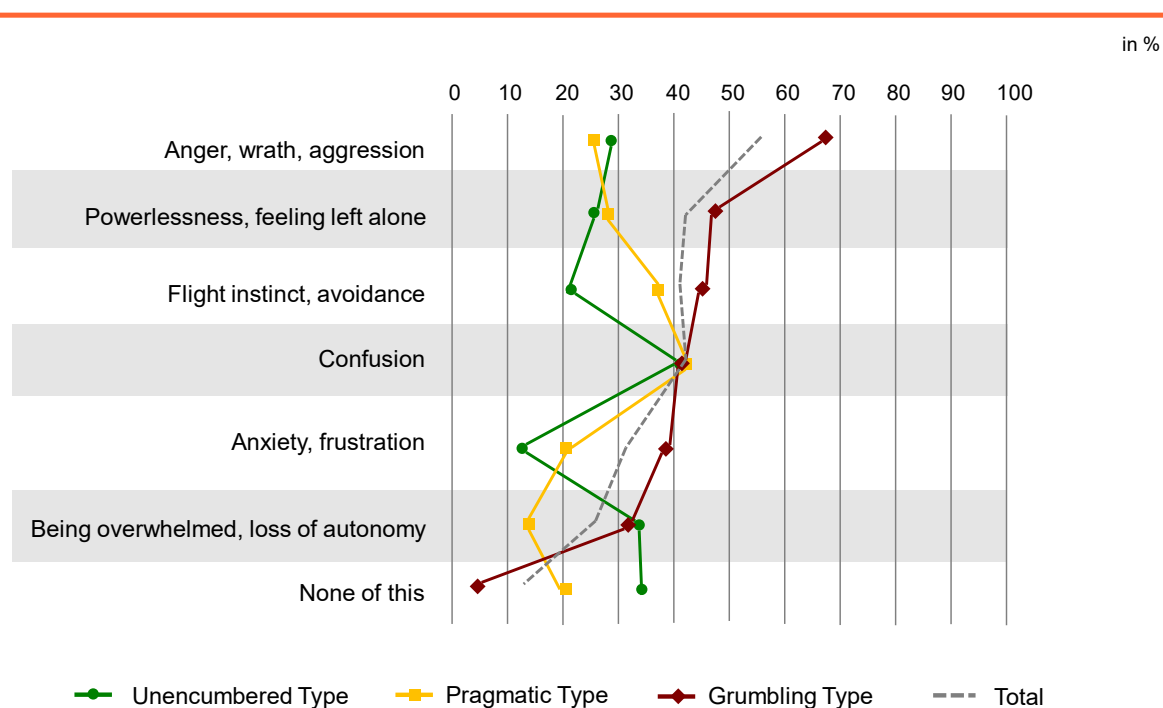
According to a rough estimate by the companies surveyed, the cost of fulfilling bureaucratic obligations (including expenditure on external service providers and legally required investments) accounts for an average of around 15.7 % of total annual turnover. In contrast, empirical studies that calculate bureaucracy-related costs in detail on the basis of the standard cost model (cf. Chlumsky et al. 2006) determine significantly lower percentages of annual turnover – depending on size class and industry – of between 1 % and 5 % (cf. e.g., Icks/Weicht 2023, Deloitte 2021 and Bex et al. 2020).

Although there may be differences in detail as to which specific cost components the empirical studies and the companies surveyed have actually taken into account, the very large difference between the measured and estimated proportion of annual turnover indicates that the proportion values estimated by the enterprises are often "emotionally overstated". This assumption is confirmed, among other things, by the fact that enterprises of the Grumbling Type, which, as our survey results show, generally react particularly emotionally to bureaucracy, on average estimate a significantly higher percentage cost burden (16.8 %) than those of the Pragmatic (13.6 %) and Unencumbered Type (12.2 %).

Enterprise size also plays a role in the estimation of costs. Here, the expected negative effect of size on the (perceived) cost burden can be detected: as the size of the company increases, the estimated percentage share in annual turnover steadily decreases (from 16.1 % for micro-enterprises to 10.8 % for large enterprises).

The permanent high demands placed on personal strength and energy by bureaucracy can evoke different emotions in those persons complying with the obligations – depending on personal disposition and the specific extent of the burden. In our survey, the participants were therefore asked to provide information about the feelings that bureaucratic requirements trigger in them. Multiple answers were possible from a group of predefined emotions (cf. Figure 11).

Figure 11: Components of psychological costs by perception type



n = 1,286

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Source: Survey of IfM Bonn 2023; weighted values; own calculations.

For more than half of the participants (55 %), dealing with bureaucracy triggers anger, wrath and aggression. More than four in ten feel powerless and left alone, perceive a feeling of confusion, feel an instinct to flee and would prefer to avoid dealing with it. A loss of autonomy or a feeling of being overwhelmed is experienced by a good one in four companies.

If the results are further differentiated by perception type, there are some clear differences in the assessments. The topic of bureaucracy evokes emotions in almost all companies of the Grumbling Type, but only in two thirds of the Unencumbered Type. In companies of the Grumbling Type "anger, wrath, aggression" (69%), but also "powerlessness, feeling left alone" (49%) and "anxiety, frustration" (40%) are triggered significantly more often than in the other two types. For enterprises of the Unencumbered Type, concerns about a loss of autonomy are particularly noticeable. However, all three perception types agree on the confusion that bureaucracy triggers in them. This result points to a general problem of rather imprecise, not clearly understandable and frequently changing bureaucratic obligations and regulations.

While large enterprises mention emotions related to confusion or loss of autonomy more frequently than SMEs, the feelings of "powerlessness, feeling left

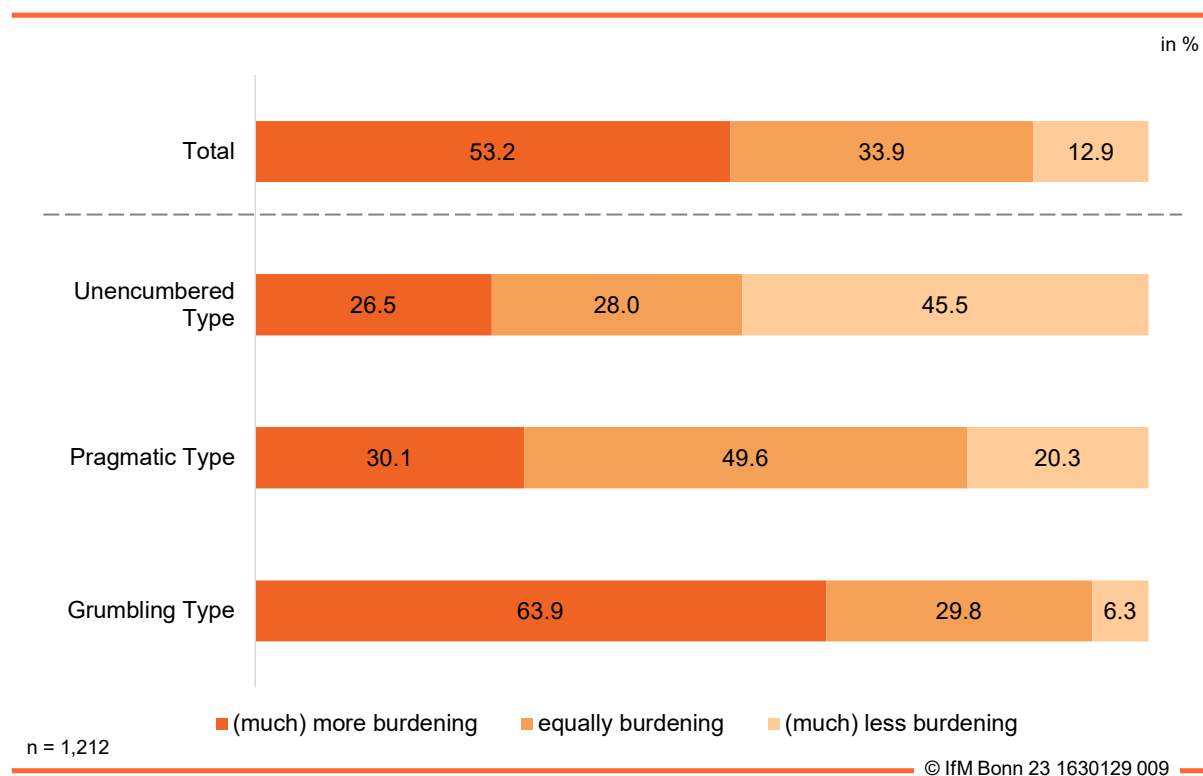
alone", "anxiety, frustration" and "flight instinct, avoidance" are particularly widespread among micro-enterprises. (Owner-managed) micro-enterprises in particular often feel so overburdened by bureaucracy that they would prefer to avoid the bureaucratic requirements. This reflects, among other things, the lower availability of resources, the lower level of specialised knowledge on the subject of bureaucracy and the fact that bureaucracy in these companies is often dealt with by the entrepreneurs themselves in addition to their original entrepreneurial tasks. The financial resources, time, personal strength and energy that have to be spent on bureaucracy are then not available for the original business activities – even though they are urgently needed – which places a particular burden on micro-enterprises and is expressed in corresponding emotions.

It is also interesting to analyse the responses by Eastern and Western Germany. While the Eastern German companies primarily feel anger, wrath and aggression and feel powerless and left alone in dealing with bureaucracy, the Western German enterprises are relatively more frustrated and would rather avoid or postpone the bureaucratic requirements. They also fear a loss of autonomy due to the many bureaucratic regulations much more often than the Eastern German companies.

The high burden caused by the personal effort and energy that a person has to invest to fulfil bureaucratic requirements and the "emotionally exaggerated" overestimation of the costs indicate that the so-called "psychological costs" represent a significant component of the bureaucratic burden.³⁵ However, these psychological costs are not recorded in the official measurements of bureaucracy. Thus, there is a systematic underreporting of the bureaucratic burden. In order to gain an indication of the extent of this methodological underreporting, we explicitly asked the companies in our current survey how significant they consider the more emotional effects of the bureaucratic burden in comparison to the pure burden of time and cost requirements (cf. Figure 12).

³⁵ In the international research literature, psychological costs are discussed in the context of citizens' dealings with state bureaucracy, for example by Döring/Madsen 2022 and Moynihan et al. 2014.

Figure 12: Psychological costs compared to cost and time requirements



Source: Survey of IfM Bonn 2023; weighted values; own calculations.

The results confirm the above conclusion: the emotional effects – i.e. the psychological costs – are assessed by the vast majority of enterprises (87 %) as at least as burdensome as the time and cost requirements alone. For more than half of the companies (53 %), the psychological costs are even more burdensome than the other two factors recorded in the statistical bureaucracy measurements. Enterprises of the Grumbling perception type differ from the other two types in that significantly more – i.e., almost two thirds – rate the psychological costs as more burdensome.

