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Enterprises' Perception of Bureaucracy

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Abstract

This study examines how companies perceive bureaucracy. Three different kinds of perception types can be identified, depending on the degree of perceived overall burden, the extent of efforts required to fulfil bureaucratic requirements and the degree of emotion caused by bureaucracy; the Unencumbered Type, the Pragmatic Type and the Grumbling Type. More than 50 % of companies in Germany belong to the Grumbling Type. A considerable proportion of companies are sceptical about the benefits of bureaucratic rules and obligations. In addition, they are often not able to fully implement all bureaucratic requirements. A considerable share of companies consciously practice autonomous bureaucracy reduction. At the same time, companies are very willing to support policymakers in the process of bureaucracy reduction.

JEL: K2, L5, L26

Keywords: *Bureaucracy, administrative burdens, compliance costs, reduction of red tape*

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Executive Summary

Over the past two decades, economic policy has gradually developed a wide range of instruments aimed at reducing bureaucracy and improving regulation. Although officially recorded bureaucratic costs – measured in time and cost requirements – tend to decline, companies continue to regard the burden of bureaucracy as a key obstacle to growth. This study examines, for the first time, the role of entrepreneurial perception of bureaucracy.

Perception determines the judgement of and dealing with bureaucracy

In matters of perception, the focus is on the individual person with his or her own experiences and emotions as well as his or her (specialist) knowledge and specific environment. The individual perception of entrepreneurs also influences the behaviour and strategies of companies, affecting how they assess and deal with bureaucratic requirements.

Among the three perception types, the Grumbling Type dominates

The study identifies three kinds of perception types. The assignment of companies to these types depends on the degree of the perceived overall burden of bureaucracy, the extent of efforts required to fulfil bureaucratic requirements and the emotions that bureaucracy evokes in companies. More than half of all companies belong to the Grumbling Type, a third to the Pragmatic Type and around a tenth to the Unencumbered Type.

Companies define bureaucracy much broader than politics

Almost all companies (97.4 %) define the term bureaucracy much broader than politics. In addition to bureaucratic obligations resulting from the public governmental sphere, they mostly also consider semi-public or private-sector regulation as bureaucracy. Particularly often, the Grumbling Type has a broad understanding of bureaucracy and perceives more often regulations of different origins as bureaucracy. That can also contribute to the higher burdens perceived by this type.

Lack of sense and high control intensity of bureaucracy

In addition to practical difficulties in dealing with bureaucratic requirements, a large proportion of companies criticise the lack of sense in many regulations (59 %) and a high regulatory density (78 %). This causes stress and uncertainty and can further reinforce negative bureaucracy perceptions. Even though companies can often understand the actual objectives of laws and regulations, a certain "threshold of inappropriateness" is surpassed when their implementation requires disproportionately high effort and resources.

Autonomous reduction of bureaucracy as a result of negative perception

Almost half of all companies are not in a position to meet all bureaucratic requirements. They only comply with those regulations which they consider most important. More than 25 % of the companies deliberately reduce bureaucracy autonomously.

Weakened acceptance of the economic policy framework

The widespread critical perception of bureaucracy and the incomplete compliance with bureaucratic requirements can be interpreted as a weakening of the rule of law and the acceptance of the economic policy framework. This trend is further reinforced by the fact that businesses often do not perceive (any longer) the (potential) benefits of bureaucracy, such as legal certainty and equal treatment.

Greater involvement of enterprises in the process of bureaucracy reduction

To reverse the negative, long-standing experiences of many companies with red tape, bureaucracy reduction measures and an information and communication policy that focus primarily on the reduction of information obligations – and thus on bureaucracy in the narrow sense – fall far too short. Instead, economic policy should take a broad understanding of bureaucracy into account, which is in line with the perception of (most) companies. Stronger involvement of companies and their expertise in the process of bureaucracy reduction can provide new impetus. Most companies are willing to co-operate.

1 Introduction

The burden of bureaucracy on enterprises – and SMEs in particular – has long been an important issue in the economic policy debate. The sociologist Max Weber (1922) once described bureaucracy as the ideal type of legal and rational rule. He highlighted the positive achievements associated with it: Bureaucracy allows public authorities to act in accordance with general and predictable rules, free from arbitrariness and personal relationships. Today, however, bureaucracy is often perceived as exuberant and associated with a lack of meaning. The fulfilment of bureaucratic requirements ties up extensive resources that can no longer be directed towards actual (value-creating) activities. Companies and business associations, therefore, regard the bureaucratic burden as a critical growth barrier (e.g. BDI/BDA, 2008; VDMA, 2019; ZDH, 2016).

Economic policy has been trying for years to counter this trend. Since 2006, it has gradually developed a wide range of instruments aimed at reducing red tape and improving legislation (Nationaler Normenkontrollrat, 2016). In addition to the establishment of the National Regulatory Control Council, other milestones included regular impact assessments of new regulations, periodic work programmes of the Federal Government for the reduction of bureaucracy, the reduction of overall administrative burdens on the economy by 25 % in the period from 2006 to 2011 and the commissioning of the Federal Statistical Office with the regular measurement of administrative and compliance costs. Essential reforms in the recent past include, among others, three Bureaucracy Relief Acts, surveys by the Federal Statistical Office among users of administrative services and the introduction of the "one in, one out" rule at the federal level ("bureaucracy brake").

At first glance, the bureaucracy cost index – established in 2012 – shows positive effects. The administrative costs on the economy arising from obligations to gather, provide and transfer data and information have continued to decrease, albeit only marginally. Nevertheless, in the perception of companies, bureaucratic burdens appear to remain high. Previous research cannot adequately explain the reasons for this discrepancy because it focused mainly on measuring the extent and development of administrative costs only. The present study examines, for the first time, the role of entrepreneurial perception of bureaucratic burdens. It answers the following questions: How do companies perceive bureaucracy? Which factors influence the perception of bureaucracy? In what way

does the companies' perception of bureaucracy affect their handling and assessment of bureaucratic requirements?

These questions will be answered in several steps: Chapter 2 develops a conceptual framework for the bureaucracy perception of companies and the various influencing factors. Chapter 3 describes the methodological approach and the databases (interviews with experts and entrepreneurs as well as a structured representative business survey), while Chapter 4 presents the empirical results. The final chapter draws conclusions, makes policy recommendations and identifies needs for further research.

2 From the measurement of bureaucracy to the perception of bureaucracy

2.1 State of bureaucracy research

So far, the focus of bureaucracy research has been mainly on systematising bureaucracy-related burden effects and making them accessible for measurement. To achieve this, tangible and relatively simple indicators serve as a basis. For example, information obligations are mostly used to record bureaucratic burdens on companies.¹ Research is largely based on this narrow understanding, too (De Jong & Van Witteloostuijn, 2015). A second statistical indicator refers to more broadly defined compliance costs, determined at the macroeconomic level and based on annual changes (Statistisches Bundesamt, 2018). Bureaucratic burdens resulting from non-state regulation are recorded less frequently (e.g. DIHK, 2011). This also applies to the quantification of bureaucratic costs, which have a "dual-use" character, so-called "business-as-usual costs" (e.g. Bigler, 2011; Clemens, Schorn, & Wolter, 2004).

In 1995, the IfM Bonn carried out the first comprehensive (pioneer) study of bureaucratic burdens on small- and medium-sized enterprises (SMEs) (Clemens, Kokalj, & Hauser, 1995). It examined bureaucratic burdens in selected (legal) areas and estimated the corresponding time and cost requirements. Subsequently, empirical studies more frequently analyse the extent and development of bureaucratic burdens, sometimes also by estimating or determining the associated bureaucratic time and cost (Clemens et al., 2004; Icks, Wallau, Fischer-Steege, Richter, & Schorn, 2006). Furthermore, studies often deal with single

¹ A conceptual distinction between state regulation (information obligations, compliance costs) and non-state regulation is made in Chapter 2.3.

special topics such as the reaction of companies to high bureaucracy burdens (Sage, 2015), the evaluation of bureaucracy relief measures (Hofmann, 2008) or the differentiation between internal and external bureaucracy costs (Clemens et al., 1995; Clemens et al., 2004; Kayser & Wallau, 2004). Also, single enterprise divisions and business life situations (Clemens et al., 2004; Hofmann, 2008; Icks et al., 2006; Smallbone & Welter, 2001; Statistisches Bundesamt, 2017; van Stel, Storey, & Thurik, 2007) company (Chittenden, Kauser, & Poutziouris, 2002; Clemens et al., 2004; DIHK, 2011; Kayser & Wallau, 2004; Mallett, Wapshott, & Vorley, 2018a) and/or enterprises that are active in certain fields of activity (Kayser & Wallau, 2004) have been subject to research investigations.

Since bureaucracy does not only produce a small, well-defined set of effects on enterprises, research – especially on the international level – increasingly takes a more nuanced view of bureaucracy (Kitching, Hart, & Wilson, 2015; Mallett et al., 2018a). Bureaucracy is not so much a static fact but is more and more understood as a process (Mallett et al., 2018a). According to this understanding, companies first have to identify and interpret the bureaucratic requirements relevant to them and then decide as to whether and how they will deal with these duties. The reaction to bureaucracy obligations is determined, among other things, by the prevailing circumstances in the company. If, for example, new occupational health and safety regulations are issued, and companies have already taken appropriate measures (without a legal obligation), only a few or no additional actions will be necessary.

Furthermore, regulations and laws do not only exert a direct influence on the actions of companies (e.g. the documentation obligations associated with the introduction of minimum wages). They can also have an indirect influence. This is the case, for example, if competitors make their working hours more flexible as a result of the introduction of minimum wages and this behaviour prompts other companies to react (Kitching, 2006; Mallett et al., 2018a).

At the same time, the positive aspects of bureaucracy are increasingly coming into the focus of scientific discussion (e.g. De Jong & Van Witteloostuijn, 2015; Schleppehorst, Holz, & Welter, 2014). Highly complex economic and social systems cannot operate without (adequate) regulations and laws (De Jong & Van Witteloostuijn, 2015; Kitching et al., 2015). Although companies often do not consciously perceive the benefits of laws and regulations and take them for granted, they guarantee legal and planning security and create the space for

(international) business transactions (e.g. Kitching, 2006). Mandatory business practices can also increase efficiency if they induce a structured approach and enable routine processes. This can contribute to maintaining the competitiveness of companies (Kitching et al., 2015).

2.2 Why is perception important?

In bureaucracy research, bureaucratic burdens have so far been operationalised mostly by using the bureaucracy cost index, which measures costs induced by information and documentation obligations. Hence, it makes bureaucracy burdens (in part) "objectifiable". However, it can be assumed that also entrepreneurial perception plays an essential role with regard to burden effects, handling and assessment of bureaucracy. This is because companies often perceive identical situations very differently. Thus, they understand and evaluate (supposedly) objective facts differently, which ultimately results in different behaviours.

This has already been proven by SME research, e.g., for the perception of growth processes or the sentiment of belonging to the "Mittelstand" sector. Schleppehorst/Schlömer-Laufen (2016) instance, show that the self-perception of entrepreneurs as to whether they run a fast-growing company and the objective assessment based on growth indicators differ. The study "Mittelstand zwischen Fakten und Gefühl" also points to a discrepancy – in this case between the (structural) definition of Mittelstand companies and the individual perception of belonging to the Mittelstand (Welter et al., 2015). Studies have also shown the relation between individually differing perceptions and goals, motivations and ambitions of entrepreneurs as well as their entrepreneurial actions. For example, Davidsson (1991) showed how important the perception of managers (e.g. concerning the assessment of their capabilities or possible growth barriers) is for growth ambitions and corporate development. Kor et al. (2007) also attribute different company developments to the fact that entrepreneurs assess the possible use and combination of resources differently in their individual perspectives. From start-up research, it is known that perception has a decisive influence on the recognition of entrepreneurial opportunities (Edelman & Yli-Renko, 2010). Sometimes the individual assessment of market opportunities can even be of greater importance for the decision to set up a company than an evaluation based on objective criteria (Michl, Spörrle, Welppe, Grichnik, & Picot, 2012). It is also known that female founders more often perceive their environment as challenging and their skills as insufficient for entrepreneurial activity than male

founders. This perception, in turn, diminishes their founding intentions (Shinnar, Giacomini, & Janssen, 2012).

In bureaucracy research, the influence of entrepreneurial perception on the bureaucracy burden has not yet been systematically investigated. This is understandable: It is complex and difficult to measure. After all, perception is one of the cognitive abilities of human beings (Mitchell et al., 2002) that helps us to capture our environment (Efron, 1969; Krueger, 2003). At the same time, the impressions are filtered and selected, since the information processing capacity of people is limited (Davidsson, 1991).

Further, individual perception cannot be understood in isolation from the personal background and the social and societal environment. Thus, experiences and emotions affect the process of perception, too (Lazarus, 1995; Michl et al., 2012). According to the theory of social perception (Bruner, Postman, & Rodrigues, 1951; Lilli & Frey, 1993) at the beginning of every perception process, there is an expectation hypothesis which decides on what the human being focuses his or her attention on in specific situations and how he or she interprets factual facts (Betsch, Funke, & Plessner, 2011; Lilli & Frey, 1993). Also, people perceive some information consciously, other only unconsciously or not at all. Moreover, distorted perceptions are possible if an expectation becomes entrenched, and people fail to revise it if necessary (Bruner et al., 1951; Lilli & Frey, 1993).

