

# Entrepreneurship in Focus

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## Paradigm shift for a noticeable reduction in bureaucracy

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### Summary

Companies are experiencing a significant increase in bureaucracy, with psychological costs, opportunity costs and indirect follow-up costs also being highly relevant. Bureaucracy reduction and regulation in Germany should therefore be considered more holistically, strategically and in terms of a paradigm shift – away from the idea of control and towards more practicality, meaningfulness and proportionality of regulatory norms.

Highly complex economies and societies need regulations to ensure their ability to function. Bureaucracy – understood as public regulation including information obligations ("paperwork") – is also intended to provide legal and planning certainty and prevent corruption. For many years, however, academic studies and surveys have indicated that the "optimal" level of bureaucracy – which is difficult to determine empirically – has been far exceeded by now. A recently published study by IfM Bonn (Holz/Icks/Nielen 2023) analyses the causes, extent and consequences of the bureaucratic burden. Based on the results of a representative company survey, a literature analysis and an international good practice comparison, a (phase-specific) action plan is also developed that shows how a noticeable reduction in bureaucracy can be achieved systematically and holistically.

### Bureaucracy as a burden

Although policy makers have developed a relatively comprehensive set of institutions, measures, and procedures to reduce bureaucracy since 2006, almost all companies perceive an increase in the bureaucratic burden. The vast majority of enterprises feel that they are overly controlled by the legislator and would like to see more trust and freedom of action. Furthermore, companies often criticise the lack of proportionality, meaningfulness, and practicality of many regulatory norms. A considerable proportion of enterprises practice "autonomous bureaucracy reduction" (Holz et al. 2019) and deliberately do not comply with individual regulations.

### Extent of the bureaucratic burden is significantly higher than statistically reported

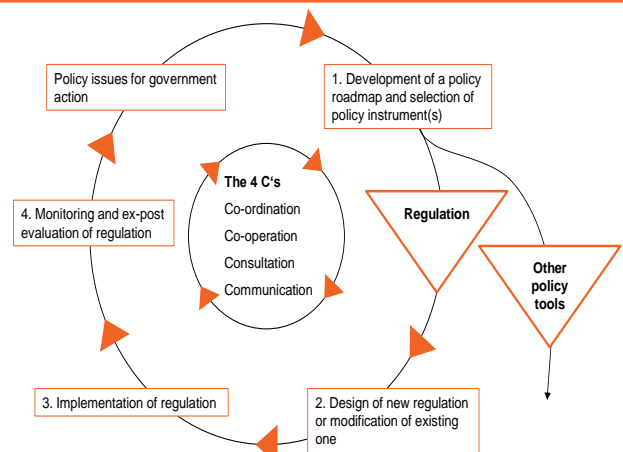
From the companies' perspective, the bureaucratic burden goes far beyond the time and costs requirements (as measured by the Federal Statistical Office). At least as important, if not more so, are various factors such as psychological costs, opportunity costs and the impact on investment and competitiveness. For more than half of the enterprises, bureaucracy has complicated and delayed the implementation of projects – for

example, due to lengthy planning and approval procedures. More than four out of ten enterprises have refrained from investments in Germany. Almost half of all companies expect their competitiveness to be impaired by bureaucracy in the future. Approx. 18 % – three times as many as in the past five years – are considering to increasingly invest abroad. It is particularly worrying that for more than three quarters of entrepreneurs, bureaucracy spoils the enjoyment of their entrepreneurial activities. 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 regarding the development of employment, innovation and investment or start-up dynamics.

### Reducing bureaucracy holistically

But how can a trend reversal and noticeable relief for enterprises be achieved? Bureaucracy reduction and better regulation are complex, holistic tasks where a multitude of government and administrative institutions on different levels must co-operate with stakeholders at all stages of the regulatory cycle and in the context of rapidly changing external conditions.

### Bureaucracy reduction in the regulatory cycle



In order to achieve a noticeable reduction in the bureaucratic burden on companies and to provide a legal framework that promotes innovation, growth and societal prosperity, it is not enough to achieve individual improvements on an ad hoc basis. Instead, in the sense of a paradigm shift throughout the entire regulatory cycle, the necessary conditions should be systematically created and measures implemented so that excessive bureaucracy does not arise in the first place or is reduced in a targeted manner.

The specific measures – described in more detail in the action plan by Holz et al. (2023) – include, for example, not narrowing the range of policy options at the beginning of the regulatory cycle. The ministerial departments should be obliged to develop and examine various alternative courses of action in co-operation with relevant stakeholders. In the Netherlands, so-called SME tests (short online meetings with selected entrepreneurs) have proven effective in ensuring the practicality and proportionality of new legislative proposals. For laws where implementation difficulties arise after coming into effect, a "quick scan" should be carried out with the involvement of companies, business associations and administrative offices in order to reduce the bureaucratic burden in a timely manner. The bureaucratic burden caused by laws that have been in place for longer time could be significantly reduced by working with SMEs from various sectors to identify and simplify those laws that cause the greatest cost and implementation burdens.

## Cultural change required

The success of a noticeable reduction in bureaucracy depends largely on the targeted and trusting co-operation of the various state actors and relevant stakeholders. Here, cultural (interaction) aspects play a central role. This process, which in the UK is explicitly referred to as cultural change, should aim to establish an open culture of knowledge and experience exchange. This includes regular (also informal) meetings and clear communication channels throughout the regulatory system, as well as the build-up of relevant skills through training and advisory services. Enterprises and business associations should be taken on as co-owners of the bureaucracy reduction process and be actively involved with actual contributions.

Through close contact and informal exchange, all involved actors should be "committed" to the common goal of reducing bureaucracy and promoting growth and innovation through regulation. Finally, to achieve this goal, a suitable "try and error" and learning culture is also required. The existing and, in particular, the new instruments do not necessarily have to be "perfect" but should be continuously improved through joint work and subsequent evaluation. Bureaucracy reduction and better regulation are therefore iterative processes that must be continuously optimised and adapted to the changing external conditions.

## Rethinking bureaucracy (reduction)

Not least due to the contemporary far reaching technological and societal change, bureaucracy and regulation should be rethought (and implemented differently). The economic policy discourse in the UK, for instance, 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 retaining innovative companies. Also in Germany, the regulatory approach should be redesigned in such a way that it promotes and stimulates entrepreneurship and 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 would rather constitute – in the sense of "regulation as a service" – an essential framework condition supporting competitiveness and innovation.

Individual countries such as the UK are increasingly moving from traditional "command and control" to risk-based "enable and motivate" approaches. Here, authorities and enterprises are making joint efforts – based on risk assessments – to achieve important protection goals in partnership and in a trusting exchange of information and experience, whereby so-called "black sheep" must of course be sanctioned accordingly. This approach not only improves the effective achievement of policy objectives, but also reduces bureaucracy and is more in line with how the state, companies and citizens should interact and co-operate in the 21st century.

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