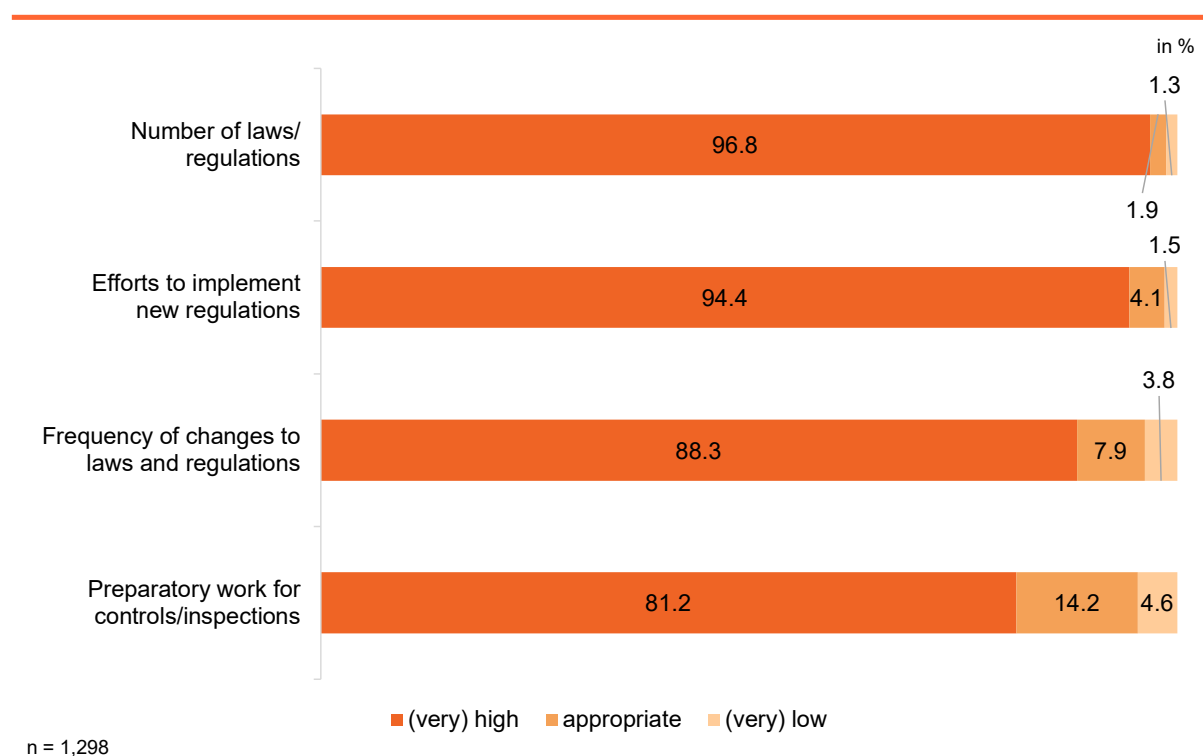
Taken as a whole, the results illustrate that psychological costs are of great importance as a burden factor for all enterprises – with minor internal differentiations within size classes and sectors. There is some evidence to suggest that the lack of their consideration within the official bureaucracy measurements can at least partially explain the frequently discussed divergence between measurement results and the perception of companies – alongside other factors such as opportunity costs and follow-up costs (“second-round costs”), which are also not taken into account.

4.3 Assessment of bureaucratic regulations

How do companies actually assess individual bureaucracy components? Bureaucracy is a very complex phenomenon and the burden can arise from many different sources.

Almost all enterprises criticise the number of laws and regulations as well as the efforts required to implement new regulations and rate the resulting burden as high or very high. On the one hand, this result reflects the very high density of regulation in Germany (cf. also the assessment of the relation between control and trust in Chapter 4.5) and, on the other hand, the limited practicability and proportionality of many regulations (as frequently perceived by companies) as well as the low availability of practical implementation aids.

Figure 13: Burden from various bureaucracy components



Source: Survey of IfM Bonn 2023; weighted values; own calculations.

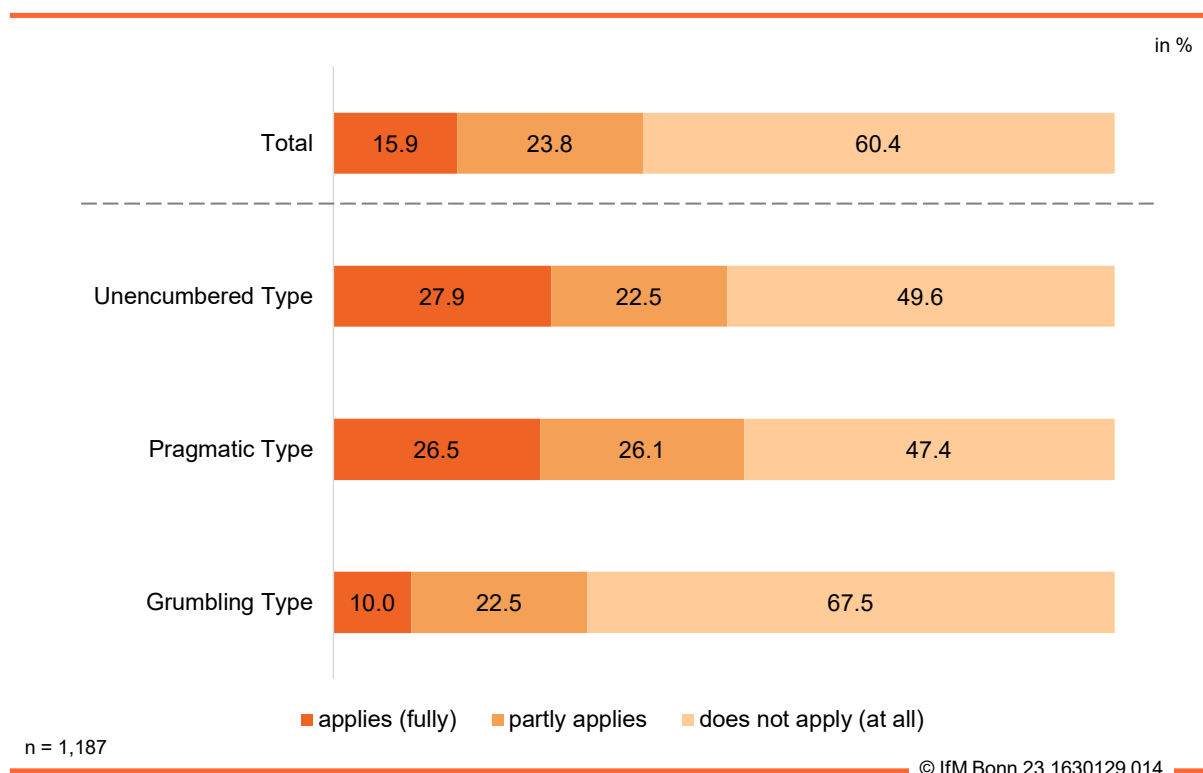
Frequent changes to laws and regulations also result in high or very high burdens for nine out of ten enterprises. In order to be constantly up to date with the current legal situation and thus be able to act in a legally compliant manner, companies have to invest a great deal of time and human resources. Burdens can also arise from the lack of transparency and difficulties in finding the relevant legal norms. Preparatory efforts for controls and inspections by public authorities

are perceived as (very) burdensome somewhat less frequently – but still by more than 80 % of all companies.

As expected, enterprises of the Grumbling Type are much more likely to rate the burden resulting from the various bureaucracy components as very high. Less expected and an alarming signal is that even a very large proportion of companies of the Unencumbered Type, who generally view bureaucracy with a greater emotional distance, assess the components as (very) burdensome (between 52 % with regard to the preparatory work and 85 % with regard to the number of laws and regulations).

The high level of agreement among enterprises across all perception types, size classes and economic sectors regarding the number of laws and regulations as a significant burden component indicates that reducing bureaucracy cannot be exclusively and primarily about simplifying a relatively small number of particularly burdensome laws (cf. Figure 14).

Figure 14: Bureaucratic burden caused by a small number of regulations



Source: Survey of IfM Bonn 2023; weighted values; own calculations.

For a good six out of ten enterprises – particularly often companies of the Grumbling Type (68%) – the bureaucratic burden is fed by many different legal norms. In order to bring about a noticeable reduction in bureaucracy, large-scale relief

is therefore required. To achieve this, many different and broadly defined areas of law – including their interaction – must be taken into consideration. This does not rule out that individual, particularly burdensome legal provisions are identified and simplified in a targeted manner. In this way, economic policy would take into account the assessment of a good quarter of enterprises of the Pragmatic and Unencumbered Type, for whom the bureaucratic burden does indeed result primarily from a small number of regulations.

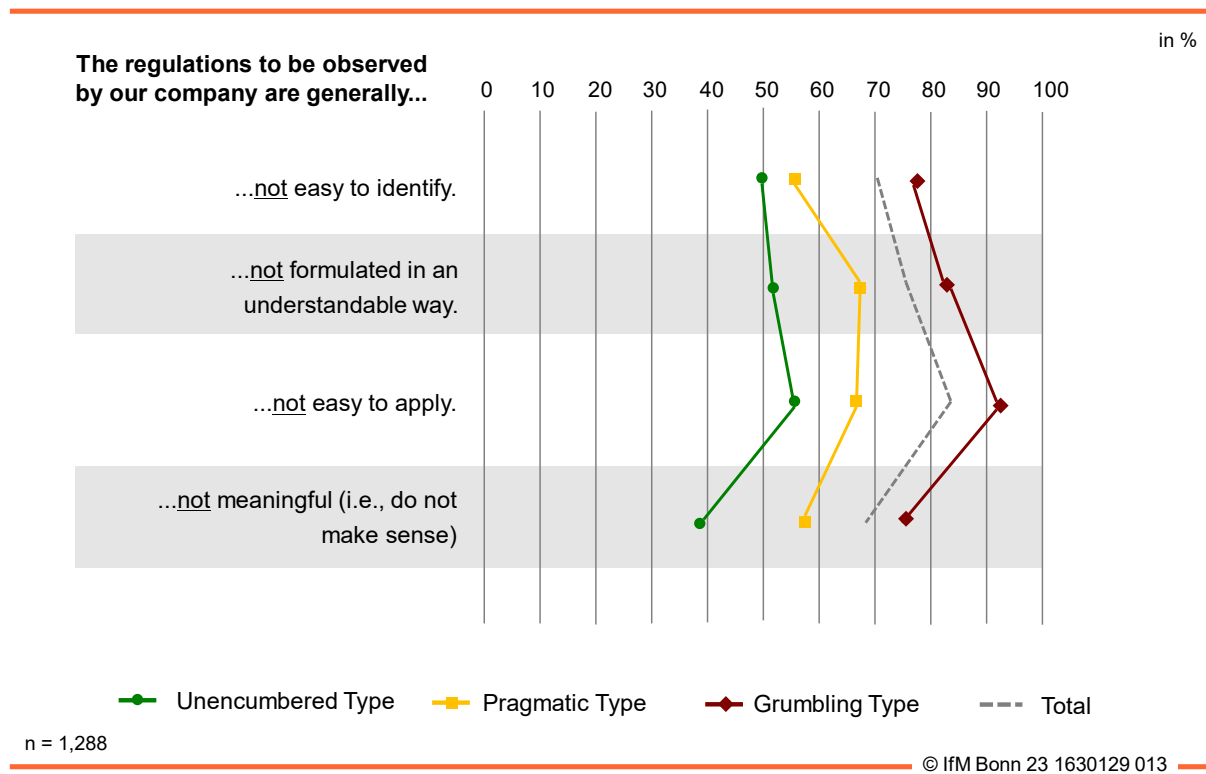
The observance and application of bureaucratic obligations requires enterprises to adopt a three-stage approach: they must identify and understand the regulations relevant to their own company and the corresponding business processes ("life events") and apply them correctly to the specific circumstances. In an overall assessment and depending on the perceived practicability and proportionality ("goal-means relation"), the bureaucratic regulations can then prove to be more or less meaningful and appropriate from the company's perspective.