Finally, perceptions also have an impact on entrepreneurial behaviour and strategies. The regulations, prohibitions and precepts imposed by the state, intermediaries or other economic actors restrict the freedom of companies to act. Companies react differently to this restriction of their freedom. While some people respond more actively to an event, others remain passive. According to the cognitive appraisal theory of Lazarus (1995), these different human reactions are based on emotions. Accordingly, events evoke emotions whose nature and intensity depend on the extent to which the events correspond with or diverge from personal goals and beliefs (Michl et al., 2012; Smith & Lazarus, 1993). Chittenden et al. (2002) presented one of the few studies that have roughly examined this aspect with regard to bureaucracy. They point out that regulations and laws also cause "psychological costs" in addition to "objectifiable" costs. These result from uncertainty and stress when users do not fully understand binding rules (Chittenden et al., 2002). A likely reaction towards bureaucracy

could then be termed as "ostrich" behaviour: "What I do not understand, I avoid or circumvent".

Oliver (1991) identifies five entrepreneurial responses to resource bottlenecks and the institutional environment that can be translated from the way enterprises deal with perceived bureaucracy: acquiescence (companies comply with government regulations); compromise (companies consider whether an avoidance strategy would be more appropriate in some situations); avoidance (companies deliberately avoid regulation, but are aware of violations); defiance (an active form of resistance to government regulations) or manipulation. Which particular strategy companies choose, depends on a variety of factors we will look at in more detail in the next section.

2.3 Which factors influence the perception of bureaucracy?

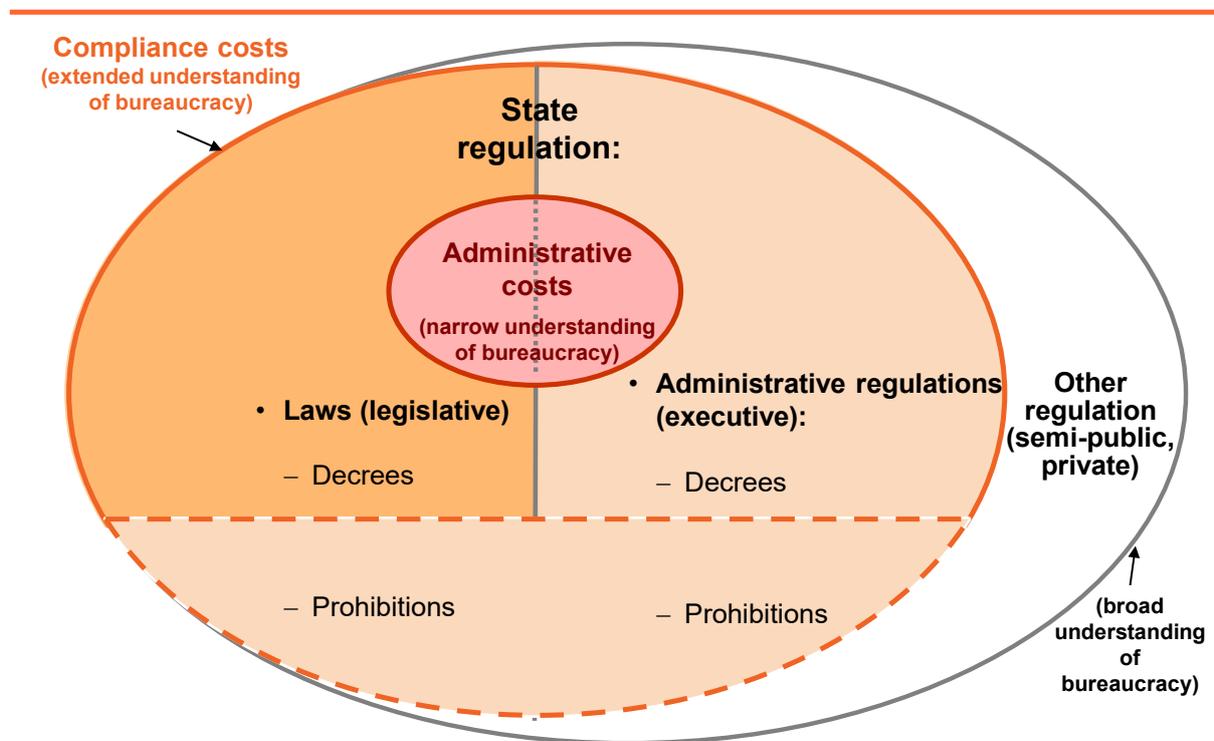
2.3.1 The scope of bureaucracy

One reason for the discrepancy between the measured and the perceived bureaucracy burden may refer to policymakers and entrepreneurs having a different understanding of bureaucracy. From a political perspective, the concept of bureaucracy is clearly defined: Bureaucracy is the obligation to provide information and thus to procure, store or transmit data and other information to public authorities or third parties on the basis of obligations resulting from law, statutory order, statute or administrative regulation. (§ 2 (2) NKRG – Gesetz zur Einsetzung eines Nationalen Normenkontrollrates (Law of the National Regulatory Control Council)). This – in our understanding – "narrow bureaucracy definition" includes, for example, the completion of applications and forms, the participation in official statistical surveys, obligations to provide evidence and documentation as well as the calculation of income and sales taxes or of social security contributions. For this Act, bureaucracy costs stem from information obligations imposed on natural or legal persons (§ 2 (2) NKRG). Based on this definition, the bureaucracy cost index has been calculated and updated monthly since 2012 (Statistisches Bundesamt, 2019). It measures the overall economic burden on companies that result from the fulfilment of documentation and information obligations.

A second indicator determines the annual change in macroeconomic compliance costs. Compliance costs are more broadly defined than bureaucracy costs. They include the total costs and the total measurable time necessary to comply

with a legal provision of the Federal Government (Section 2 (1) NKRG).² We call this the "extended bureaucracy definition". When new legal provisions (laws and regulations) are introduced (including orders to refrain from specific actions) and implemented by administrative regulations, the resulting compliance costs are calculated. For companies, these comprise both one-off expenses and additional recurring expenses. Examples are the regular or event-related inspection of technical systems after a specific number of operating hours has been reached or the decommissioning and replacement of obsolete technology due to new legal threshold values, but also training courses as well as the procurement and transfer of information (Statistisches Bundesamt, 2018).

Figure 1: Dimensions of the term "bureaucracy"



Source: IfM Bonn 2019, own presentation.

Third-party requirements are not part of state regulation and do not constitute administrative nor compliance costs. They may include, for example, private specifications from customer-supplier relationships. However, they can also result indirectly from public law and therefore be semi-public in nature. This means that the state can delegate sovereign tasks to specific institutions, such as self-

² See Statistisches Bundesamt (2018) for more detailed information on the calculation and categorisation of compliance costs.

governing institutions of the business economy, standardisation institutes or social accident insurance institutions. These institutions are both entitled and obliged to carry out the tasks assigned to them. This way, tasks may be carried out more efficiently with less bureaucracy or with higher expertise. Examples include the registration of enterprises in the craft register, the administration and supervision of apprenticeship training or the avoidance of work-related health risks. The term "broad bureaucracy" defined in this study comprises semi-public and private regulation in addition to state regulation (cf. Figure 1).

In general, the specific bureaucratic requirements that companies have to observe in an individual case can be derived clearly from the applicable legal and contractual situation. Thus, theoretically, every company would be able to identify all the bureaucratic requirements that have to be respected. The bureaucratic requirements are, therefore, objectively given and only need to be identified as completely as possible. However, due to limited availability of resources and time, companies are often not in a position to fully identify and understand the relevant bureaucratic requirements (Mallett et al., 2018a). In some cases, for reasons of practicability, they limit implementation to the provisions which they consider most important.

2.3.2 The design of bureaucracy

Companies can perceive the bureaucratic requirements differently not only with regard to the scope of bureaucracy (narrow, extended or broad definition) but also regarding its content parameters. For example, companies interpret the relevant regulation to varying degrees as meaningful, comprehensible or realistic. The scientific literature ascribes a particularly important role to the specific relation between trust and control in behavioural relationships between economic actors (Fukuyama, 1995; Luhmann, 2000; Welter, 2012). Hence, companies may have a different perception of bureaucracy, depending on the extent they consider regulation as a whole to be characterised more by state control or trust.

In general, the state may choose control of entrepreneurial activity when it considers the (damage) risk of (potential) abuse of trust to be too high or when it demands a specific means or behaviour to achieve its objectives, e.g. in order to protect critical legal assets such as life, health or the environment. Trust in the context of bureaucratic requirements may mean that the legislator sets a specific objective and enterprises are free to choose the means to achieve it. It may also mean that the legislator prescribes a particular means to reach the goal but then does not systematically monitor its compliance.

If companies feel that trust dominates the government's regulatory practice, this has a positive influence on their perception (Lane, Salk, & Lyles, 2001; Paul & McDaniel Jr., 2004). This way, perceived trust can also (partially) neutralise negative long-term experiences with bureaucracy.

If instead, companies perceive state regulation as dominated by control, companies' transaction costs increase. This includes higher costs for searching, understanding and implementing regulations (Hömann & Welter, 2005; Welter & Smallbone, 2006). At the same time, control curtails companies in their freedom to search for (more efficient) solutions to achieve the given goals. Also, it can be assumed that enterprises assess state control more negatively when they perceive bureaucratic requirements as hardly effective and efficient, i.e. as unsuitable, disproportionate or meaningless.

Enterprises' perception of bureaucracy is also influenced by the fact whether state control is very rigid or rather reactive (event-driven). Ultimately, these criteria influence the company's decision to comply with administrative requirements or to (partially) disregard the rules and possibly obey only some of them. Of course, this decision also depends to a large extent on other factors, such as the probability of detection, the penalty for non-compliance and on the benefits from non-compliance (Becker, 1968). A strategy of non-compliance may be pursued in the case of regulations that are rarely monitored, such as companies' obligation to carry out and document risk assessments in the field of health and safety.

2.3.3 Resource endowment and bureaucracy

The perception of bureaucracy does not only depend on the individual understanding of the term and the individual assessment of content-related parameters. Personal and company-related factors also have an influence. For instance, the personal background and experience of entrepreneurs are important influencing factors. The longer companies operate on the market, the more experiences, routines and learning effects they gain in dealing with bureaucratic requirements (Kitching & Smallbone, 2010). Therefore, they may not perceive bureaucracy as burdensome (any more). On the other hand, older companies may have made negative experiences with bureaucracy over a longer period of time. Then, negative experiences may become entrenched and lead to a perception of higher burdens.

Beyond that, indirect experiences and information, i.e. communicated by other persons or institutions, play an essential role. They can be provided, for instance, by managers and employees within the company, fellow entrepreneurs, business associations or the media (Edwards, Black, & Ram, 2003; Kitching, 2016, 2018; Mallett et al., 2018a; Mallett, Wapshott, & Vorley, 2018b; Mayson & Barrett, 2017). Media coverage, which usually focuses on the burdensome aspects of bureaucracy rather than the benefits, contributes to the fact that the term "bureaucracy" today provokes mostly negative connotations and may therefore "(pre)determine" the expectations and perceptions of companies.

Likewise, the corporate culture prevailing in a company – its system of values, norms, goals, modes of behaviour and perceptions of the environment (Schein, 2010) influences the behaviour and the interpretation of reality of the individual members of the company (Bardmann & Franzpötter, 1990).

Furthermore, the extent of available resources (personnel, financial and time resources) exerts an impact on the perception of bureaucracy, too (Kitching & Smallbone, 2010). Companies with a more extensive resource base have, for example, qualified personnel with specific expertise or sufficient financial resources to purchase auxiliary tools and digital technologies or to make use of external support (Clemens et al., 2004). An increasing availability of resources facilitates the (internal) division of labour as well as the specialisation and professionalisation in dealing with bureaucratic requirements in the company and is therefore likely to go hand in hand with a reduced perception of burdens. The more time resources are available, the less company owners, managers and employees are kept away from their core, value-creating activities. As a result, bureaucracy is considered less burdensome (Peck, Mulvey, & Jackson, 2018).

However, the resources that are used to comply with bureaucratic requirements are no longer available to the companies for actual business activities. Particularly affected are small enterprises (with lower resource potential). The efforts required to meet bureaucratic requirements are often of a fixed cost nature. Smaller companies can distribute these fixed costs only on small production volumes. Hence, their (relative) cost burden is higher compared to larger firms. As a consequence, companies facing substantial resource restrictions or even bottlenecks may find the fulfilment of bureaucratic regulations more burdensome (Peck et al., 2018).

2.4 Interim conclusion

The perception process in general and bureaucracy perception in particular is influenced by factors that are related to the nature of bureaucracy, and to the individual person and his or her environment. The nature of bureaucracy is manifested, for example, in how companies interpret its scope and the intensity of control. This, in turn, is also influenced by personal and business-related factors, i.e., whether they have a narrow or broad understanding of bureaucracy, whether the company is of large or small size, whether it is well-experienced or less experienced with bureaucracy, and whether long-standing (negative) attitudes have become entrenched. As a result, entrepreneurs may not "discover" all the laws and regulations that are relevant to them and may evaluate and interpret the identified laws and regulations differently. Therefore, bureaucratic requirements can have different effects on companies and can lead to varying types of behaviour in dealing with bureaucratic duties. In the next chapters, we will examine this empirically.