Also with regard to these practical application issues and the general meaningfulness of bureaucratic regulations, a high proportion of enterprises – and an increasing proportion compared to 2018³⁶ – have a critical opinion (cf. Figure 15). Companies find it even more difficult to apply laws and regulations correctly than to identify and understand the norms that have to be observed. This may be due, among other things, to the high complexity of regulatory norms and inadequate supply of implementation aids. Almost seven out of ten enterprises also believe that the bureaucratic regulations to be observed are generally not meaningful.

Against this backdrop, it is not surprising that the majority of companies find dealing with bureaucracy very stressful. If regulations have to be implemented that are not only difficult to find, difficult to understand and difficult to apply, but are often considered to be of little value, it is easy to understand why negative emotions, stress and uncertainty and therefore high psychological costs quickly arise for companies. For enterprises that have had bad experiences with bureaucracy over a long period of time, corresponding patterns of perception also harden. Breaking them down and achieving a trend reversal requires a great deal of effort on the part of policy makers.

³⁶ A comparison with the situation in 2018 also shows that now the assessments of enterprises of the Pragmatic Type tend to be closer to those of the Grumbling Type, whereas in 2018 they were still almost identical to the Unencumbered Type.

Figure 15: Assessment of bureaucratic regulations



Source: Survey of IfM Bonn 2023; weighted values; own calculations.

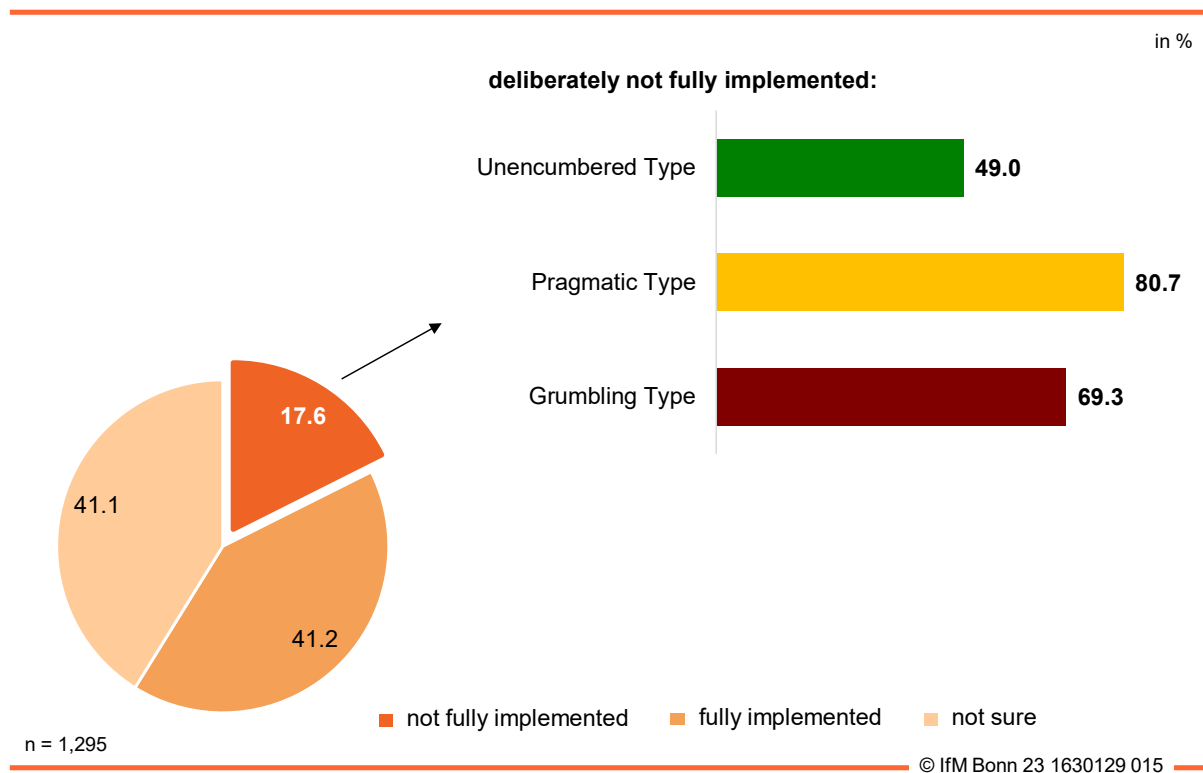
It can be assumed that the perception of bureaucratic regulations not only evokes negative emotions, but that corresponding emotional attitudes and long-standing patterns of perception – in turn – also influence the assessment of individual bureaucratic regulations. This becomes clear, for example, when it comes to the question of the meaningfulness of bureaucratic requirements. While more than three quarters of enterprises of the Grumbling Type see no sense in the regulations, the assessment of companies of the Unencumbered Type is significantly more moderate.

4.4 Dealing with bureaucracy

In a constitutional state, it should generally be common practice for the legislator to enact legal norms that can be understood by the norm addressees and fully implemented with reasonable effort. However, actual business practice is different (cf. Figure 16). Only four out of ten companies state that they fulfil the bureaucratic obligations in full and are therefore fully compliant with the law. In contrast, just as many enterprises are unsure whether they are implementing all relevant regulations. Almost one in five companies do not fully implement the

bureaucratic requirements according to their own statements. These results apply equally to all perception types.

Figure 16: Dealing with bureaucratic requirements



Source: Survey of IfM Bonn 2023; weighted values; own calculations.

Of the companies that do not fully implement the bureaucratic requirements, 72 % indicate that they deliberately do not fulfil individual regulations – among them more enterprises of the Pragmatic (81 %) and Grumbling Type (69 %) than of the Unencumbered Type (49 %). Furthermore, it can be assumed that even among the companies that are unsure whether they fulfil all requirements, there is a larger proportion that also deliberately do not fulfil individual regulations.

The interviews conducted with companies as part of our 2019 bureaucracy study showed that this "autonomous bureaucracy reduction" is being carried out for various reasons. The two most frequently cited reasons include a shortage of resources – particularly in smaller enterprises – and the lack of practicability and proportionality of the regulations in question. If enterprises cannot understand the sense and appropriateness of regulations, they tend not to implement these regulations in order to save scarce company resources and use them for more productive purposes.

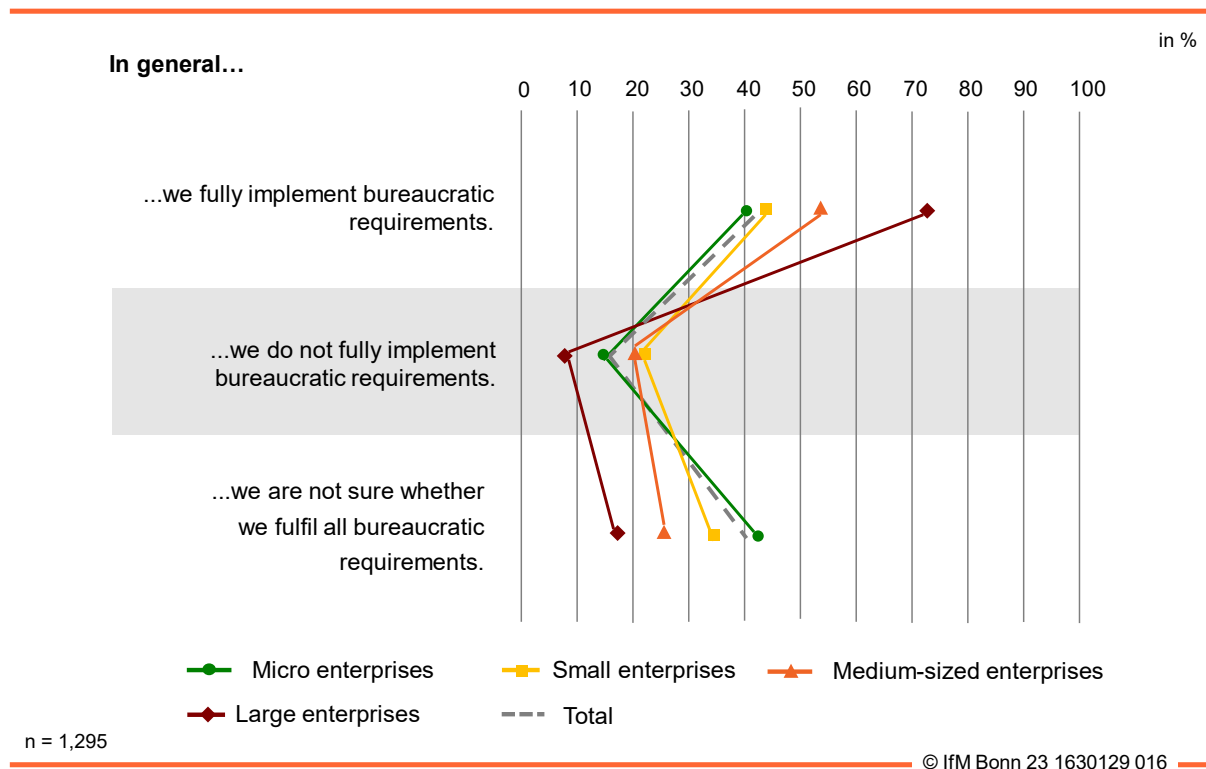
If relevant regulations are also difficult to identify, understand or apply, this increases the transaction costs for companies. If these costs were reduced through greater transparency, better comprehensibility and implementation aids,³⁷ it can be assumed that a larger proportion of enterprises would also be able to fulfil the bureaucratic regulations in full and with a reduced use of resources.

A differentiation of the results by economic sector shows clear differences between the two service sectors on the one hand and the production industry and the "trade, transport, hospitality" sector on the other. While almost half of business-related (49 %) and other services companies (45 %) implement the requirements in full, this only applies to a good third of companies in the production industry (35 %) and the "trade, transport, hospitality" sector (35 %). Enterprises in the production industry in particular are often characterised by complex production and sales processes in which a large number of rules from different legal areas must be observed and implemented. It is therefore often more difficult for these companies to fully comply with all regulations compared to service companies, for example.

With regard to the rule of law, the survey results paint a worrying picture overall: If almost 60 % of enterprises do not fully comply with bureaucratic regulations or are unsure about them, there is an urgent need for political action. This should be aimed at reducing the transaction costs for fulfilling the requirements on the one hand, and making the regulations more practicable on the other, so that companies can understand their meaning more easily and implement them with an appropriate use of resources.

³⁷ The importance of implementation assistance and support services is also illustrated by the fact that companies often feel left alone by the authorities when dealing with bureaucracy. On a scale from 0 (left alone by the authorities) to 100 (very well supported), enterprises gave a relatively low average score of "28". In addition, small and medium-sized enterprises feel less well supported than large ones.

Figure 17: Dealing with bureaucratic requirements by size class



Source: Survey of IfM Bonn 2023; weighted values; own calculations.

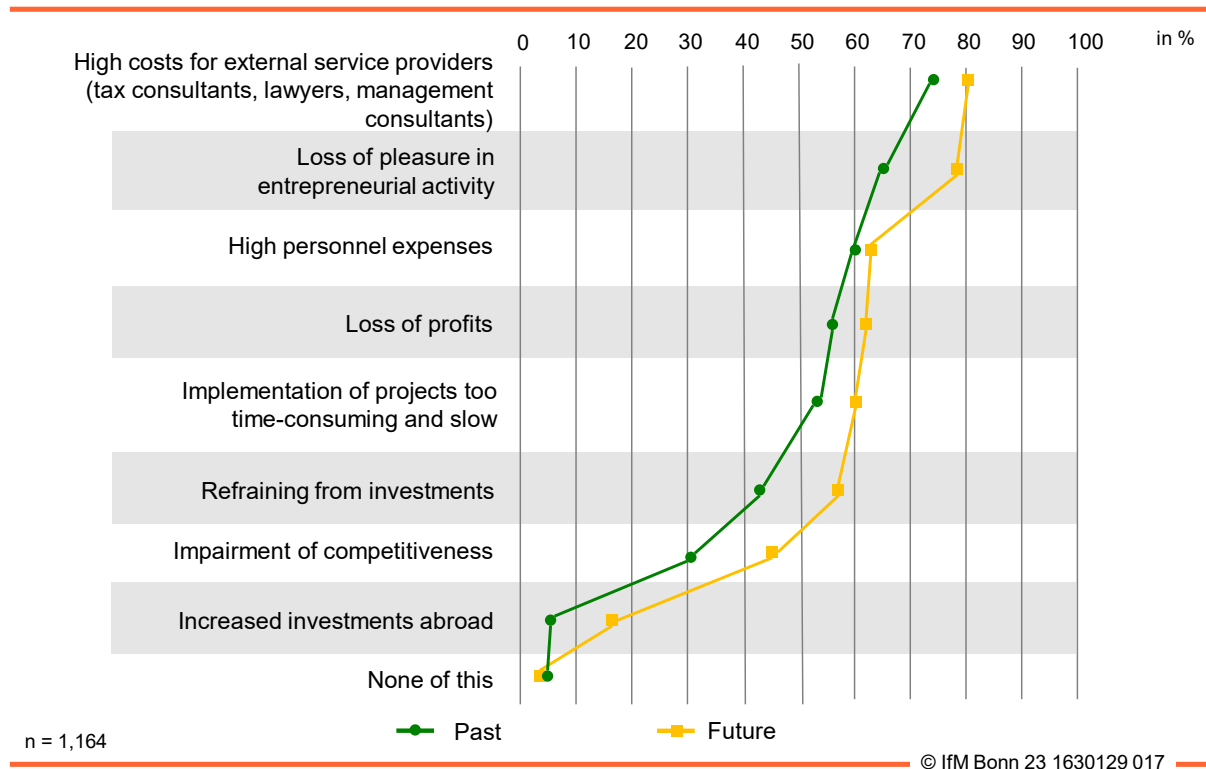
The company size class also plays an important role in the extent to which the bureaucratic requirements are implemented: as the size of the enterprise increases, a growing proportion of companies fully implement the requirements (cf. Figure 17). For example, 73 % of large enterprises, but only 41% of micro-enterprises fulfil the regulations in full. Similarly, the smaller the company size, the more enterprises are unsure whether they fulfil all requirements. These differences can be explained by the fact that large enterprises generally have significantly more resources and specialised knowledge to fully comply with bureaucratic regulations or to gain an overview of which requirements are relevant to them.

Effects on business activities

The burdens associated with bureaucracy and restrictions on entrepreneurial freedom of action through legal requirements and interdictions can also have an impact on companies' business activities and jeopardise the conditions for economic success. We therefore asked the enterprises to what extent the bureaucratic requirements have had certain effects on their business activities in the past five years and to what extent they expect them in future (cf. Figure 18). A comparison of the corresponding results for past and future shows that the order

and priority of the responses has remained the same. At the same time, however, companies expect almost all of the effects of bureaucracy listed below to become more important.

Figure 18: Effects on business activities



Source: Survey of IfM Bonn 2023; weighted values; own calculations.

Three quarters of enterprises complain that the fulfilment of bureaucratic obligations has resulted in high costs for external service providers (e.g., tax consultants, lawyers, management consultants) over the past five years. Six out of ten enterprises cite high personnel costs in order to fulfil bureaucracy. Over half of those surveyed have experienced a loss of profits in the past due to the bureaucratic burden. For the majority of enterprises in Germany, the bureaucratic burden therefore causes noticeable financial impairments, which are particularly detrimental in a difficult economic environment, in the context of multiple political crises and a potentially tense business situation.

However, bureaucracy also has an impact on specific business decisions: More than half of companies state that in the past, the realisation of projects was made more difficult and delayed by bureaucracy – for example due to lengthy planning and permit procedures. Delays in market entry or start of production can result in disadvantages for enterprises in the form of lost profits and market positions

in addition to the more extended use of company resources. Furthermore, the bureaucratic requirements have caused more than four out of ten companies to refrain from investing in Germany. A relatively small proportion of enterprises (6 %) state that they have made more investments abroad in the past five years. Investments are generally accompanied by a variety of positive effects on growth and employment. Therefore, delays or forgone investments in Germany not only have a negative impact on the development of the individual companies in Germany, but also develop negative (multiplier) effects for the German economy as a whole when aggregated. In the same way, the German economy misses out on positive impulses if enterprises make more investments abroad due to bureaucracy.

Bureaucratic obligations also have a noticeable impact on competitiveness, as one third of all enterprises point out. The fact that the negative effects of bureaucracy have not worsened the competitiveness of companies to an even greater extent was probably due, inter alia, to the great resilience, high innovative and adaptive capacity and good market position of many enterprises. However, together with the perceived increase in the bureaucratic burden, the various political and economic crises of the present and recent past are also draining companies' resources and (adaptive) strengths. If the bureaucratic burden is not significantly reduced, the point may be reached in the near future where enterprises will be severely restricted or jeopardised in their ability to perform and survive.

Our survey results also illustrate this risk. Almost half of all enterprises (45 %) expect their competitiveness to be impaired by bureaucracy in future. This is expected more frequently than average by companies of the Grumbling Type (52 %). As mentioned in chapter 4.2.1, a third of these enterprises already describe their own company situation as critical. Enterprises in the production industry (52 %), the "trade, transport, hospitality" sector (55 %) and large enterprises (52 %) are particularly likely to see their competitiveness impaired in future. The fact that 58 % of all companies intend to forego investments in Germany in future due to bureaucratic requirements is alarming not only from a microeconomic but also from a macroeconomic perspective. Around 18 % – three times as many as in the past five years – consider investing more abroad.

In addition to all the negative bureaucratic effects of a financial or tangible nature described so far, there is also an immaterial, more atmospheric effect to consider. A negative mood was already widespread in the past five years (65 %). In future, it is likely to increase significantly (80 %) and further restrain the

enjoyment of entrepreneurial activities. As expected, enterprises of the Grumbling Type are particularly affected (89 %), as are (owner-managed) SMEs (79 % to 85 %) and companies in the "trade, transport, hospitality" sector (82 %).

By spoiling the joy of entrepreneurial activities, bureaucracy considerably damages a factor that is of key importance for many entrepreneurs: Self-realisation, creativity, freedom of action and the assumption of responsibility are generally important motivators for entrepreneurial activities. Start-up and business promotion policies have also been striving for a long time to create a positive climate for entrepreneurship. Ultimately, the social market economy and societal prosperity depend on the availability of enough people who are willing and able to take on entrepreneurial responsibility. The high and increasing bureaucratic burden on enterprises has long ceased to be an "insider issue" and is now almost proverbial and known to the general public. If the bureaucratic burden is not effectively counteracted, there is a risk that the progress made in terms of promoting business start-ups and entrepreneurship will be reversed. In short, this means that bureaucracy reduction is both start-up and business promotion policy.

4.5 Reducing bureaucracy / policy assessment

With the large number of individual decisions they make (regarding the content of laws and the associated administrative procedures) and the objectives they pursue, policy makers have a significant influence on how burdensome companies perceive the bureaucratic regulations. In the aggregation of these individual decisions, policy makers – explicitly or implicitly – make a fundamental decision as to the extent to which the bureaucratic regulations are based more on state control (i.e., high regulatory density) or on trust³⁸ in the qualifications, honesty and personal responsibility of companies.

If enterprises perceive bureaucratic obligations to be heavily dominated by control, this increases the transaction costs for companies, e.g., through higher costs associated with identifying, understanding and applying the regulations. At the same time, the degree of freedom of enterprises in the search for (more

³⁸ Trust in the context of bureaucratic regulations is not (personal) trust as it exists in relations between personally known actors, but a form of collective trust (cf. Welter 2012); in this case between the legislator and large (anonymous) subgroups of the company population. It can be assumed that in these cases, due to the existing anonymity, a proof of trust on the part of the legislator generates c. p. a lower sense of obligation on the part of the enterprises than in the case of personally known actors.

efficient) solutions is reduced. A high degree of control will have a particularly negative impact on the perception of bureaucracy if enterprises judge the bureaucratic requirements to be observed as not very meaningful or practical.

In order to achieve its policy objectives, the state can rely to varying degrees (and depending on the specific individual case) on control or trust. The state relies c.p. on control if

- (1) it does not trust the economic players (all or individual subgroups),
- (2) the (damage) risk of a (potential) abuse of trust is considered too high,
- (3) it requires very specific behaviour or very specific means to achieve a goal and thus reduces the degree of freedom of economic actors, e.g., to protect important legal rights such as life and health, environmental protection.