3 Methodical approach

3.1 Databases

We pursued a two-step empirical approach. At first, we conducted interviews with entrepreneurs and experts. These discussions served to answer the question of how companies perceive bureaucracy. They were also instrumental in identifying perception types. In a second step, we conducted a nationwide company survey based on these results. It was of particular interest to find out how the perception of bureaucracy influences companies' handling and assessment of bureaucratic requirements, and which factors influence this perception.

Starting in spring 2018, we conducted a total of 26 semi-structured interviews.³ Seventeen interviews were held with representatives of business chambers and industry associations, with academic researchers and experts entrusted with the statistical recording, measurement and reduction of bureaucracy (e.g. NRCC). We also conducted interviews with the owners of nine companies of different sizes, economic sectors and ages.

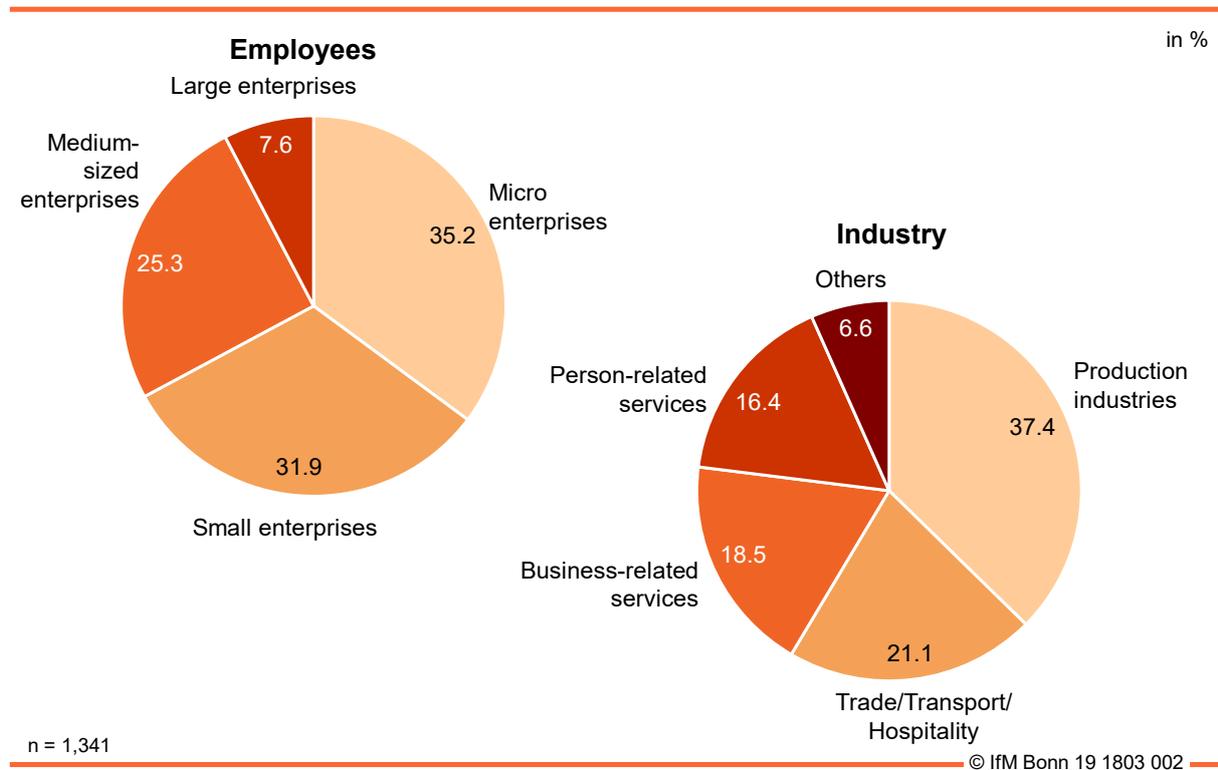
³ We would like to express our gratitude to all our discussion partners who have provided us with interesting and multifaceted insights into the complex thematic field of "bureaucracy".

The interview guideline was based on the conceptual considerations presented in Chapter 2. The interview topics were adapted to the two interview groups: Interviews with company owners focused on the components of bureaucracy (A), the effects of bureaucracy (B) and on policy measures to reduce bureaucracy (D). The group of bureaucracy experts received an additional block of questions dealing with the information and communication of bureaucratic requirements (C) (cf. overview A1 and A2 in the appendix).

The nationwide company survey was conducted as an online survey between November and December 2018. The companies addressed were selected by drawing a stratified random sample. The population consisted of all enterprises registered in Germany, with and without employees (cf. Table A1 in the appendix). Since we contacted the companies by email, we could only consider those with available email addresses. After address cleansing, we invited 32,573 companies to participate in the online survey. A total of 29,173 emails were delivered. Finally, 855 companies took part in the survey, yielding a response rate of 2.9 %.

In addition, intermediaries and media representatives supported the survey. They increased attention to the survey through various channels, such as newsletters or homepages. Participation was via a separate link. A total of 628 companies took part in the survey in this way. Thus, a total of 1,483 companies participated in the survey, distributed across size classes and sectors as follows (cf. Figure 2).

Figure 2: Distribution of the sample by economic sectors and employment size classes



Source: Survey of IfM Bonn 2018; unweighted values; own calculations.

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

3.2 Development of perception types

From the interviews, we derived six constituent features that express a different bureaucracy perception of companies. They comprise the perceived overall burden of bureaucracy, the perceived efforts to fulfil bureaucratic requirements, the experiences of the companies in dealing with bureaucracy, the resources available to the companies (personnel, financial and time resources), the perceived confidence in dealing with bureaucratic requirements and the emotions that the topic evokes in the companies. Each characteristic can take on different expressions, which lead to a perception of bureaucracy ranging from rather neutral to strongly negative.

By grouping similar characteristic scores (vgl. Kelle & Kluge, 2010), we could build three different perception types. Thus, each perception type shares

common characteristics, but at the same time clearly distinguishes itself from the other types (vgl. Schmidt-Hertha & Tippelt, 2011) (cf. Figure 1).

Overview 1: Characteristics of the three perception types

Constituent features	Perception Type		
	The Unencumbered	The Pragmatic	The Grumbling
<i>Perceived overall burden</i>	very low	medium	very high
<i>Perceived proportionality of efforts</i>	reasonable	partly reasonable	disproportionate
<i>Existing (experiential) expertise</i>	very high	medium	very low
<i>Resources held available</i>	very high	medium	very low
<i>Confidence in handling bureaucracy</i>	very high	medium	very low
<i>Degree of emotionality evoked by the topic</i>	very low	medium	very high

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Source: IfM Bonn 2019, own compilation.

We call these three perception types "The Unencumbered Type", "The Pragmatic Type" and "The Grumbling Type". The Unencumbered Type is characterised by having less negative connotations of bureaucracy. They also feel burdened by bureaucratic requirements and realises a certain effort in meeting these requirements. However, companies of this type consider the overall burden as low and the required efforts as reasonable.

"All in all, with a few exceptions, often mentioned as negative examples, I do not consider bureaucracy to be disproportionate." (U1)⁴

The topic of bureaucracy triggers little emotion with this perception type. They mostly have a sober attitude in dealing with bureaucracy. This is further illustrated by the fact that they do recognise the advantages commonly associated with bureaucracy; for example, legal and planning security guaranteed by a well-functioning legal and administrative system.

⁴ An overview of the demographics of the interviewed companies – including their allocation to the three perception types – can be found in the appendix (cf. Overview A3).

"Surely, there are bureaucratic obligations which are sometimes annoying for the individual concerned. But if you look at them neutrally, these obligations are appropriate in almost all cases." (UI1)

Quite the opposite is the Grumbling Type. Companies of this type feel treated unfairly so that they often react very emotionally to the issue of bureaucracy. In this context, they often criticise the lack of trust in them as honest companies.

"If the tax office comes and finds a formal error, this can be taken as an opportunity to reject my entire bookkeeping. This means that between 5 and 10 % of the annual turnover can be estimated as tax arrears over three years. This puts companies in fear." (UI8)

In addition, the Grumbling Type feels excessively burdened and considers his or her efforts to fulfil bureaucratic requirements to be disproportionately high. For example, an entrepreneur reports that he spends four hours a day, i.e. a quarter to a third of his working time, on complying with information and documentation obligations (UI2).

While these two types each mark the end of a continuum, the Pragmatic Type is located between them. Companies of this type partly abandon the factual level, which is illustrated by a stronger emotionality triggered by the topic of bureaucracy. For these companies, the burden and efforts associated with fulfilling bureaucratic requirements are much more noticeable.

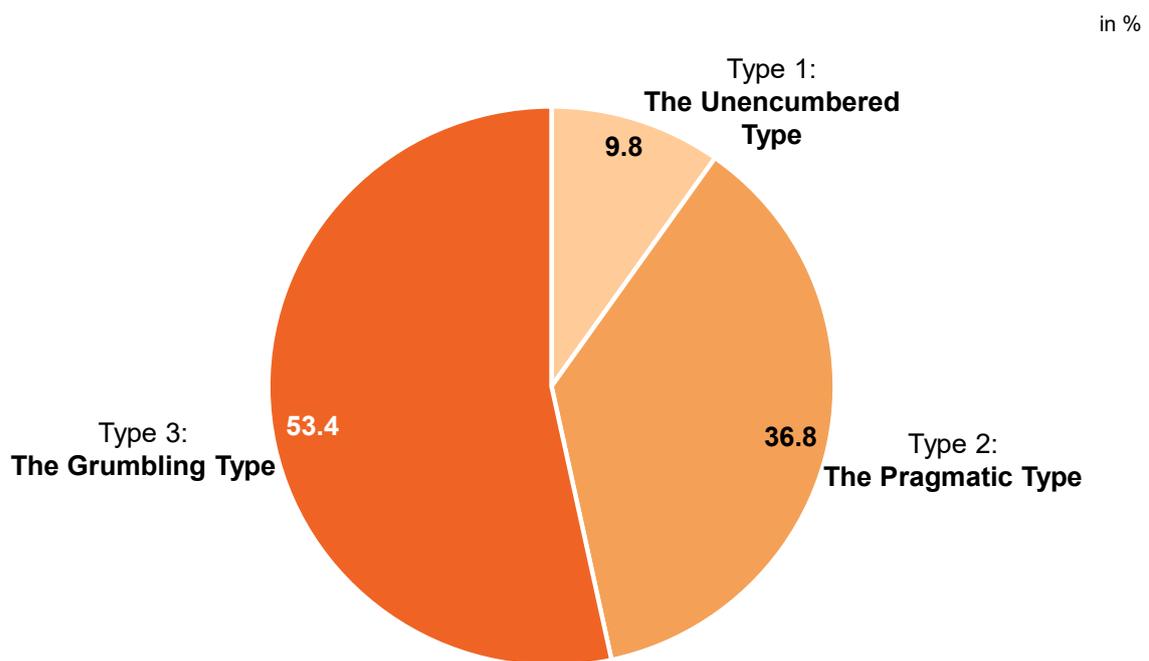
"What we have to do is indeed a burden to us. It consumes roughly 10 % of our working time." (UI3)

The six constituent features that characterise the perception types were also captured in the business survey. Survey participants were asked to rate each feature on a scale from zero to 100. An explorative factor analysis shows a close statistical relationship between three of these six characteristics. The perceived overall burden, the perceived efforts to meet bureaucratic requirements and the degree of emotionality evoked by bureaucracy form the common factor: the perception of bureaucracy (cf. Table A2 in the appendix).⁵ We then combined the ratings of these three characteristics. This gives us a measurable value for the

⁵ A reliability analysis to measure the internal consistency resulted in a Cronbach's Alpha of 0.75 and thus confirmed the suitability of the three indicator items for measuring the construct of bureaucracy perception (cf. Table A3 in the appendix).

perception of bureaucracy. If the scores are low, they indicate the Unencumbered Type. Medium scores represent the Pragmatic Type, while high scores represent the Grumbling Type. The distribution of perception types across the entire enterprise population shows that the majority of companies belong to the Grumbling Type (cf. Figure 3). On the other hand, just under 10 % of all companies are unencumbered.

Figure 3: Distribution of companies by perception types



n = 1,210

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Source: Survey of IfM Bonn 2018; weighted values; own calculations.

In the following chapter, we present the results of the company survey and relate them to the three identified perception types. Our aim is, on the one hand, to determine the influencing factors of bureaucracy perception and, on the other hand, to work out the consequences of bureaucracy perception for the assessment and handling of bureaucracy.