Trust in the context of bureaucratic requirements can mean that the legislator specifies a particular objective and the economic operators are free to choose the means and ways of achieving the objective, and/or the legislator specifies a particular means of achieving the objective but does not systematically monitor compliance with this means (e.g., only on an ad hoc basis or on the basis of risk assessments).

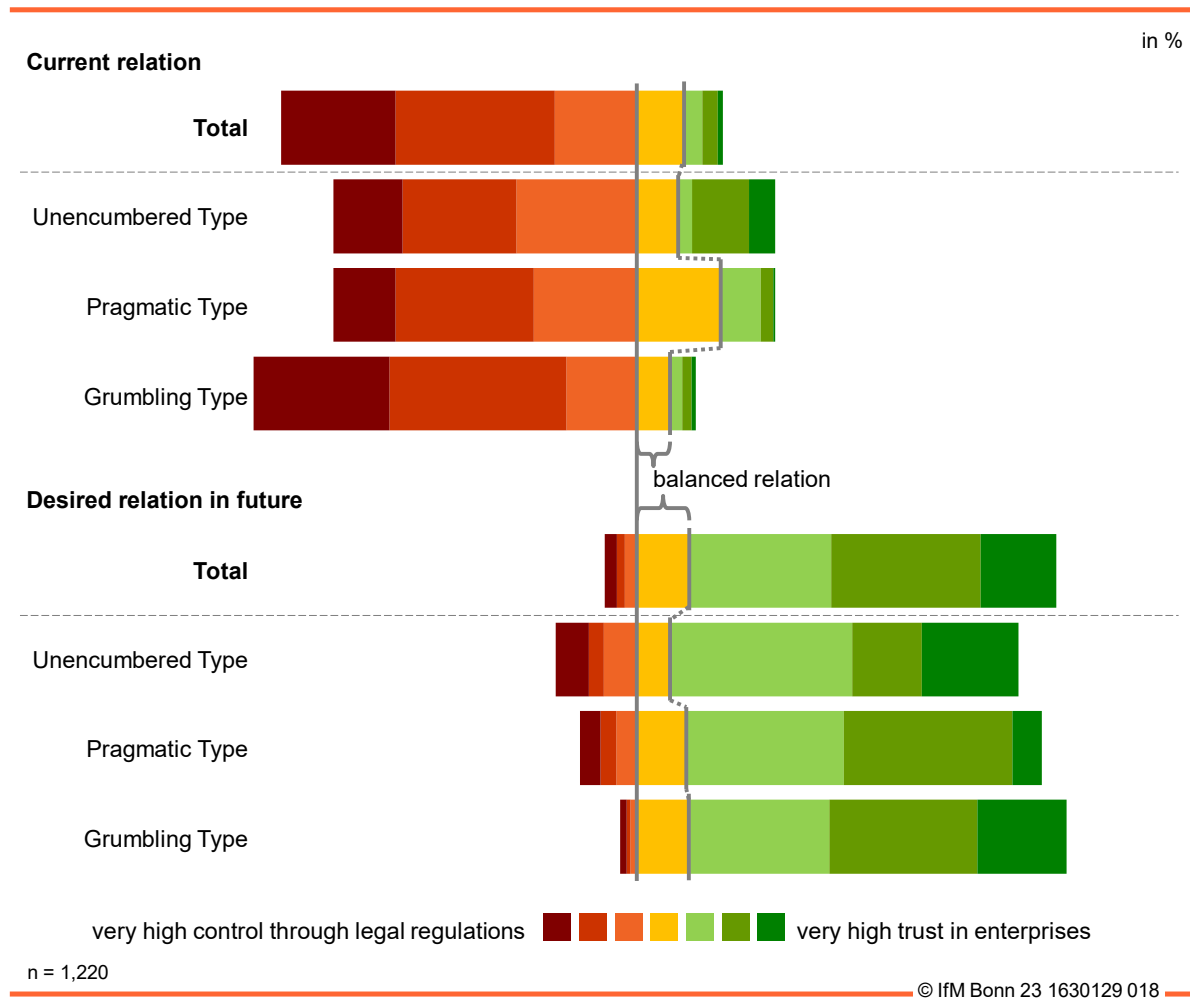
However, appropriate state control does not necessarily have to be viewed negatively by enterprises, as it can also be associated with (potential) advantages, such as a high level of legal certainty or the assurance of uniform implementation practices. If enterprises are involved in the legislative process for the regulations to be observed and the regulations thus also reflect their experience, a significant advantage of the "trust" variant (i.e., the choice left to companies of proportionate/efficient means of achieving policy objectives) can be partially integrated into the "control" variant.

Our survey results show that the vast majority of companies (80 %) feel rather controlled. A balanced relation between control and trust is perceived by 11 %; a further 9 % perceive a predominance of trust (cf. Figure 19). As expected, enterprises of the Grumbling Type particularly often perceive a predominance of state control (87 %). However, more than two thirds (69 %) of enterprises of the Unencumbered Type also agree with this assessment.

If we compare the current assessment of the relation between control and trust with the desired future relation, the results are almost a mirror image. In future, companies of all perception types would like to see a basic attitude on the part

of government legislators that is characterised to a much greater extent by trust (83 %) in enterprises. A realistic, “moderate” position with a balanced ratio of control and trust, or with a slight preponderance of control or trust, is held by almost half of the companies (47 %) – particularly frequently by enterprises of the Unencumbered Type (56 %), but also by 45 % of the Grumbling Type.

Figure 19: The relation between control and trust



Reading aid: The red fields to the left of the centre line show the proportion of companies that feel (predominantly) controlled by the legislator. The yellow and green fields to the right of the centre line indicate the proportion of enterprises that view the relation between trust and control as balanced or where the feeling of trust prevails.

Source: Survey of IfM Bonn 2023; weighted values; own calculations.

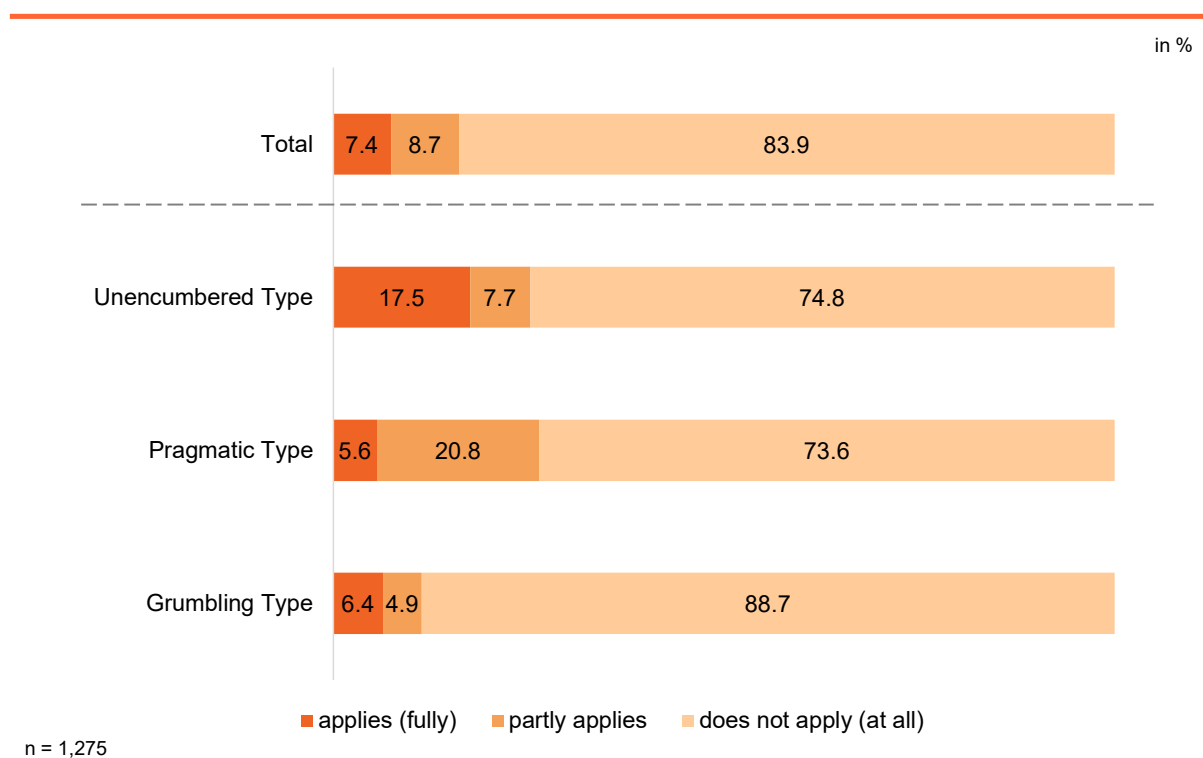
Overall, the survey results in this area can be interpreted as a strong plea from enterprises to reduce the density of regulation and to place more trust in companies that are considered trustworthy, e.g., on the basis of risk assessments and to give them more freedom of action in the fulfilment of bureaucratic

obligations. In this way, the strong control and external steering currently perceived by companies could be changed in the direction of more trust, personal responsibility and intrinsic motivation.

Policy makers' appreciation of entrepreneurial activity

A lower level of (conventional) state control as well as more trust and freedom of action could also contribute to companies sensing more appreciation for their entrepreneurial activities on part of policy makers. However, the vast majority of enterprises (84 %) currently lack appreciation for their entrepreneurial activities by policy makers (cf. Figure 20). This even applies to around three quarters of companies of the Unencumbered (75 %) and Pragmatic Type (74 %).

Figure 20: Politics shows sufficient appreciation for our entrepreneurial activities



Source: Survey of IfM Bonn 2023; weighted values; own calculations.

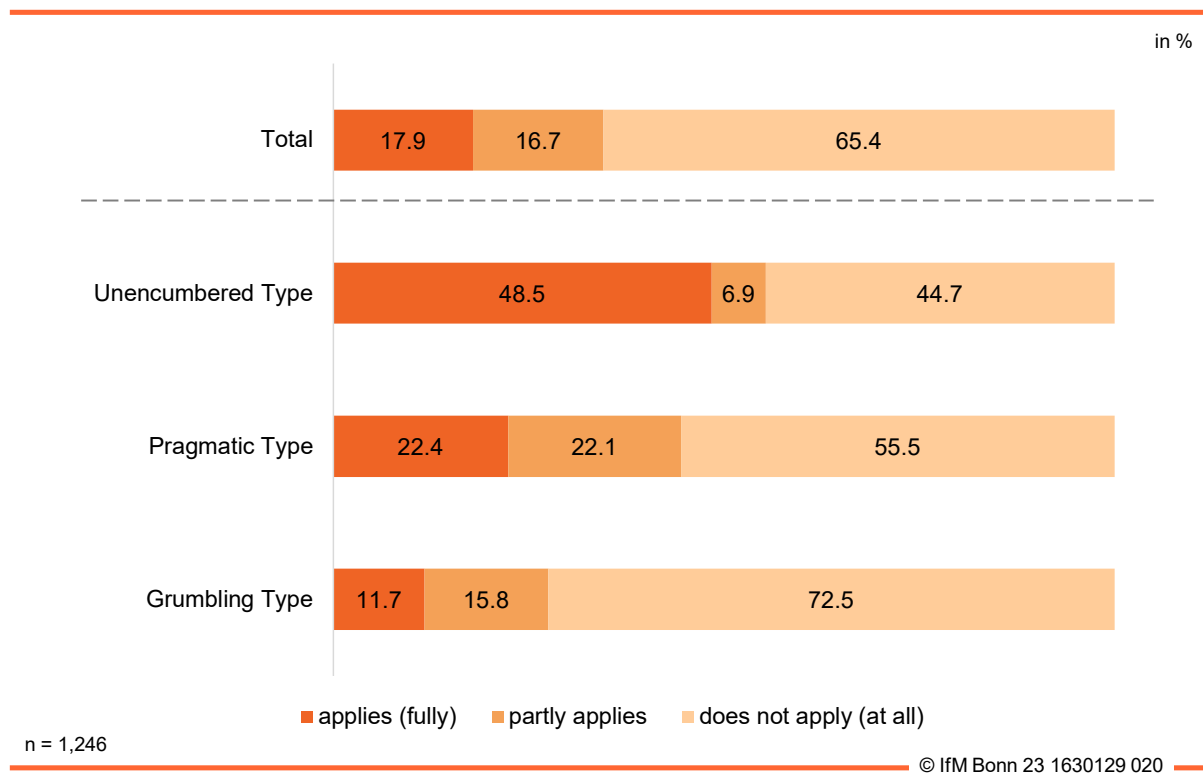
Awareness that policy makers want to reduce bureaucracy

Reducing excessive bureaucracy or preventing it from arising in the first place involves complex processes with a large number of different levers and starting points (cf. Chapter 2). Large-scale improvements and relief are therefore not realistic in the short term. Nevertheless, a lot would be gained in terms of a

"change of mood" if the majority of enterprises were to realise that policy makers are honestly striving to reduce bureaucracy.

Although policy makers have certainly recognised the importance of reducing bureaucracy and have set up a relatively diverse range of institutions, measures and programmes since 2006 (cf. Chapter 2.2.1), almost two thirds (65 %) of enterprises state that they are not aware that politics wants to reduce bureaucracy (cf. Figure 21). As expected, enterprises of the Unencumbered Type (49 %) and the Pragmatic Type (22 %) are more aware of the fact that politics wants to reduce bureaucracy than those of the Grumbling Type (12 %).

Figure 21: Politics wants to reduce bureaucracy

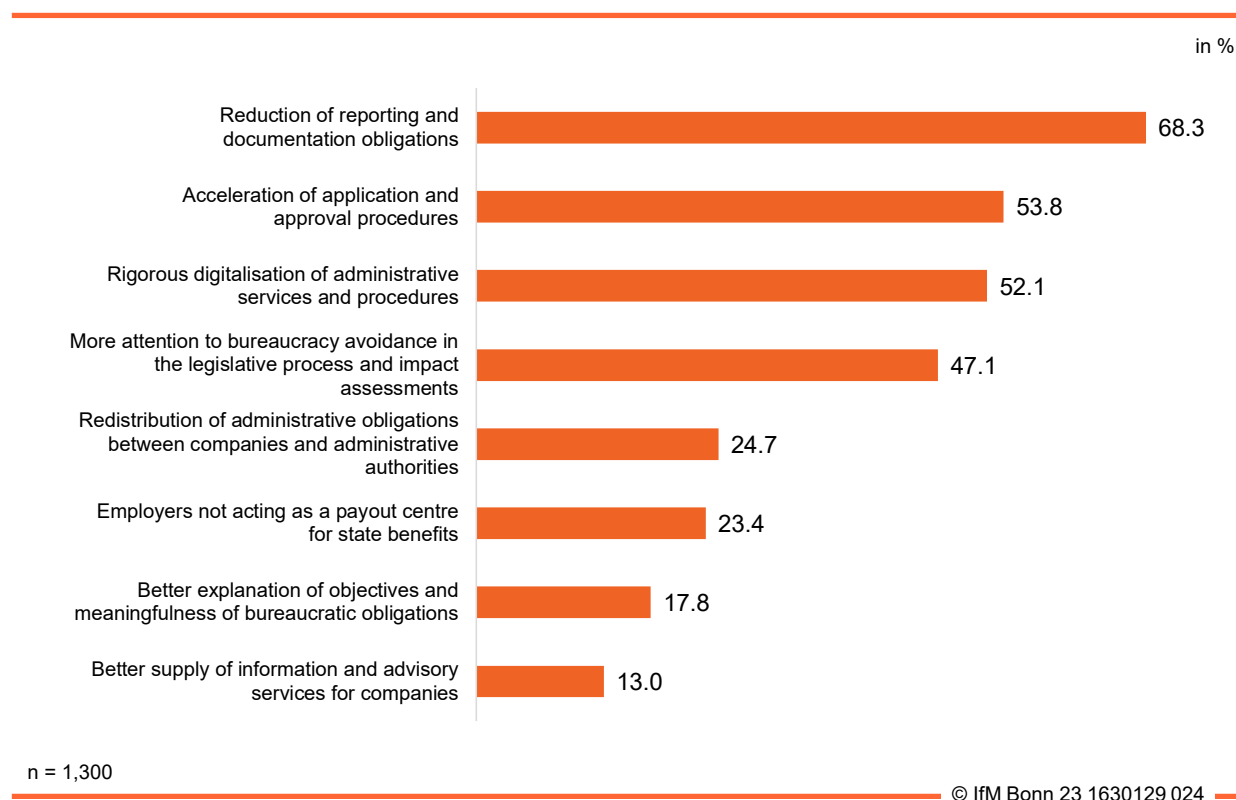


Source: Survey of IfM Bonn 2023; weighted values; own calculations.

Proposals to reduce bureaucracy

In which areas should policy makers focus on reducing bureaucracy? In our survey, we asked companies to select the three most important areas from a given list. According to the survey results, there are four measures in particular that the majority of enterprises consider to be priorities.

Figure 22: Top 3 proposals for reducing bureaucracy



Source: Survey of IfM Bonn 2023; weighted values; own calculations.

First and foremost is the reduction of reporting and documentation obligations, which over two thirds of companies (68 %) consider to be a priority task in reducing bureaucracy. Even though traditional "paperwork" only accounts for a relatively small share of the entire bureaucratic burden (compliance costs),³⁹ it often causes excessive frustration and stress for companies (cf. Icks/Weicht 2022). In particular, the large group of enterprises of the Grumbling Type (75 %) as well as companies in the production sector (71 %) and the "trade, transport, hospitality" sector (72 %) expect concrete relief from the reduction of reporting and documentation obligations.

The acceleration of application and approval procedures is the second most frequently cited measure (54 %). This measure is particularly important for large enterprises (58 %) and those in the production industry (59 %), partly because

³⁹ According to estimates by the National Regulatory Control Council (NKR 2014), the bureaucratic costs resulting from reporting and documentation obligations only account for around 15-20 % of the total compliance costs. However, these are again statistical figures for the economy as a whole; the percentage values may be different at specific company level.

they often have to go through lengthy approval procedures for construction projects and production facilities.

Rigorous digitalisation of administrative services and procedures is a priority measure for just over half of enterprises (52 %). This result reflects the fact that Germany is lagging far behind in terms of e-government (cf. Chapter 2.2.2). For enterprises of the Unencumbered Type (64 %) and the Pragmatic Type (62 %), the digitalisation of public administration is more important than for companies of the Grumbling Type (48 %).⁴⁰ The same applies to the two service sectors (62 % and 58 % respectively) compared to the production industry (40 %) and the "Trade, transport, hospitality" sector (47 %).

The fourth bureaucracy reduction measure, considered to be important by almost half of all enterprises (47 %), aims to pay more attention to bureaucracy avoidance in the legislative process and in regulatory impact assessments. This shows that companies also have a holistic view of the regulatory cycle (cf. Chapter 2.1) and do not just want to reduce existing bureaucracy. This proposed measure is considered particularly important by the enterprises of the Grumbling Type that are heavily burdened by bureaucracy (52 %) as well as by medium-sized (53 %) and large enterprises (53 %).

In comparison, enterprises tend to attach less urgency to the other four proposed measures. The redistribution of administrative obligations between enterprises and administrative authorities (i.e., the transformation of the companies' obligation to provide information and data into a partial obligation of the state authorities to collect it themselves), which ultimately relies on the "once-only" principle, is considered a priority by just under a quarter of enterprises. The same holds for the proposal not to use employers as a pay-out centre for state benefits (e.g., under the Infection Protection Act or the energy price flat rate). The latter measure is mentioned particularly frequently by companies in the production industry (37 %) and by small enterprises with 10 to 49 employees (36 %).

⁴⁰ It is striking that enterprises of the Grumbling Type (75 %) emphasise the reduction of reporting and documentation obligations as an important measure for reducing bureaucracy significantly more often than the other two perception types (43 % and 56 % respectively). Presumably, simplification of contents and procedures is more important to them than their (pure) digitalisation. Ideally, however, both aspects should be realised together.

Measures of communication policy aimed at better explaining the objectives and purpose of bureaucratic obligations (18 %) or supply of better information and advisory services (13 %) can certainly be useful, but – according to the companies' assessment – are not a priority compared to the aforementioned measures. Overall, enterprises favour those measures that tend to have a broader focus and can bring about concrete simplifications more immediately.