4 The Companies' view of bureaucracy

4.1 Bureaucracy perception and its influencing factors

Entrepreneurial perception cannot be analysed in isolation from personal and environmental factors. But which factors influence how burdensome and emotional bureaucracy is perceived? Multinomial regression procedures allow the empirically verifiable conclusion that the understanding of bureaucracy, the

relation between trust and control, the experiences made with bureaucracy over time, the (experiential) knowledge in dealing with bureaucracy, the disposable resources and the industry affiliation exert a significant influence (cf. Figure 2).⁶ Furthermore, we show that the three perception types are marked by different values for these factors.⁷

Overview 2: Factors influencing the perception of bureaucracy

Influencing factors	Perception Type		
	The Unencumbered	The Pragmatic	The Grumbling
Understanding of bureaucracy (Ref: Narrow understanding) Extended understanding of bureaucracy Broad understanding of bureaucracy			+
Relation between trust and control (Ref: Control) Balanced relation Trust in companies prevails	+	+	-
Bad experiences (Ref: No) Yes	-	-	+
Existing (experiential) knowledge	-		+
Resources held available		-	
Industry (Ref: Production industry) Trade/transportation/gastronomy Business-related services Person-related services Other	+		-
Observations Pseudo-R ²	819 0,2040***		

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Note: *** $p < 0,01$

Reading aid: Compared to a narrow understanding of bureaucracy, a broad understanding increases the likelihood of being a disgruntled perception type.

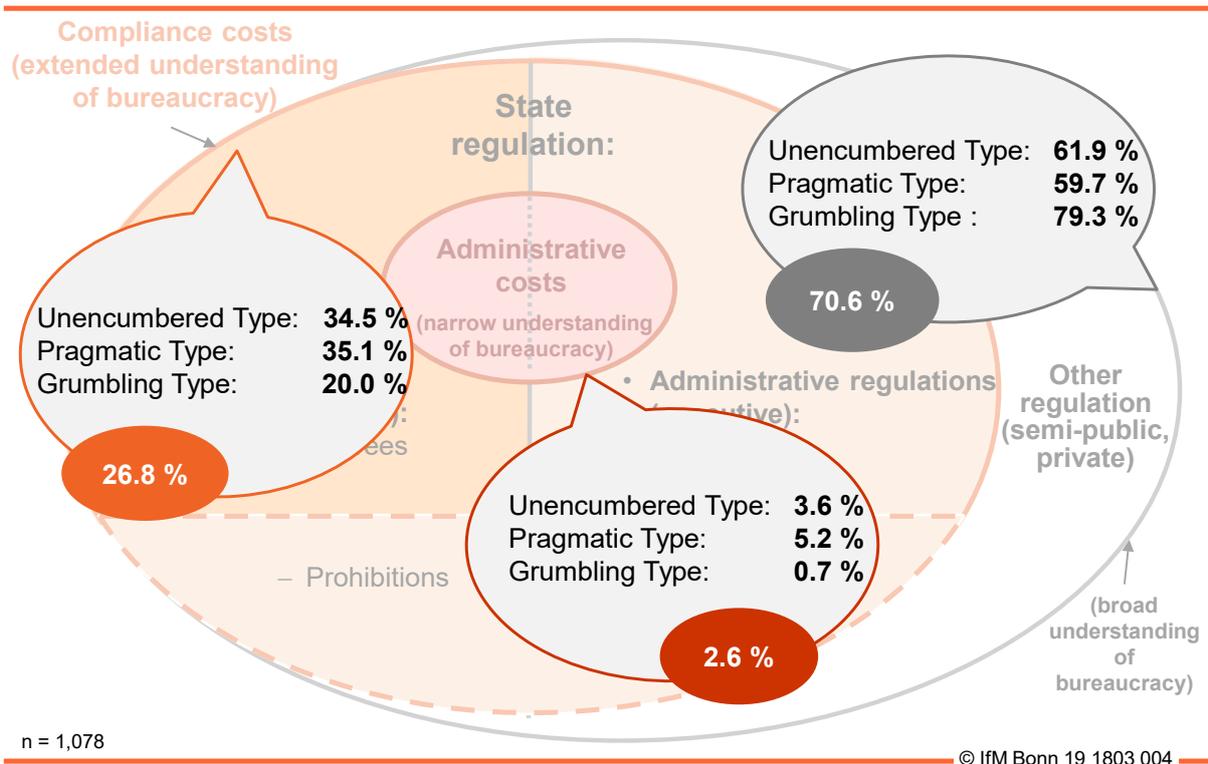
Source: Survey of IfM Bonn 2018; weighted values; own calculations.

The results indicate that the understanding and scope of bureaucracy differ considerably between companies and policymakers. Companies define the term "bureaucracy" much broader than politics. Only 2.6 % of all companies have a narrow understanding of bureaucracy and thus limit bureaucracy exclusively to information duties – i.e. to the type of burdens recorded by the bureaucracy cost index. If at all, this narrow view is held relatively more often by companies of the Pragmatic Type (cf. Figure 4).

⁶ An overview of all influencing factors included in the model and their operationalisation can be found in overview A4 in the appendix.

⁷ Table A4 in the appendix provides a complete overview of the results.

Figure 4: Understanding of bureaucracy from the company's point of view



Source: Survey of IfM Bonn 2018; weighted values; own calculations.

The remaining 97.4 % of companies, however, have a different understanding of bureaucracy: Approximately 27 % have an extended view. These companies associate bureaucracy not only with information duties but also with the efforts required to comply with other state regulation. This view is shared especially by companies of the Unencumbered and the Pragmatic type. For the clear majority of all companies (70.6 %), however, bureaucracy includes not only state regulation but also semi-public regulations (issued by intermediaries such as chambers of commerce, professional associations and standards institutes) and to a lesser extent private specifications from customers, suppliers or value chains.⁸ This broad understanding of bureaucracy is particularly common among the Grumbling Type, with almost 80 %.

In their perception, these companies consider more often regulations of different origins as bureaucracy than companies of the Unencumbered and the Pragmatic Type. As a consequence, one can assume that they feel much more

⁸ Semi-public regulations are perceived as bureaucracy by about two-thirds of all companies, while only one in six companies regards private regulation as bureaucracy.

restricted in their economic freedom of action due to (a broader definition of) bureaucracy.

An important influencing factor for the perceived bureaucratic burden is how companies perceive the overall role and behaviour of the legislator. To a varying degree, companies can either feel being controlled by the legislator or experience trust in their entrepreneurial qualification and integrity. In reality, the (vast) majority of enterprises feel controlled (cf. Figure 5), as this entrepreneur drastically puts it:

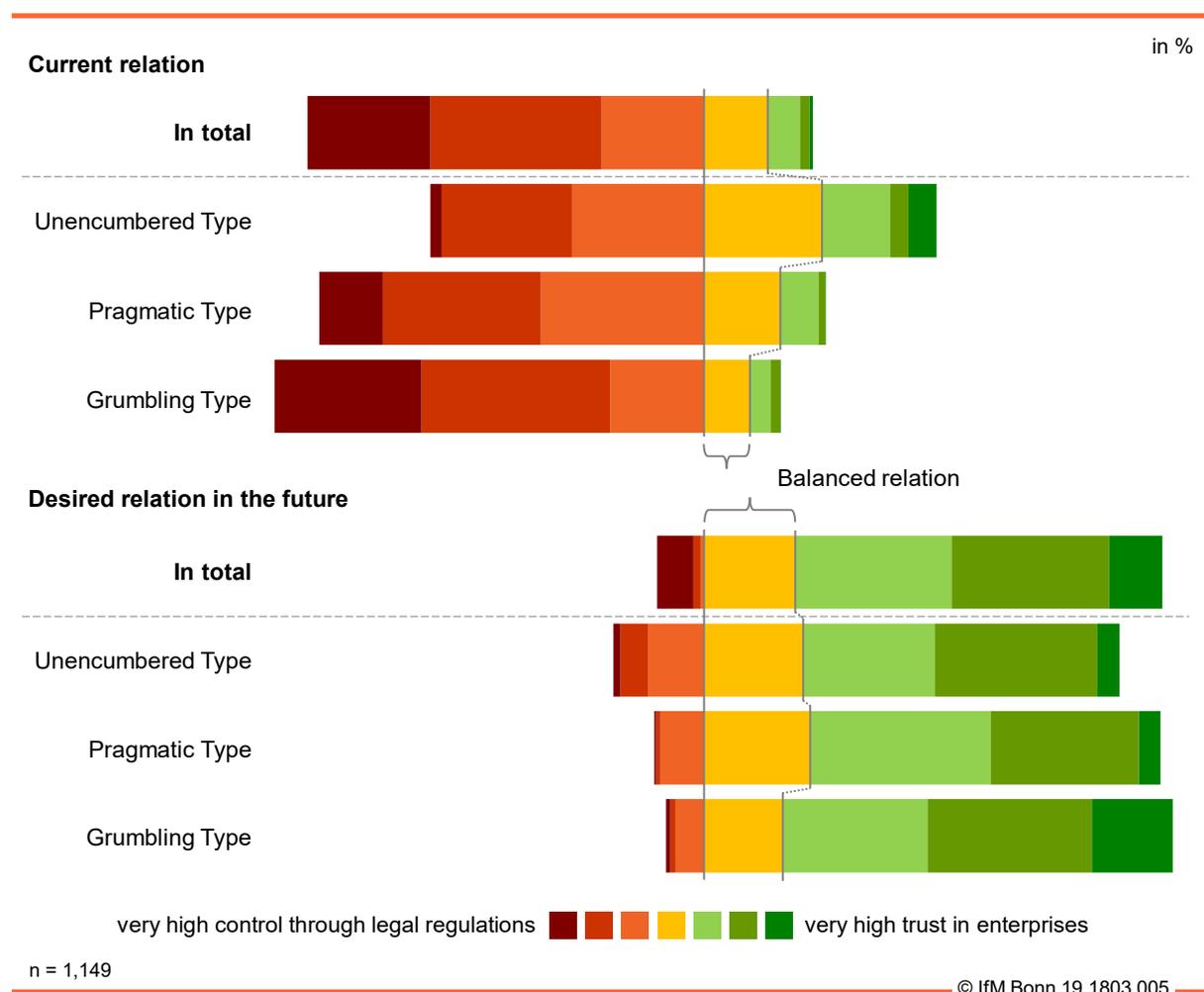
"Of course, if I think all my fellow citizens are scoundrels and crooks, then I have to control and regulate and do this and that, of course." (U13)

Companies of the Unencumbered and the Pragmatic Type are a bit more moderate in their assessments.

Compared with the current assessment, the desired future relation between control and trust shows an almost reverse result. For the future, companies of all types want legislators to have a general attitude that is dominated more strongly by trust in their qualification and integrity. In one of the interviews, an expert also agrees with this demand:

"(...) believe the entrepreneur (...) when he crosses "I am an SME" that he is an SME and he does not have to say anything more. If you have doubts, then you have to go into the verification, but initially do not let him fill out page-long forms with threats. You should put a little more trust in that." (E12)

Figure 5: The relation between control and trust



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

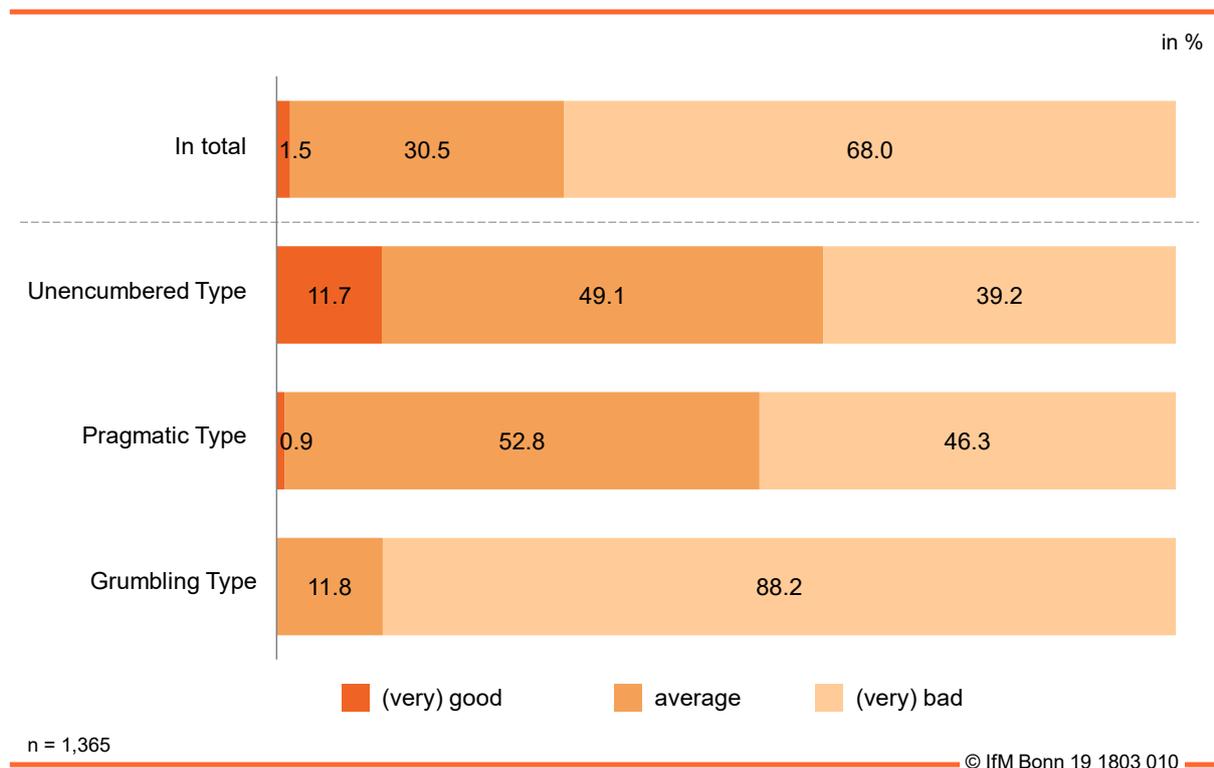
Source: Survey of IfM Bonn 2018; weighted values; own calculations.

Furthermore, our results show that negative experiences in the past can have a lasting impact on the perception of bureaucracy. During their often long-standing business activities, companies have much contact with bureaucracy. Hence, they build up a (cumulative) wealth of experience over time, which is fed by a multitude of individual impressions ("pool of memory"). In practice, companies' experiences with bureaucracy tend to be negative. This holds especially for the Grumbling Type (cf. Figure 6). Almost nine out of ten companies in this group have made (very) bad experiences with bureaucracy.

"There are ... always new laws forthcoming, which are still more bureaucratic, which still cause more work instead of ... simplifying things." (U12)

Very good or good experiences are the exception and occur noticeably only at companies belonging to the Unencumbered Type. In fact, the multivariate analysis shows that the Grumbling Type has built-up a negative "pool of memory" significantly more often.

Figure 6: Experiences with bureaucracy



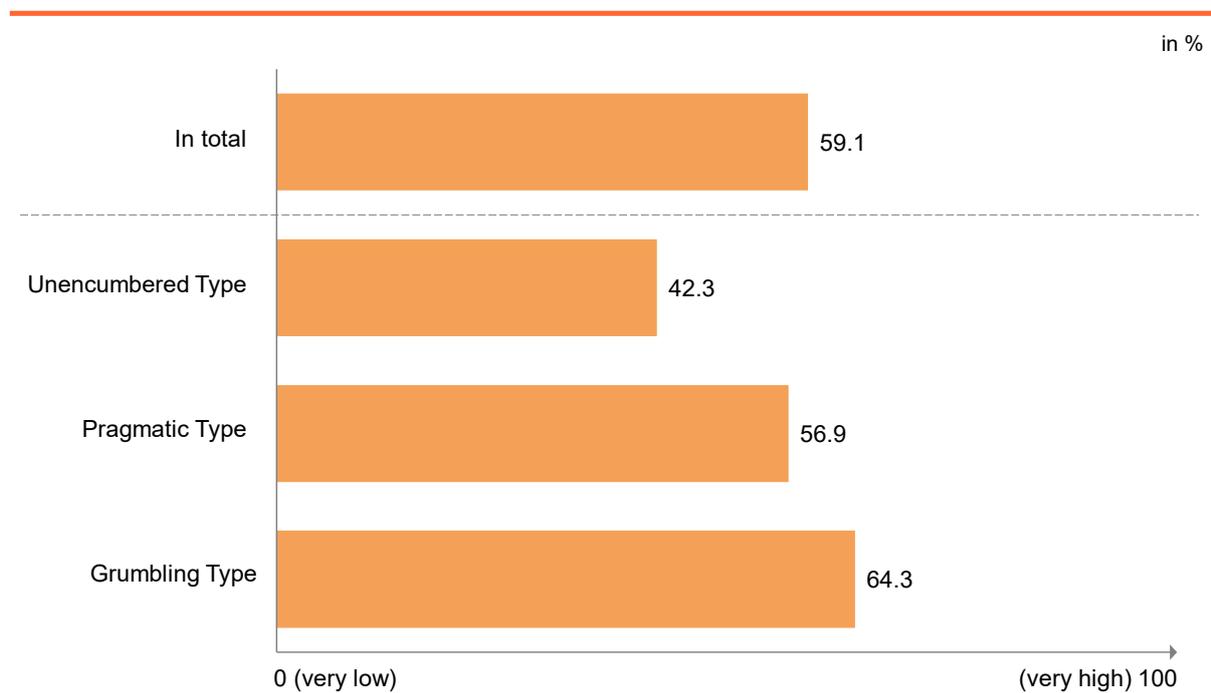
Source: Survey of IfM Bonn 2018; weighted values; own calculations.

At the same time, the Grumbling Type uses much more resources than the Unencumbered Type to meet bureaucratic requirements. One company even reported that it would need its own bureaucracy department to deal with red-tape in all depth. But in reality, the company could not afford that (UI5).

Particular importance is attached to the amount of existing knowledge: Companies need a considerable amount of know-how and expertise to be able to comply with regulations (cf. Figure 7). Companies do not only have to know and understand the relevant regulations but must also be able to apply them correctly. Grumbling entrepreneurs consider their knowledge to fulfil bureaucratic requirements as relatively high in comparison with entrepreneurs of the other types. This illustrates their fundamental willingness to inform themselves about regulations and to build up specific knowledge. However, at the same time, frustration increases since this is ultimately not enough to cope with the perceived high bureaucratic burdens.

The Unencumbered Type is marked by a rather factual approach to bureaucracy. The lesser emotions that the topic of bureaucracy evokes in him or her may create the feeling that he or she has to use less knowledge to deal with bureaucratic requirements that are unknown or difficult to understand. The constant handling of bureaucracy also plays a role here. Where companies come into frequent contact with administrative authorities or laws, they are more experienced in understanding the official language and legal consequences and have less fear of contact.

Figure 7: Existing knowledge to meet bureaucratic requirements



n = 1,369

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Source: Survey of IfM Bonn 2018; weighted values; own calculations.

Interestingly, the sector affiliation does exert a noticeable influence on the distribution of the three perception types. Compared to companies in the manufacturing sector, enterprises in other sectors of the economy, e.g. trade, tend to be more often unencumbered in their perception of bureaucracy. Providers of business-related services are even less common among the Grumbling Type. It may be that companies in this sector (e.g., business and tax consultants, lawyers and accountants) are more familiar with bureaucratic requirements for professional reasons. Furthermore, these companies operate in an environment where specific laws and regulations, such as consumer protection, occupational health and safety or rules on hazardous substances have little or no relevance.

Neither the size, age nor legal form of a company nor its international activities have an influence on the perception of bureaucracy. At first sight, these results seem to be surprising, particularly those with regard to enterprise size and internationalisation. After all, other (time- and cost-related) studies do show a relation between company size and bureaucratic burden (e.g. Clemens et al., 2004): With increasing company size and an increasingly heterogeneous employee structure, bureaucratic duties seem to increase, too. These include, for example, regulations on labour law, health and safety, the Minimum Wage Act and information obligations towards social security institutions. A similar connection can also be assumed between foreign business activities and bureaucratic burden, since cross-border business requires dealing with and fulfilling additional bureaucratic requirements, such as visa or customs procedures. However, our study, which focuses on the perception of bureaucracy, indicates that time and cost measurements of bureaucratic burdens (e.g. with the bureaucracy cost index) do not necessarily correspond to the individual perception.

4.2 The consequences of entrepreneurial bureaucracy perception

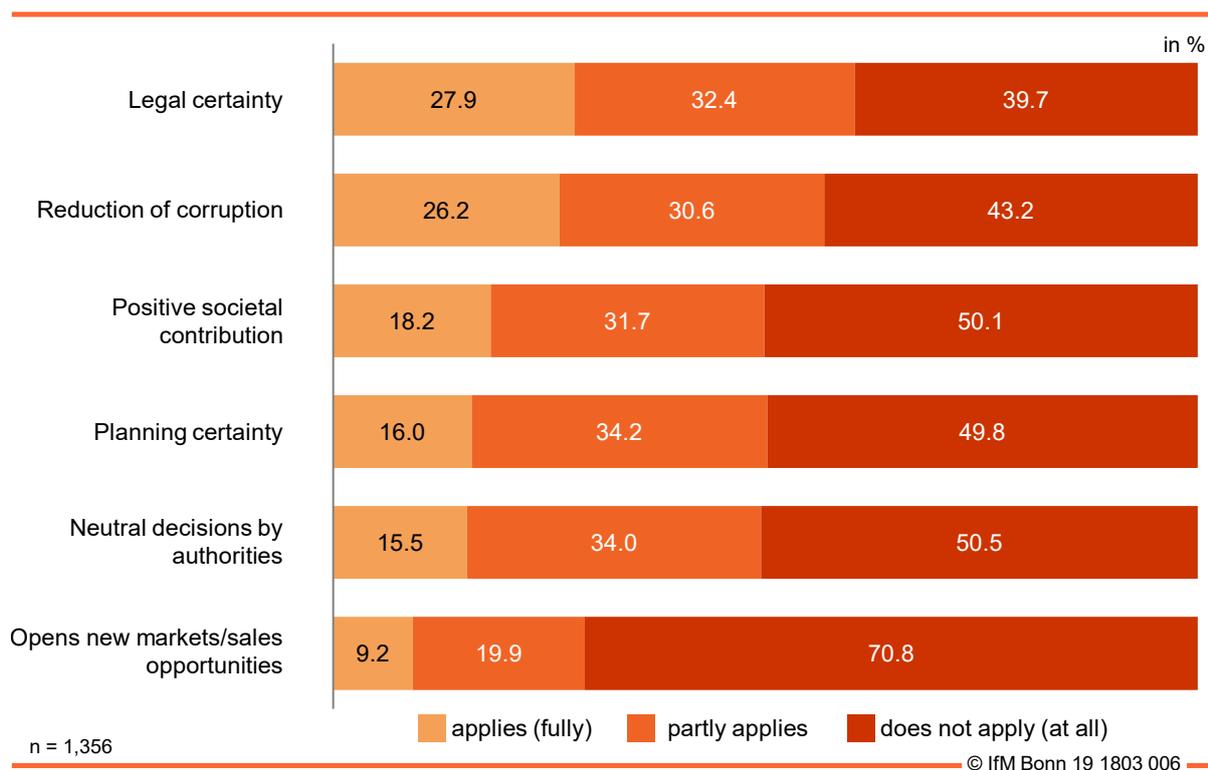
In the following, we examine how the three perception types evaluate the bureaucratic requirements and how they implement them in business practice.

4.2.1 The assessment of bureaucracy

Considering that the public and economic policy discussion focus on the burdening effect and the reduction of red tape, it can easily be overlooked that bureaucracy does have its *raison d'être*. Indeed, the term "bureaucracy" originally had a positive connotation. In the sense of a rules-based governmental authority, bureaucracy was the contrast to the arbitrary rule of absolute rulers. Bureaucracy ensured that public administration acted according to general and predictable rules, free from arbitrariness and personal relationships.

Even today, an essential function of bureaucracy – supported by the German legal and administrative system – is to guarantee neutral decisions by the authorities, legal and planning certainty, and to prevent corruption. However, companies are mostly sceptical about the actual realisation of these benefits (cf. Figure 8).

Figure 8: Benefits of the legal and administrative system



Source: Survey of IfM Bonn 2018; weighted values; own calculations.

Most likely to be accepted are statements that the German legal and administrative system provides companies with legal certainty and reduces corruption. Although every company certainly is in contact with public authorities and has to apply for approvals, only 16 % of the companies perceives benefits arising from planning certainty or neutral decisions by the authorities. The same holds for the assessment of benefits of the legal and administrative system to society, e.g. through the mandatory setting of environmental standards. Although one can assume that the majority of companies do not have a negative view of environmental protection, half of them do not realise that legal regulations can also generate a positive contribution to society.

Breaking down the results by perception types shows that the scepticism regarding the benefits of bureaucracy is particularly strong among enterprises belonging to the Grumbling Type: For almost every aspect presented, a possible benefit is denied by 50 % or more companies of this type (cf. Figure A1 in the appendix). The Unencumbered and Pragmatic Types assess the advantages of the legal and administrative system more positively. This applies in particular to companies of the Unencumbered Type. Among them, every second company recognises benefits with regard to reducing corruption. In addition, bureaucracy also provides legal and planning certainty for many unencumbered companies.

Among the numerous bureaucratic obligations, there are many tasks that companies (would) fulfil even without a legal obligation, as they serve to support their entrepreneurial activities. According to a study carried out in 2004, approximately 16 % of all bureaucratic costs have such a dual-use character (vgl. Kayser, Clemens, Wolter, & Schorn, 2004). They include, for example, determining the structures of sales and costs for the tax declaration or determining sick leaves. The obligation to fulfil these requirements could, therefore, implicitly support management in controlling its business activities. The figures show, however, that the majority of companies do not perceive this as added value (ranging between 70 % of the Unencumbered and 81 % of the Grumbling Type).