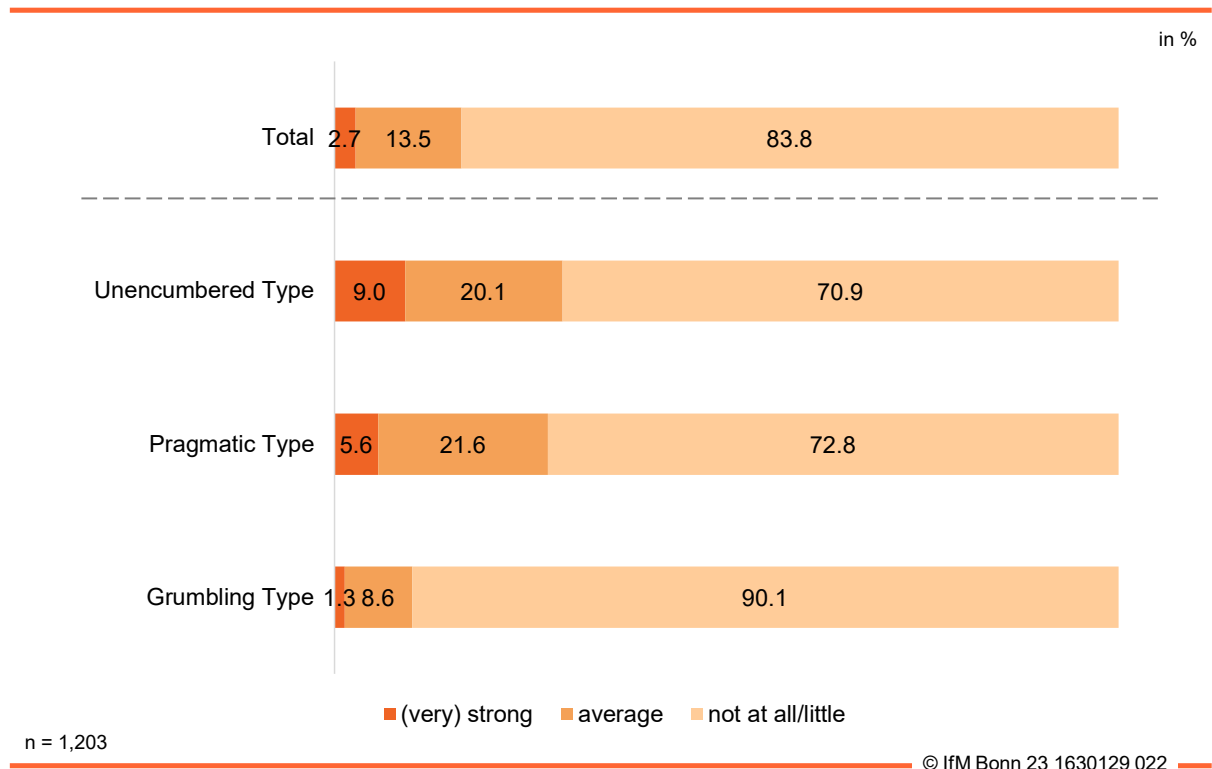
Consideration of entrepreneurial (experience) knowledge in the legislative process

As outlined above, many enterprises recommend to avoid the creation of bureaucracy more systematically in the legislative process and in impact assessment. There were also indications in several other parts of this study that enterprises often perceive bureaucratic norms as being too impractical, too unrealistic and disproportionate. Not least due to the rapid pace of technological, economic and societal change, the regulation issues and the future effects and interdependencies of new legislation are often very complex and difficult to (fully) anticipate. In addition, according to the companies surveyed, policy makers and public authorities are in general not very well acquainted with the reality of business, meaning that they alone – without further external expertise – are not able to adequately regulate company-relevant issues.⁴¹

The legislative process and the reduction or avoidance of excessive bureaucracy could therefore benefit if entrepreneurial expertise were systematically taken into account to a greater extent. This is precisely where enterprises see a weakness in the current legislative process: more than eight out of ten companies (84 %) are of the opinion that entrepreneurial expertise is not taken into account at all or only to a limited extent in the legislative process (cf. Figure 23). This is the case for nine out of ten enterprises of the Grumbling Type (90 %), but also for a good seven out of ten of the Pragmatic Type (73 %) and the Unencumbered Type (71 %). Companies in the production industry (89 %) and the "Trade, transport, hospitality" sector (84 %) also frequently agree with this view.

⁴¹ On a scale from 0 (very little acquainted) to 100 (very well acquainted), enterprises gave an average score of "23".

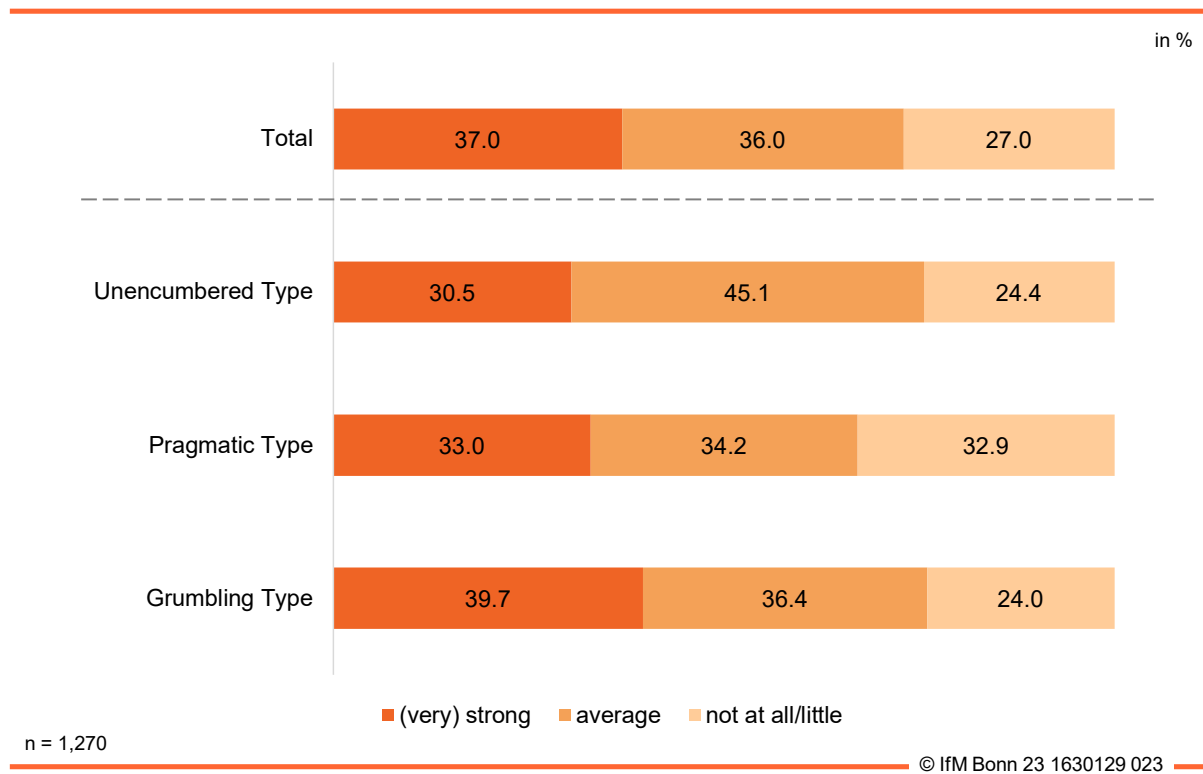
Figure 23: Consideration of entrepreneurial (experience) knowledge in the legislative process



Source: Survey of IfM Bonn 2023; weighted values; own calculations.

However, the insufficient consideration of entrepreneurial expertise in the legislative process need not remain as it is now. It is a positive sign that more than one in three enterprises (37 %) express their willingness to participate in the process of bureaucracy reduction to a strong or very strong extent – e.g., through co-operation with business chambers/business associations, evaluations of draft legislation (cf. Figure 24). Similarly, as in the study by Holz et al. (2019), enterprises of the Grumbling Type (40 %) are significantly more often willing to actively participate than companies of the other two perception types (33 % and 31 % respectively). Due to their resource constraints, micro-enterprises (35 %) are less likely to signal their willingness to participate than companies in the other three size categories (46 % to 52 %).

Figure 24: Willingness to participate in the reduction of bureaucracy



Source: Survey of IfM Bonn 2023; weighted values; own calculations.

On the one hand, the high level of willingness to participate, particularly among enterprises of the Grumbling Type, indicates a high bureaucratic burden and a high level of "suffering pressure". On the other hand, however, companies have clearly not yet given up hope that simplifications and improvements are actually possible.

5 Conclusion / policy recommendations

Our company survey shows that enterprises in Germany perceive a very high and growing bureaucratic burden. This increasingly manifests itself not only in negative effects on the real economy, but also significantly impairs the enjoyment of entrepreneurial activities. The survey also shows that, from the enterprises' point of view, the impact of bureaucracy goes far beyond the (statistically recorded) time and cost requirements. Various factors such as psychological costs, opportunity costs and follow-up impacts on investment and competitiveness are at least as important, if not more so. The fact that many companies do not see themselves in a position to fulfil all bureaucratic regulations and in some cases deliberately do not implement them is not only questionable in terms of the rule of law. Enterprises see general deficits with regard to the meaningfulness, practicability and proportionality of many of the legal provisions that need to be observed. Overall, our survey reinforces study results from the past that indicate that the “optimal” level of bureaucracy – which is difficult to determine empirically – has now been significantly exceeded. If this negative development is not counteracted with effective measures, there is a risk that the (tangible) economic and “atmospheric” effects will become increasingly noticeable not only at individual company level, but also in the economy as a whole – for example with regard to the development of employment, innovation and investment or start-up dynamics.

But how can a trend reversal and thus a noticeable bureaucracy reduction for companies be achieved? As outlined in chapter 2, reducing bureaucracy and improving regulation are highly complex, holistic tasks where a multitude of government and public authorities, institutions and stakeholders must work together at all stages of the regulatory cycle and in the context of rapidly changing external conditions. In an overall appraisal of the results from all three components of our study – literature analysis, international good practice comparison and company survey – we summarise the main policy recommendations to achieve a noticeable reduction in bureaucracy in the following overview.

Overview 3: Policy recommendations for individual aspects of the regulatory cycle

Phase	Policy recommendations
1 Development of a policy roadmap and selection of policy instrument	<ul style="list-style-type: none"> • Do not narrow the range of options at an early stage → Unbiased examination of various alternative courses of action (including non-statutory ones) (cf. UK) • Involve early relevant stakeholders, e.g., by means of laboratory formats
2 Design of new regulation and modification of existing one	<ul style="list-style-type: none"> • Establish SME-tests for new laws likely to have a high burden impact (cf. NL) → Ensure practicability and proportionality → Involve implementing administrative authorities where possible • Create mechanism for ex-ante evaluation of EU law with the involvement of practitioners and companies (cf. NL) • Fix sufficient deadlines for participation and consultation in law and monitor compliance • Reduce reporting and documentation obligations
3 Implementation of regulation	<ul style="list-style-type: none"> • Work on the backlog in the areas of administrative digitisation, register and administrative modernisation → Discuss and implement, a.o., the multiple, implementation-oriented proposals of the Regulatory Control Council • Introduce complaints mechanism for companies, business associations and administrative authorities → acts as trigger for ex-post SME-test to resolve implementation difficulties (cf. NL) • Create a format for co-ordination and co-operation with federal states and municipalities • Accelerate application and permit procedures • Offer an improved range of implementation aids to make it easier to find, understand and apply regulatory norms • Examine possibilities of using RegTech to create customised, web-based regulatory aids or an overview of relevant laws (cf. NL) → Reduce psychological costs • Examine the use of SME thresholds and the primary focus of legislation on SMEs (“SME by default”)
4 Monitoring and ex-post evaluation of regulation and regulatory instruments	<ul style="list-style-type: none"> • Determine the total bureaucratic burden (costs and practicability) for ideal-typical companies in several sectors and develop and implement a specific bureaucracy reduction plan → cf. SME indicator companies in NL • Carry out ex-post SME-test for new laws with implementation difficulties (cf. NL) → Quick Scan (“error correction”) • Learn from a systematic analysis of ex-post evaluations to (further) increase the accuracy of ex-ante impact assessments → Currently discussed in UK and NL • Regularly conduct qualitative company surveys (cf. UK) → to obtain companies' assessments of burden effects that are not statistically recorded (e.g., psychological costs, opportunity costs, follow-up costs)