Besides, bureaucratic requirements may also provide companies with advantages in international competition. This is the case, for example, when (quality) standards are set which German companies have to meet, but not foreign ones:

"Due to this particular EU regulation, we are very active in research. This is of course also a competitive advantage for us because we started research relatively early and now have good know-how in this area. (Then regulation has become a competitive advantage?) Right!" (UI5)

In business reality, however, such advantages seem to be the exception rather than the rule, regardless of whether a company conducts international business activities or not. Two-thirds of the companies of the Unencumbered Type and about 88 % of the Grumbling Type see a competitive disadvantage instead of a possible competitive advantage. This is the case when competing companies do not comply with European law without experiencing any consequences:

"Bureaucracy at the EU level distorts competition since it is lived in different ways in the various Member States. As Germans, we have a competitive disadvantage." (UI1)

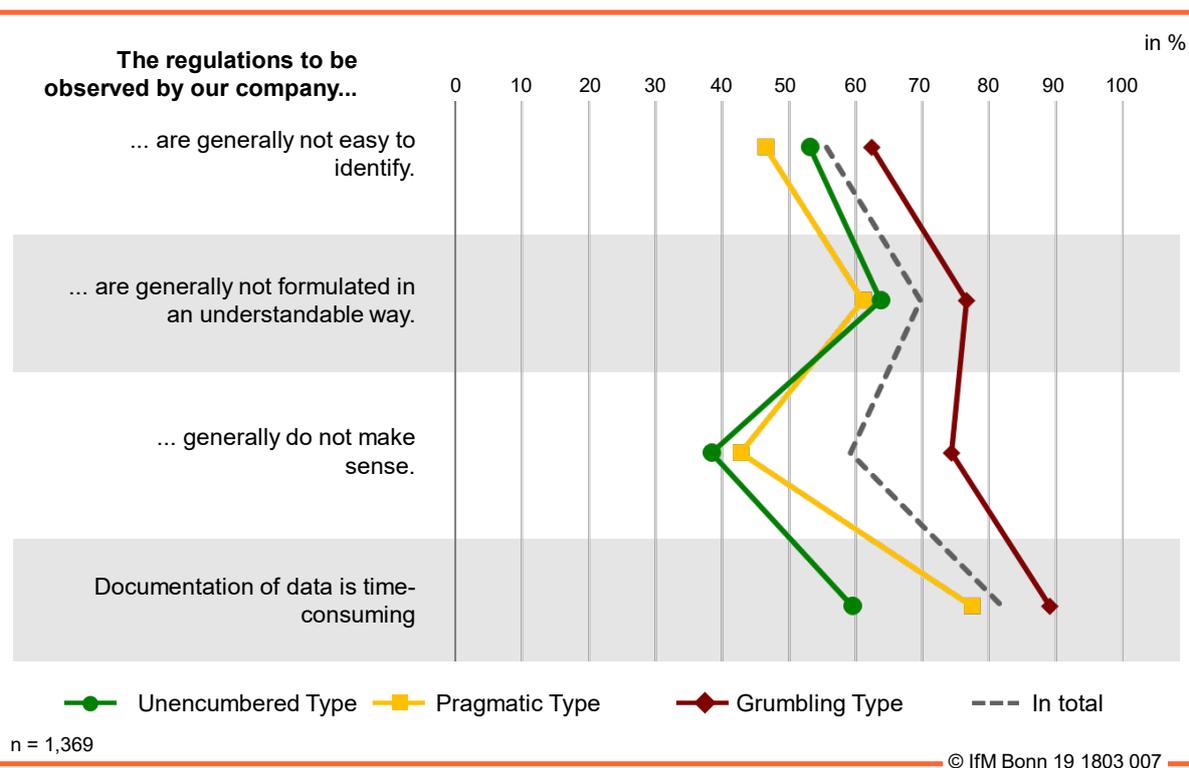
In view of this criticism, it does not come as a surprise that most companies deny the statement that the German legal and administrative system creates market and sales opportunities for them. Only companies of the Pragmatic Type seem to be an exception. In fact, every sixth of them agrees with this statement. It can be assumed that this result is driven by industry affiliation, as companies of the Pragmatic Type relatively often provide business-related services – an area in which professional groups such as business consultants and tax advisors as well as lawyers advise their (client) companies, among other things, on

the implementation of new legal provisions, such as the General Data Protection Regulation (GDPR) or the Minimum Wage Act.

A predominantly critical view of bureaucracy is also evident when companies assess various general aspects of the regulations they have to comply with (cf. Figure 9). The majority of companies have difficulties with the identification (55.7 %), the comprehensibility (69.7 %) and the general meaningfulness (59.2 %) of the relevant regulations as well as with the documentation of data (information obligations) (81.9 %). In all analysed aspects, companies of the Grumbling Type express criticism more frequently than companies of the other two perception types. It can be assumed that the emotionality of the topic influences the assessment, e.g. by focusing attention on the negative aspects of fulfilling bureaucratic requirements and ignoring the positive sides. On the other hand, practical problems in dealing with bureaucracy (identification, comprehensibility and meaningfulness of regulations) can cause stress and insecurity ("psychological costs"), reinforcing negative perceptions.

The assessment differences are particularly pronounced with regard to the perceived meaningfulness of regulations. While almost three-quarters of the companies of the Grumbling Type critically evaluate the meaningfulness of regulations, this applies "only" to about 40 % of the companies of the other two perception types. Hence, compared to the Unencumbered and Pragmatic companies, the Grumbling Type's perception of greater bureaucratic burdens seems to emanate much more strongly from the content, limited comprehensibility and acceptance of the regulations to be observed (i.e. from their "quality").

Figure 9: Assessment of bureaucratic regulations



Source: Survey of IfM Bonn 2018; weighted values; own calculations.

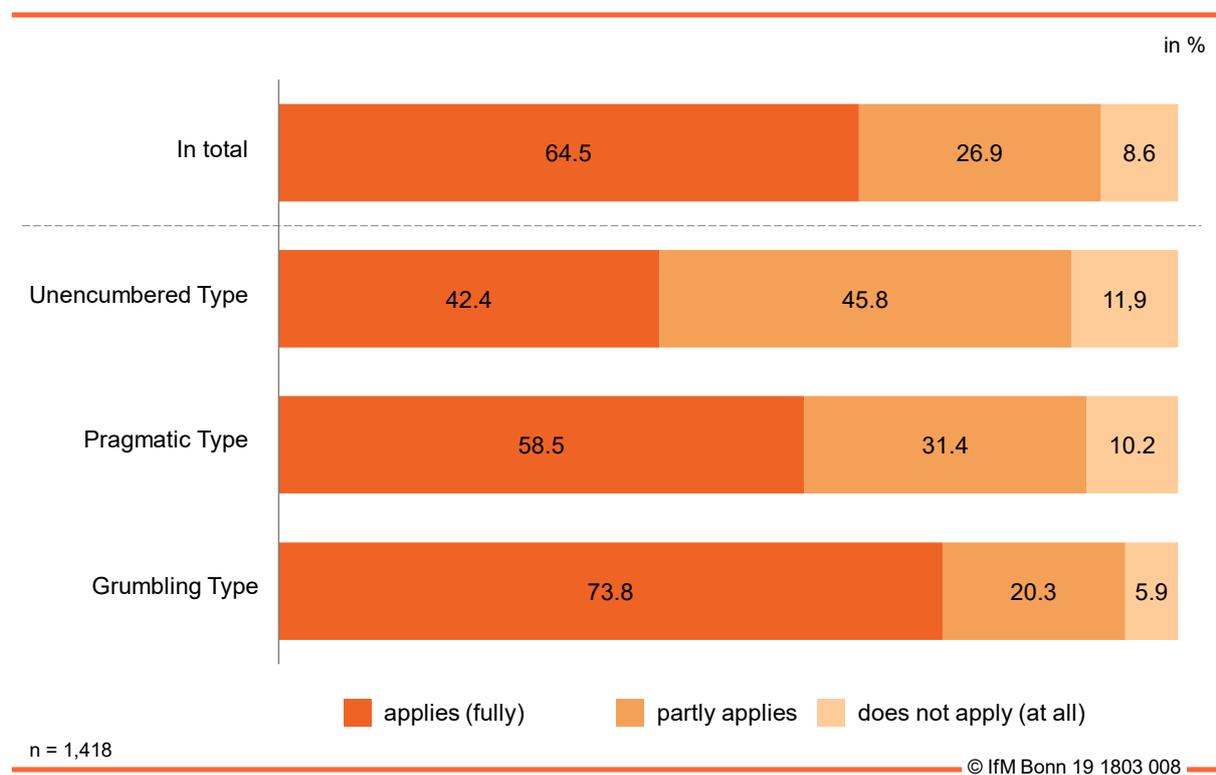
Companies state that increased regulations can affect profit expectations, that this is fine to a certain extent (UI4). This suggests that there is a "threshold to inappropriateness" when companies assess the acceptance and meaningfulness of bureaucratic requirements. Once this threshold is surpassed, the specific regulation is perceived as meaningless, inappropriate and excessively burdensome:

"The threshold to inappropriateness is exceeded where nonsense becomes the norm." (UI3)

An essential criterion for this threshold is the assessment of the means-to-ends relation of the respective regulations. The original aim of a law or regulation is still often understood, even by companies of the Grumbling Type. However, the means earmarked for achieving the objectives, i.e. the concrete implementing and procedural rules, are often considered to be inefficient and disproportionately burdensome. As a consequence, only a small minority of companies in all three perception types believe that the overall bureaucratic burden results primarily from the laws themselves (cf. Figure 10). On the contrary, almost three-quarters of the Grumbling companies and nearly six out of ten of the Pragmatic ones consider the overall impairment to be caused mainly by transposition

legislation and administrative procedures. The often broad understanding of bureaucracy, which includes not only legal regulation but also procedural rules, certainly supports this assessment.

Figure 10: Implementing legislation and procedural rules as the main source of overall bureaucratic burdens



Source: Survey of IfM Bonn 2018; weighted values; own calculations.

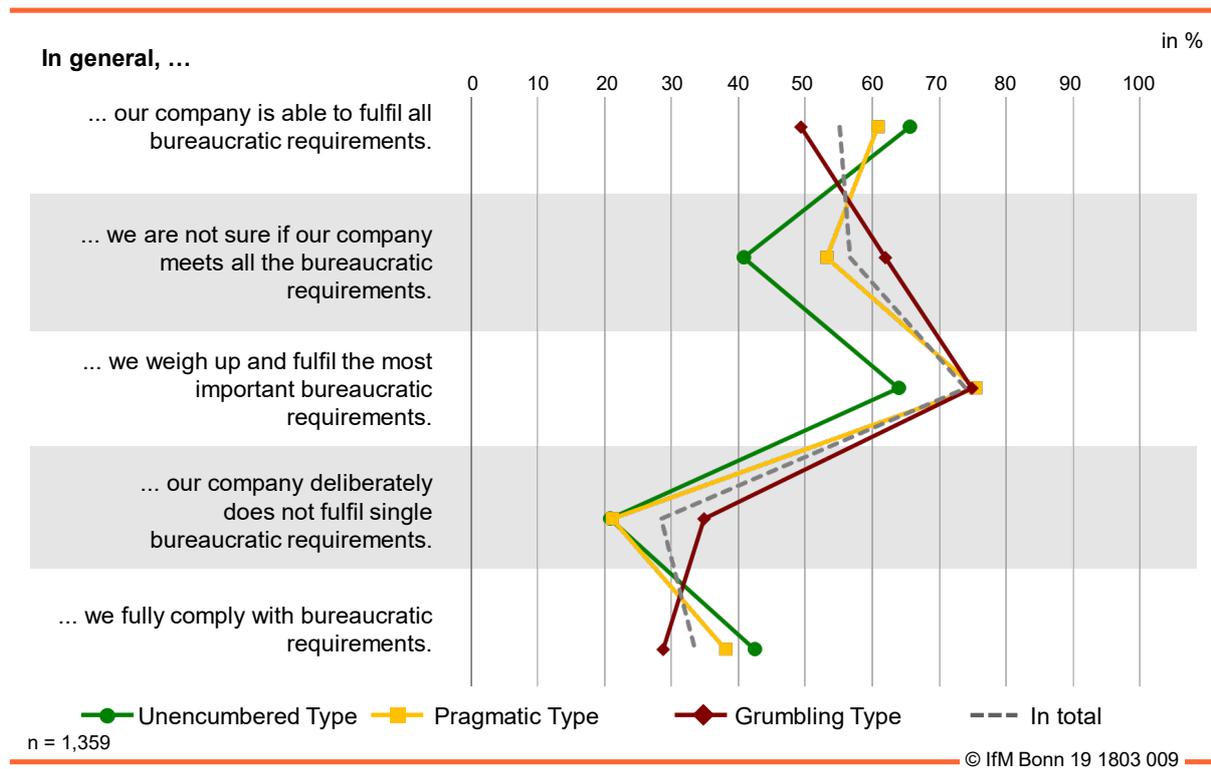
As important reasons for crossing the threshold of inappropriateness, companies (and experts) cited a lack of familiarity of politics and public administration with the reality of business life and too little consideration of practical business expertise within the legislative process. Also frequently mentioned were the lack of sufficient targeting of laws, the excessive striving for individual justice, the shifting of liability towards the norm addressees and, in some areas, a negative entrepreneurial image and somewhat interventionist economic policy principles held by policymakers and public administration:

"Black sheep and decent companies are lumped together and it is presumed that everyone cheats the tax office and exploits employees." (U12)

4.2.2 Handling of bureaucracy

Bureaucracy perception also has an impact on how companies implement bureaucratic requirements in everyday business life (cf. Figure 11).

Figure 11: Fulfilment of bureaucratic requirements



Source: Survey of IfM Bonn 2018; weighted values; own calculations.

Only slightly more than every second company considers itself in a position to fulfil all bureaucratic requirements. Compared to the enterprises of the Grumbling Type (49.3 %), companies of the Pragmatic Type (60.8 %) and of the Unencumbered Type (65.6 %) are somewhat more likely to do so. Conversely, this implies that a considerable proportion of companies are not able to implement the relevant regulations in their entirety. In other words, they are not in a position to behave in accordance with the law, as this entrepreneur puts it:

"I try to be as precise as possible and to do at least the most important things (...). By and large, we do try to make things in such a way that we can stand up to audits and checks. Because there are usually penalties linked to it and I want to avoid that of course." (U17)

This attitude is reflected in two types of behaviour: on the one hand, many companies are uncertain about the scope of regulations to be met. In other words, they do not know which or how many regulations they have to comply with. Uncertainty about the complete fulfilment of bureaucratic requirements is once again particularly evident among the grumbling companies. More than 60 % are uncertain about this. However, even a considerable proportion of the Pragmatic (53.2 %) and the Unencumbered Type (40.7%) do not have complete

knowledge of the scope of regulations to comply with. The reasons can be found in difficulties related to the identification (lack of transparency), understanding and application of bureaucratic requirements.

On the other hand, companies consciously decide which regulations they comply with and which they do not (also in view of possible sanctions), as this entrepreneur clearly points out:

"There are some things we deliberately don't do on some days. We just can't make it. After 18 hours of work, I sometimes say: "Now, it's enough!"
(UI2)

More than 70 % of companies weigh bureaucratic requirements and only meet those that they consider most important. This broadly applies to all perception types. By weighing bureaucratic obligations, they create a margin of discretion that makes it easier for them to deal with bureaucracy.

This result is also confirmed by the fact that more than every fourth company (28 %) reduces bureaucracy autonomously by intentionally failing to meet individual bureaucratic requirements. This applies to every third company of the Grumbling Type and at least every fifth company of the Unencumbered and Pragmatic Type. Thus, these companies consciously do not act in accordance with the law.

Overall, the results on the assessment and handling of bureaucratic requirements show that a large proportion of businesses, particularly of the Grumbling Type, do not find themselves in a position to fulfil all obligations and are not confident that they fully comply with them. They largely feel left alone and assess the comprehensibility and meaningfulness of bureaucratic requirements (very) critically. One can assume that exceeding the "threshold to inappropriateness" is a pivotal reason why a considerable proportion of companies are cutting red tape autonomously.

Despite the negative assessment of bureaucracy and the autonomous reduction of red tape by many companies, more than half of all companies are willing to participate in the process of reducing bureaucracy. Interestingly, companies of the Grumbling Type show the highest willingness to commit themselves. This is a positive sign. Hence, even these companies do not seem to have given up (yet), and consider a reduction of the currently perceived burden possible (and necessary).

5 Conclusion

This study examines, for the first time, the relevance of entrepreneurial perception of bureaucratic burden. The focus on perceptual aspects is essential since companies assess identical situations differently depending on person-related and environment-related influencing factors. Individual perception, in turn, influences company behaviour and strategies. Concerning the perception of bureaucracy, we have identified and empirically validated three different perception types: the Unencumbered, the Pragmatic and the Grumbling Type. The assignment of companies to these three types depends on the perceived overall burden, the perceived efforts to fulfil bureaucratic requirements and the degree of emotionality that the topic of bureaucracy evokes.

In contrast to studies that measure the time and cost requirements of bureaucracy, in our study neither the size, age or legal form of a company nor its possible internationalisation activities exert a statistical influence on the perception of bureaucracy. This result illustrates the immense importance of the (individual) perception of bureaucratic burdens. In perception, the focus is on individual persons with their specific experiences and emotions, their specialist expertise and their specific environment. For this reason, the individually perceived bureaucratic burden can deviate from the measured bureaucratic burden, which is recorded based on time and cost expenditures.

The widespread critical perception of bureaucracy and the (sometimes conscious) decision not to comply with all bureaucratic requirements can be interpreted as a weakening of the rule of law and the acceptance of the economic policy framework. This concerns two areas that are central to the functioning of a highly complex economy and society. If the perceived bureaucratic burden on companies is not effectively tackled, this can reinforce the practice of autonomous bureaucracy reduction, further reduce trust in the regulatory competence of the state and thus in the long term contribute to weariness and disappointment with the state and democracy at large.

A first fundamental step for economic policy actors is to bring their policy approach in line with the broad entrepreneurial understanding of bureaucracy. Efforts to reduce bureaucracy and an information and communication policy that focus primarily on reducing information obligations – and thus on bureaucracy in the narrow sense – fall far too short. Ideally, economic policy actors should not only intensify their efforts to investigate and reduce existing burdens arising from public/state regulation but should also focus on non-governmental

regulation, especially from semi-public actors such as business chambers, professional associations and standards institutes.

Beyond that, economic policy should increasingly highlight the benefits and advantages of the German legal and administrative system since many companies are unaware of them. Ideally, this should take place within the framework of a communication policy that provides companies with the well-founded sentiment that economic policy knows about their burden situation, cares about it and has the firm intention of achieving a substantial bureaucracy reduction, which indeed can be perceived by the companies. If companies feel that policymakers take their concern seriously, this can help to reduce negative emotions and gradually create or restore a culture of cooperation and trust.

However, in order to reduce the perceived bureaucratic burden substantially, concrete improvements are required. Greater transparency and comprehensibility of regulations can help to ensure that companies perceive bureaucracy as more manageable and straightforward. This would not only reduce feelings of being overburdened and worries about non-compliance with regulations but would also strengthen companies' self-determination and certainty in dealing with bureaucracy.

A large proportion of companies criticise in particular the lack of meaningfulness and the high intensity of control (regulatory density) of bureaucratic requirements. There are already two instruments at the federal level, i.e. the regulatory impact assessment and the SME test, which are explicitly intended to ensure the effectiveness and proportionality of newly enacted laws. However, the widespread criticism of the companies indicates that the two instruments do not sufficiently fulfil their purpose. Policymakers should, therefore, examine the design (contents) and (procedural) functioning of the existing instruments and draw up suggestions for improvements. These could, for example, refer to a more productive consideration of entrepreneurial expertise in the legislative process. This way, the realism and proportionality of bureaucratic requirements may be increased.

A further starting point is closely related to the design of the legislative process: In the perception of companies, the overall bureaucratic burden does not primarily result from the laws themselves, but more from the respective implementation regulations and administrative procedures, i.e. from the actual means and procedures that are chosen for achieving the laws' objectives. This assessment suggests that aspects of law implementation should be given greater

consideration in the legislative process. As a consequence, contents and implementation of the laws should be understood more as a unity. This, however, implies a higher level of cooperation between the federal, regional and local levels because competences of different government levels are concerned.

The difficulties experienced in dealing with bureaucracy can cause stress and uncertainty in companies ("psychological costs") and thus reinforce negative perceptions. Since this is a self-perpetuating process that also covers a wide range of different regulations and areas of law, effective relief is not easy to achieve. Instead, in order to reverse the companies' long-term negative experiences with bureaucracy, a "great breakthrough" in politics with a high degree of credibility and dynamics is required. Sporadic, piecemeal bureaucracy relief measures cannot reverse the companies' pool of experience and have no significant positive impact on their perception. The realisation of this "great breakthrough" requires innovative ideas with coordinated joint measures. One possibility is to involve companies more strongly. As those being directly affected, they can play a more active role in shaping the bureaucracy reduction process and thereby contribute their specific, entrepreneurial problem-solving competence. Our study results signal a high general willingness of companies to participate in this process. Thus, there seems to be a positive basis for such an approach in Germany.

On the whole, the reduction of bureaucracy is an extensive, complex process that requires the coordinated interaction of many involved institutions at different (state, semi-public and private) levels. An essential indicator for assessing the success of this process is the question whether the measures taken do lead to thorough improvements that can be perceived by companies. Therefore, we recommend follow-up investigations at regular intervals which focus on the entrepreneurial perception of bureaucracy and analyse the status of the changes achieved.

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Appendix

Overview A1: Guidelines for expert interviews

Interview guide on bureaucracy perception of small and medium-sized companies (SME)

Expert: _____
Date: _____



A. Components of the bureaucracy concept

1. Which contents/associations do you generally associate with the term "bureaucracy"? In your opinion, what do companies associate with the term "bureaucracy"? What role does regulation play in this context?
2. According to the Federal Statistical Office, bureaucratic burdens arise when companies have to "obtain, transmit or keep available data or other information" (colloquially: "paperwork") due to federal regulations.

In comparison, are there any state regulations, prohibitions and bans as well as behaviour and decisions of authorities that (clearly) burden companies more and hinder their development more than the "paperwork"?

3. How do you assess the overall impact of bureaucracy and regulation on German companies (e.g., compared to other (growth) obstacles)?
4. In your opinion, to what extent do the following factors influence companies' feeling of stress?

		very little				very strong
		1	2	3	4	5
Number and discoverability of the regulations to be observed	1	<input type="checkbox"/>				
Comprehensibility of regulations.....	2	<input type="checkbox"/>				
Usefulness of regulations	3	<input type="checkbox"/>				
Duration of (licensing) procedures	4	<input type="checkbox"/>				
Expenses of (licensing) procedures	5	<input type="checkbox"/>				
Obligation to frequently report data and information (taxes, social insurance etc.).....	6	<input type="checkbox"/>				
Behavior of authority employees	7	<input type="checkbox"/>				
Authorities' understanding of business reality	8	<input type="checkbox"/>				
Availability and quality of information and advice.....	9	<input type="checkbox"/>				

5. Overall, how do you rate the economic friendliness of authorities? In which areas is there particular potential for improvement?

B. Effects of bureaucracy

6. What positive (beneficial) effects do the legal system and the administrative system have on German companies?
7. To what extent are companies particularly affected by bureaucracy and regulation in the following business situations? What exactly is the impairment?

1 Business start-up/succession	5 Foreign trade activities
2 Innovation/research projects	6 Employment of staff (domestic/international)
3 Building projects/change of use	7 Investment projects/company growth
4 Participation in public tenders	8 Use of market and profit opportunities (new products)

8. How has the overall scope of bureaucracy or regulation to be observed by companies developed in the past? Which new rules and regulations have had a particularly burdensome or relieving effect? What exactly is the burden or relief?
9. In addition to time and cost aspects, bureaucracy and regulation can also have other burdensome effects (e.g., a feeling of being overburdened and/or left alone due to complexity and intransparency, of being at the mercy of decisions made by officials, of not recognising sense of regulations, etc.). What significance, do you think, do these factors have for companies?
10. In your experience, how do companies react if they are heavily affected by bureaucracy or regulation? How should they react?

11. *In your opinion, to what extent do companies practice an "autonomous" reduction of bureaucracy by not following or implementing regulations, partly out of ignorance, excessive demands or even deliberately? In contrast, what is the significance of "overfulfilment"?*

C. Information and communication of bureaucratic requirements

12. *What sources do SMEs generally use to inform themselves about bureaucratic or regulatory requirements? Are there any signs of (technology-related) changes here?*
13. *Information and communication about bureaucratic or regulatory requirements is a complex – and so far hardly investigated – process. How can economic policy, intermediaries and the media help to reduce the burden on companies?*
14. *Does better traceability of regulations lead to a different perception of the burden of bureaucracy? How can this be achieved?*

D. Political measures to reduce bureaucracy

15. *In your opinion, why do bureaucracy and regulation place an undue burden on businesses? Where is do you think the threshold of inappropriateness crossed?*
16. *How do you assess the efforts of economic policy (EU, federal government, state, local authorities) to reduce bureaucracy over the last five years, among other things, in terms of determination, credibility, perceptibility and impact on success? Please distinguish between the four levels of government, if applicable?*
17. *Companies often have many years of experience with bureaucracy and regulation. To what extent should economic policy-makers take this into account if they want to achieve a noticeable reduction in bureaucracy and better regulation?*
18. *In your opinion, to what extent would existing legal contents have to be (politically) re-discussed and, if necessary, revised in order to effectively reduce adverse effects on SMEs? In your opinion, how can the interests of SMEs (already) be better taken into account in the legislative process?*
19. *How can/should businesses be involved in the process of reducing bureaucracy and/or creating better regulation?*
20. *What should economic policy do to reduce the burden on businesses? Please rank the following measures.*

	<i>rank</i>
1 Increase economic friendliness of authority employees	_____
2 Simplify administrative procedures	_____
3 Increase transparency and comprehensibility of legislation	_____
4 Inform about and explain legislation	_____
5 Increase the applicability of legislation	_____
6 Provide individual consulting services	_____

21. *In your opinion, how can a substantial reduction in bureaucracy and better regulation be achieved? Please give concrete examples. Which actors are particularly challenged in this respect?*
22. *How do you explain the discrepancy between (a) the largely constant bureaucratic cost index and economic policy efforts to reduce bureaucracy and (b) the increasing bureaucratic burden often perceived by companies?*

Thank you for your support!