Continuation Overview 3

Phase	Recommendations for action
	<ul style="list-style-type: none"> • Review the methodology for determining compliance costs: determine the extent to which burden aspects (e.g., one-off compliance costs) that have not yet been recorded or have been insufficiently recorded can be taken into account → Think beyond the narrow focus on time and costs when it comes to the impact of bureaucracy and develop appropriate measurement and relief measures
Regulatory culture: The 4 C's	<ul style="list-style-type: none"> • Develop or update for government and administration cycle-based policy guidelines for bureaucracy reduction and better regulation ("policy compass") (cf. NL, UK) • Promote "cultural change" at the various levels of government → Commit to a common goal / act together, not side by side / convince all stakeholders so that instruments are not just formally "applied" (cf. UK) • Develop a culture of learning and "try and error" in order to get better → Instruments do not all have to be perfect, be open to opportunities for improvement (cf. UK) • Strengthen the learning culture → learn from good practice approaches from abroad • Develop a new, more qualitative and holistic strategy (covering the entire regulatory cycle) for bureaucracy reduction and better regulation in co-operation with business associations and communicate it credibly "to the outside world" (cf. NL) → "things are moving forward", signal of a new beginning • Explicitly designate companies and business associations as co-owners of the bureaucracy reduction process and actively involve them → with actually implemented solution contributions • In co-operation with business associations, set up a database of companies that are willing to co-operate in the process of reducing bureaucracy (cf. NL) • Communicate appreciation for the economic and societal contribution of SMEs
Fundamental orientation of regulation and bureaucracy	<ul style="list-style-type: none"> • Rethink regulation and bureaucracy (cf. UK) → where feasible: move away from "command and control" towards "enable and motivate" → Risk-based approaches / more trust, less control, less regulation / create leeway for finding efficient solutions • Consider the importance of bureaucracy reduction in the context of start-up and business promotion → Climate for entrepreneurship, entrepreneurial dynamism • Recognise regulation and bureaucracy as important location factors in the (international) competition between locations for attracting investment and innovation and communicate this credibly → "Regulation as a service" (cf. UK)

Source: Own compilation.

The regulatory and bureaucratic system is not only highly complex, but also – based on long-standing (legal) traditions, structures, processes and habits – path-dependent in its development. Just like a heavy tanker, it cannot change course quickly. Fundamental changes take time and require a lot of persuasion but must also be mentally anticipated and thought through. The atmospheric and cultural aspects (the four C's – co-ordination, co-operation, consultation and communication) play an important role here.

Bureaucracy and regulation are always a current reflection of how the state, enterprises and citizens interact with each other. Active involvement and co-determination, but also – where appropriate – more trust and room for manoeuvre can represent a paradigm shift in the relationship between the various societal players and at the same time unleash economic potential. The latter is the prerequisite for (owner-managed) companies to be able to make their multi-faceted and valuable contributions to society.

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Appendix

Overview A1: Milestones of bureaucracy reduction and better regulation in Germany

- **2006: Creation of the National Regulatory Control Council (NKR)**

The National Regulatory Control Council (NKR) was established in 2006 as an independent body of experts to advise the Federal Government, the German Bundestag and the Bundesrat on bureaucracy reduction and better regulation. The NKR's remit is to scrutinise the Federal Government's draft legislation to determine whether the compliance costs for citizens, businesses and the administration have been presented in a methodical and comprehensible manner. The NKR's audit mandate also covers issues such as the presentation of alternatives and the simplification of legislation and administration. The NKR pursues a holistic approach and analyses the entire legislative cycle for weaknesses and suggestions for improvement to reduce bureaucracy and improve legislation. Many of the NKR's proposals developed in its own analyses and in expert reports have been implemented in practice and have thus made a significant contribution to achieving progress in bureaucracy reduction and better regulation. In contrast, other well-founded proposals on complex topics such as administrative digitisation, register and administrative modernisation have only been considered to a lesser extent to date.

- **since 2006: Federal Statistical Office as competence centre for methodological issues and particularly demanding cost calculations**

As a competence centre, the Federal Statistical Office (StBA) supports the Federal Government, Bundestag, Bundesrat and NKR in determining the compliance costs of laws and regulations, in particular by evaluating data, carrying out cost estimates and remeasuring earlier cost estimates. The Federal Statistical Office is also responsible for setting up and maintaining databases on bureaucracy. It calculates and publishes statistical data on the level and development of the bureaucratic burden.

- **2006-2012: 25% reduction target for bureaucracy costs**

The annual costs of statutory information obligations for companies (bureaucracy costs) of around €49 billion measured in 2006 were reduced by 25% net by 2012 through a series of specific measures. In order to prevent a renewed increase, the bureaucracy cost index has since been tracking the further development of these costs.

- **since 2008: NKR individual projects with practitioners – reviewing and simplifying existing laws and their implementation**

Together with the Federal Government, the federal states and the responsible implementation authorities, the NKR carries out cross-level projects to analyse the implementation of federal law by the federal states and local authorities with regard to simplification options.

- **since 2011: Measurement of compliance costs**

In addition to bureaucracy costs arising from information obligations, compliance costs are used to calculate and make transparent the time and cost requirements borne by the norm addressees in complying with federal regulation. For key regulations, compliance costs are "remeasured" two years after entry into force by the Federal Statistical Office, which also documents the development of compliance costs on an ongoing basis.

- **since 2013: Systematic ex-post evaluation mandatory**

Since March 2013, all (federal) regulations that are associated with considerable costs or greater implementation uncertainty must be systematically evaluated after three to five years. The problem of the varying quality of the evaluation reports was addressed with a resolution from 2019 to specify the requirements, a working aid for evaluations published in January 2022 and a training programme for legal experts in the ministries.

Continuation Overview A1

<ul style="list-style-type: none"> • 2015: Creation of RegWatchEurope <p>The NKR is a founding member of RegWatchEurope, which currently comprises seven other similar institutions from the Czech Republic, Denmark, Finland, the Netherlands, Norway, Sweden and the UK. Its objectives include the exchange of experience and good practice measures, the promotion of common interests at international level and the promotion of independent regulatory oversight in other countries.</p>
<ul style="list-style-type: none"> • since 2015: Regular surveys of life events of companies and citizens <p>In order to significantly improve co-operation between the public administration and companies (and citizens), the Federal Statistical Office asks companies (and citizens) every two years how they rate their contact and co-operation with the administration in certain life events (e.g., setting up a company, hiring employees).</p>
<ul style="list-style-type: none"> • since 2015: "One in, One out" rule ("bureaucracy brake") <p>In accordance with the "one in, one out" rule, for every new federal regulation that burdens the economy with compliance costs, equivalent relief must be created elsewhere at the latest by the end of the respective legislative period in order to permanently limit the annual compliance costs with this equalisation mechanism.</p>
<ul style="list-style-type: none"> • since 2015: Bureaucracy Relief Acts I, II and III (IV in planning) <p>Not least in order to comply with the "one in, one out" rule, the German government passes bureaucracy relief acts (BEG) at irregular intervals. In addition to BEG I (2015), II (2016) and III (2019), BEG IV, which is currently being planned, is expected to achieve a relief volume of over €1 billion per year.</p>
<ul style="list-style-type: none"> • since 2016: EU ex ante procedure determines costs from EU law for Germany <p>Following a suggestion by the NKR, the EU ex ante procedure systematically analyses the compliance costs of EU regulations at an early stage. In the case of regulatory proposals with an estimated Europe-wide annual compliance cost of more than €35 million, the Federal Government must prepare its own impact cost assessment for Germany, on which the NKR must issue an opinion.</p>
<ul style="list-style-type: none"> • since 2016: Consideration of SME concerns in the regulatory impact assessment (SME-test) <p>The SME-test obliges the federal ministries to examine whether SMEs are affected and whether less burdensome regulatory alternatives or special support measures can be developed when drafting legislation with compliance costs of more than €1 million. In the NKR's opinion, however, the SME-test has not proved its worth, partly due to its lack of practical relevance.</p>
<ul style="list-style-type: none"> • 2017-2022: Act to Improve Online Access to Administrative Services – Online Access Act (OZG) <p>The OZG obliged the federal and federal state governments to offer all essential administrative services electronically via administrative portals by the end of 2022 and to align them with the needs of users. The NKR has analysed the implementation status of the OZG since 2018 in its bi-annual Digital Administration Monitor. Although the Federal Government, federal states and local authorities have been working more intensively on the digitalisation of public administration than before, the goal has not been achieved to any great extent. The federal and federal state governments have been working on the further development of the OZG since spring 2022. The draft bill for the OZG Amendment Act adopted by the Federal Government on 24 May 2023 is currently being discussed in parliament.</p>

Continuation Overview A1

<ul style="list-style-type: none"> • 2019: Concept to increase transparency regarding the one-off compliance efforts <p>The concept adopted by the State Secretaries' Committee on Bureaucracy Reduction and Better Regulation contains an overview of possible approaches for limiting the one-off compliance efforts (e.g., setting longer implementation deadlines) and a corresponding documentation obligation for the ministerial departments.</p>
<ul style="list-style-type: none"> • since 2022: Practice checks <p>By means of a holistic process analysis, the Federal Ministry for Economic Affairs and Climate Action (BMWK) jointly analyses in workshops with relevant stakeholders (e.g., companies, public authorities) specific use case from practice, e.g., a (typical) life event or an investment project. The aim is to develop practical proposals for reducing bureaucratic obstacles and simplifying administrative procedures. The instrument, which was initially trialled as a pilot project in 2022, is to be rolled out to other policy areas in future and also applied in other ministerial departments.</p>
<ul style="list-style-type: none"> • since 2023: Digital check for new laws <p>Since January 2023, the federal ministries have been obliged to make new laws digitally compatible and to consider implementation and digitalisation aspects in legislation from the outset. The NKR then examines the extent to which digital implementation options for new regulations have been utilised when drafting a bill.</p>
<ul style="list-style-type: none"> • 2023: Survey of business associations <p>In the period from January to mid-March 2023, 57 business associations participated in an online survey and brought forward a total of 442 policy suggestions. The proposals were categorised quantitatively and qualitatively by the Federal Statistical Office according to their potential to reduce the bureaucratic burden. Some of them were taken into account for BEG IV, which is currently being planned.</p>

Source: Own compilation based on NKR (2016) and NKR (2022), among others.