Overview A2: Guideline for company interviews

Interview guide on bureaucracy perception of small and medium-sized companies (SME)

Company: _____

Date: _____



A. Components of the bureaucracy concept

- Which contents/associations do you generally associate with the term "bureaucracy"? What role does regulation play in this context?
- How do you assess the impact of bureaucracy and regulation on your business (e.g. compared to other (growth) obstacles)?

	very low				very high
	1	2	3	4	5
Impairment from bureaucracy and regulation	<input type="checkbox"/>				

- To what extent do the following factors influence your explicit feeling of stress?

	very little				very strong
	1	2	3	4	5
Number and discoverability of the regulations to be observed	<input type="checkbox"/>				
Comprehensibility of regulations.....	<input type="checkbox"/>				
Usefulness of regulations	<input type="checkbox"/>				
Duration of (licensing) procedures	<input type="checkbox"/>				
Expenses of (licensing) procedures	<input type="checkbox"/>				
Obligation to frequently report data and information (taxes, social insurance etc.).....	<input type="checkbox"/>				
Behaviour of authority employees.....	<input type="checkbox"/>				
Authorities' understanding of business reality	<input type="checkbox"/>				
Availability and quality of information and advice.....	<input type="checkbox"/>				

- Overall, how do you rate the economic friendliness of authorities? In which areas is there particular potential for improvement?

B. Effects of bureaucracy

- What positive (beneficial) effects do the legal system and the administrative system have on your company?
- To what extent is your company particularly affected by bureaucracy and regulation in the following business situations?

1 Business start-up/succession	5 Foreign trade activities
2 Innovation/research projects	6 Employment of staff (domestic/international)
3 Building projects/change of use	7 Investment projects/company growth
4 Participation in public tenders	8 Use of market and profit opportunities (new products)
- In addition to time and cost aspects, bureaucracy and regulation can also have other burdensome effects (e.g. a feeling of being overburdened, of being at the mercy of decisions made by officials, of not recognising sense of regulations, etc.). What significance do these factors have for your company?
- In your opinion, to what extent do companies practice an "autonomous" reduction of bureaucracy by not following or not implementing regulations, partly due to ignorance, excessive demands or even deliberately? In contrast, what is the significance of "overfulfilment"?

C. Political measures to reduce bureaucracy

- In your opinion, why do bureaucracy and regulation place an undue burden on businesses? Where is do you think the threshold of inappropriateness crossed?
- How do you assess the efforts of economic policy to reduce bureaucracy, including in terms of determination, credibility, visibility and impact? What positive (stress-reducing) experiences have you made in the context of bureaucracy and regulation that inspire imitation?
- What do you think economic policy should do to effectively cut red tape for businesses?

Thank you for your support!

Table A1: Survey sample by economic sectors (WZ 2008) and employment size classes

Economic sectors	Number of enterprises with ... employees subject to social insurance				Total
	up to 9	10-49	50-249	250 and more	
Production industries (B,C,D,E,F)	2,350	2,350	2,350	2,486	9,536
Distribution (G,H,I,J)	2,350	2,350	2,350	2,486	9,536
Business-related services (K,L,M,N)	2,350	2,350	2,350	2,486	9,536
Other services (P,Q,R,S)	2,350	2,350	2,350	1,942	8,992
Total	9,400	9,400	9,400	9,400	37,600

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Note: In the sector "other services", all enterprises with 250 or more employees employed have been included in the sample. The difference up to the complete cell frequency was allocated to companies of the same size class.

Overview A3: Demography of the interviewed companies

No.	Sector	Size	Perception Type
UI1	Industry – Timber industry	Micro enterprise (0 to 9 employees)	Unencumbered Type
UI2	Hospitality/ gastronomy	Micro enterprise (0 to 9 employees)	Grumbling Type
UI3	Service provider	Large enterprise (more than 500 employees)	Pragmatic Type
UI4	Service provider/ Management consulting	Micro enterprises (0 to 9 employees)	Unencumbered Type
UI5	Industry	Medium-sized enterprise (50 to 499 employees)	Pragmatic Type
UI6	Industry – Metal construction	Small enterprise (10 to 49 employees)	Grumbling Type
UI7	Industry – Manufacture of bakery and pasta products	Medium-sized enterprise (50 to 499 employees)	Pragmatic Type
UI8	Industry	Micro enterprise (0 to 9 employees)	Grumbling Type
UI9	Industry	Large enterprise (more than 500 employees)	Unencumbered Type

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Source: Survey of IfM Bonn 2018.

Table A2: Results of explorative factor analysis

Indicator items	F1	F2
Perceived <u>burden of</u> bureaucratic requirements	0,76	0,15
Perceived <u>effort</u> to meet bureaucratic requirements	0,80	0,05
Existing <u>experience</u> to meet bureaucratic requirements	0,26	0,63
Perceived <u>security in dealing</u> with bureaucratic requirements	-0,05	0,64
<u>Emotionality of the topic</u>	0,54	-0,06
<i>Eigen value</i>	<i>1,57</i>	<i>0,83</i>

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Note: Main axis analysis, VARIMAX rotated, Kaiser-Meyer-Olkin criterion > 0.6.

Source: Survey of IfM Bonn 2018; own calculations.

Table A3: Internal consistency and intercorrelations of the individual indicator items

	1	2	3
1 Perceived burden of bureaucratic requirements	(.63)		
2 Perceived effort to meet bureaucratic requirements	.70	(.56)	
3 Emotionality of the topic	.41	.47	(.82)
<i>Cronbach's Alpha</i>	<i>0,75</i>		

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Note: Cronbach's alpha (diagonal).

Source: Survey of IfM Bonn 2018; own calculations.

Overview A4: Factors influencing the perception of bureaucracy

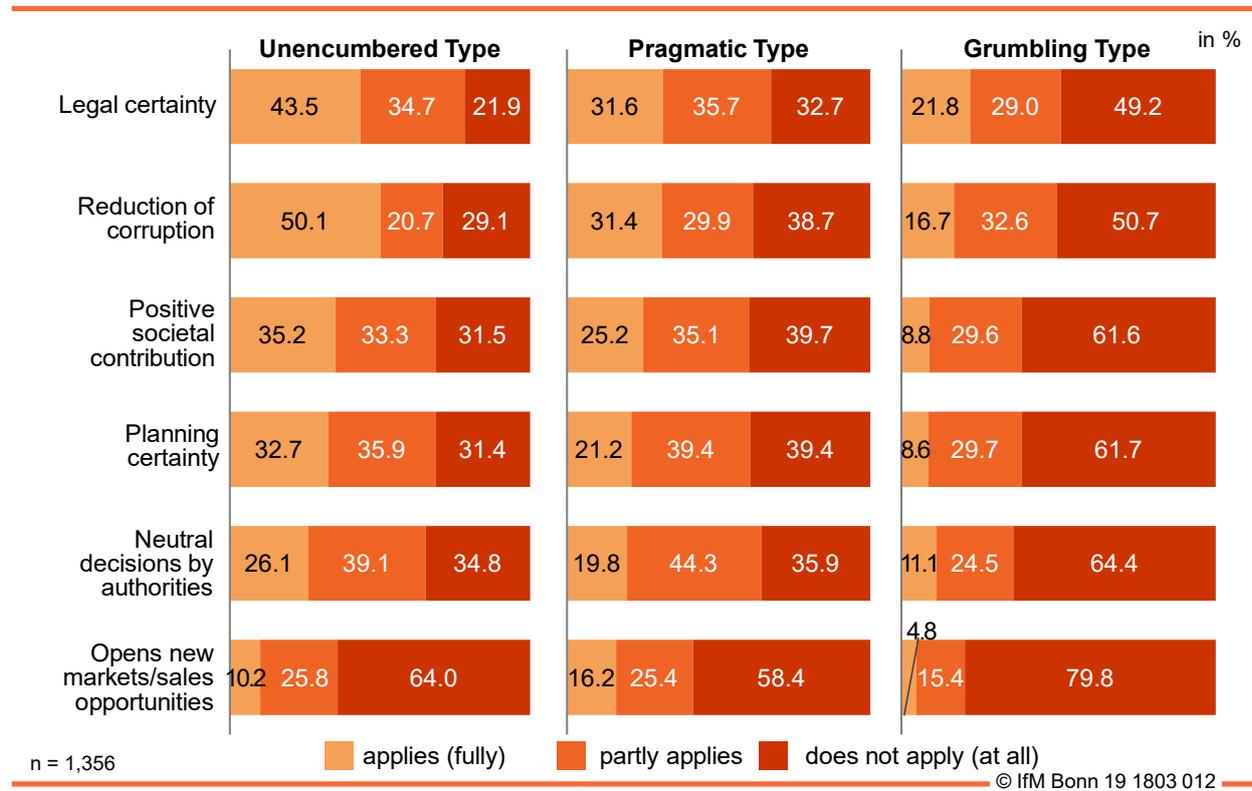
Variable name	Question/Explanation	Variable values/value labels
Understanding of bureaucracy	Classification of the general understanding of bureaucracy on the basis of given terms	1 = narrow understanding 2 = extended understanding 3 = broad understanding
Relation between trust and control	Classification of the present and future desirable relation between control and trust on a scale from 1 (very high control) to 7 (very high trust).	1 = control prevails 2 = balanced relation between trust and control 3 = trust prevails
Pool of Memory	Classification of the company's experience in dealing with bureaucratic requirements	bad experiences 0 = no 1 = yes
Corporate culture	Classification of the corporate culture on the basis of data on bureaucratic management style on a scale from 1 (unbureaucratic management style) to 5 (bureaucratic management style).	bureaucratic management style 1 = (very) poorly developed 2 = moderately developed 3 = (very) strongly developed
	Classification of corporate culture on a scale from 1 (high level of trust) to 5 (low level of trust) on the basis of information on managers' trust in employees.	confidence in employees 1 = (very) poorly developed 2 = moderately developed 3 = (very) strongly developed
Existing (experiential) knowledge	Classification of the company's (experience) knowledge to meet bureaucratic requirements	metric from 1 to 100
Resources held available	Classification of the available resources (personnel capacity, financial means, time resources) to meet bureaucratic requirements	metric from 1 to 100
Business characteristics	Number of employees subject to social insurance contributions as of 31.12.2017	1 = 0 to 9 employees 2 = 10 to 49 employees 3 = 50 to 249 employees 4 = 250 to 499 employees 5 = 500 and more employees
	Annual net sales in fiscal year 2017	1 = less than 250 thousand euros 2 = 250 thousand up to 1 million euros 3 = 1 to less than 2 million euros 4 = 2 to less than 10 million euros 5 = 10 million euros and more
	Assignment of the branch of economic activity on the basis of predefined response options	1 = Production industries, utilities and waste management 2 = Trade/transportation/ gastronomy 3 = Business-related services, ICT, finance 4 = Person-related services, education/health/social services, art
	Foreign trade activities	0 = no 1 = yes
	Assessment of the current company situation on a scale from 1 (very good) to 5 (very bad)	1 = (very) good 2 = satisfactory 3 = (very) bad
Locational conditions for entrepreneurship	Assessment of the general locational conditions for entrepreneurship in Germany on a scale from 1 (very good) to 5 (very poor)	1 = (very) good 2 = satisfactory 3 = (very) bad

Table A4: Multinomial Regression Results

Variables	Unencumbered Type	Pragmatic Type	Grumbling Type
Understanding of bureaucracy (Ref: Narrow understanding)			
Extended understanding of bureaucracy	-0,048	-0,058	0,106
Broad understanding of bureaucracy	-0,065	-0,092	0,157**
Relation between control and trust (Ref: Control)			
Balanced ratio	0,062*	0,066	-0,128***
Trust in companies	0,049	0,154**	-0,203***
Current locational conditions (Ref: (Very) good)			
Medium	-0,005	-0,036	0,041
(Very) bad	0,041	-0,110**	0,069
Current company situation (Ref: (Very) good)			
Medium	0,012	-0,048	0,036
(Very) bad	0,008	0,005	-0,013
Bad experiences (Ref: No)			
Yes	-0,125***	-0,313***	0,438***
Existing (experiential) knowledge	-0,001***	-0,000	0,002***
Resources held available	-0,001	-0,001**	0,002***
Bureaucratic management style (Ref: poorly developed)			
Moderately developed	-0,047**	0,039	-0,009
Strongly developed	0,015	-0,050	0,035
Level of managers' trust in employees (Ref: high)			
Medium	-0,013	0,022	-0,009
Low	0,031	-0,010	-0,021
Employees (Ref: 0 to 9 employees)			
10 to 49	-0,042	0,103	-0,060
50 to 249	-0,034	0,106	-0,072
250 to 499	0,010	0,051	-0,062
500 and more	-0,031	0,127	-0,096
Foreign trade activities (Ref: No)			
Yes	0,002	0,045	-0,047
Economic sector (Ref: Production industries)			
Trade/transportation/gastronomy	0,080***	-0,050	-0,030
Business-related services	0,021	0,070	-0,091*
Person-related services	0,023	-0,003	-0,020
Liberal profession/crafts (Ref: No)			
Yes	0,005	-0,002	-0,004
Legal form (Ref: partnership)			
Incorporated company	-0,007	0,035	-0,028
Company age	-0,000	0,001	-0,001
Management function of the respondent (Ref: no)			
Yes	0,011	-0,025	0,014
Sample origin (Ref: Open survey)			
Closed survey	-0,016	-0,042	0,058*
Observations		774	
Pseudo-R ²		0,1962***	

Source: Survey of IfM Bonn 2018; own calculations.

Figure A1: Benefits of the German legal and administrative system



Source: Survey of IfM Bonn 2018; weighted values; own calculations.