

# Focus on entrepreneurship

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## A paradigm shift for a noticeable reduction in bureaucracy

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### Summary

Companies perceive a significantly increased bureaucratic burden, where psychological costs, opportunity costs and indirect follow-up costs are also highly relevant. Bureaucracy reduction and regulation in Germany should be considered more holistically, strategically and in terms of a paradigm shift - away from the idea of control and towards more practicality, reasonableness and proportionality of legislation.

Highly complex economies and societies require regulatory requirements to ensure their ability to function. Bureaucracy - understood as state regulation including information obligations ("paperwork") - is also intended to ensure legal and planning certainty and prevent corruption. For many years, however, scientific studies and surveys have indicated that the "optimal" level of bureaucracy - which is difficult to determine empirically - has been far exceeded. 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 politicians have developed a relatively extensive range of institutions, measures and procedures to reduce bureaucracy since 2006, almost all companies perceive an increase in the bureaucratic burden. The vast majority of companies feel that they are excessively controlled by the legislator and would like more trust and room for manoeuvre. Furthermore, companies often criticise the lack of proportionality, reasonableness and practicability of many regulatory contents. A considerable proportion of companies practise "autonomous bureaucracy reduction" (Holz et al. 2019) and deliberately do not comply with individual regulations.

### The extent of the bureaucratic burden is significantly higher than statistically reported

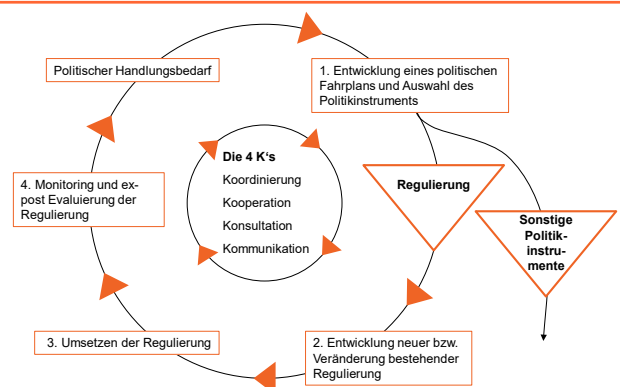
From the companies' point of view, the impact of bureaucracy goes far beyond the time and costs involved (as measured by the Federal Statistical Office). Various factors such as psychological costs, opportunity costs and the impact on investment and competitiveness are at least as important, or even more so. For more than half of the companies, bureaucracy has made the realisation of projects more difficult and delayed - for ex-

ample, due to lengthy planning and approval procedures. More than four out of ten companies have decided not to invest in Germany. Almost half of all companies expect their competitiveness to be impaired by bureaucracy in the future. Around 18% - three times as many as in the past five years - are considering investing more abroad. It is particularly worrying that more than three-quarters of entrepreneurs are losing the joy of doing business due to the bureaucratic burden. If this negative development is not countered with effective measures, there is a risk that the real economic and "atmospheric" effects will become increasingly noticeable not only at the individual company level but also in the economy as a whole - for example concerning the development of employment, innovation and investment or also the dynamics of start-ups.

### Reducing bureaucracy holistically

But how can a trend reversal and noticeable relief for companies be achieved? Bureaucracy reduction and better regulation are complex, holistic tasks that require a wide range of levels of government and administration, institutions and stakeholders to work together in all phases of the regulatory cycle and under the constraints of rapidly changing environmental factors.

### Bureaucracy reduction in the regulatory cycle



Source: Holz et al. (2023).

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To achieve a noticeable reduction in the bureaucratic burden on companies and to provide a legal framework that enables innovation, growth and social pros-

perity, it is not enough to achieve individual improvements on an ad hoc basis. Instead, in the sense of a paradigm shift in the entire regulatory cycle, the prerequisites for this must be systematically created and measures must be 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 options at the beginning of the regulatory cycle at an early stage. The specialised ministries should be obliged to develop and examine various alternative courses of action in cooperation with relevant stakeholders. In the Netherlands, so-called SME tests (short online meetings with selected companies) have also proven their worth in ensuring the practicability and proportionality of new legislative proposals. A "quick scan" should be carried out with the involvement of companies, associations and authorities for laws that are difficult to implement after they come into force to reduce the bureaucratic burden on time. The bureaucratic burden caused by laws that have been in place for some 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 heavily on the targeted and trusting cooperation between the various state actors and the relevant stakeholders. Cultural (interaction) aspects play a central role here. This process, which is explicitly referred to as cultural change in the UK, should aim to establish an open culture of knowledge and experience exchange with regular (also informal) meetings and clear communication channels throughout the regulatory system, as well as to develop the corresponding competences through training and advisory services. Companies and associations should be explicitly designated as co-creators and should be actively involved with actual contributions to solutions.

Through close contact and informal dialogue, all parties involved should be "committed" to the common goal of reducing bureaucracy and promoting growth and innovation through regulation. A suitable culture of error and learning is also required to achieve these goals. The existing but especially the new instruments do not necessarily have to be "perfect" but should be continuously improved through joint work and subsequent evaluation. Reducing bureaucracy and improving legislation are therefore iterative processes that must be continuously adapted and optimised to changing environmental conditions.

## Rethinking and expanding bureaucracy (reduction)

Due to technological and social change, bureaucracy and regulation should be rethought (and implemented) in some areas. The economic policy discourse in the UK focuses less on small-scale bureaucracy, including the static categories of time and costs, and more on the importance of the regulatory system as a dynamic competitive factor in international location and innovation competition. The regulatory approach in Germany should also be reorganised in such a way that it promotes and stimulates entrepreneurship and innovation for the benefit of society and the economy as a whole. A regulation approach that is interpreted in this manner would serve less traditional monitoring and control purposes but could rather be understood in the sense of "regulation as a service", as it represents an essential framework condition that enables competitiveness and innovation.

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

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### Further studies:

Holz, M.; Icks, A.; Nielen, S. (2023): Analysing the bureaucratic burden in Germany - How can a noticeable reduction in bureaucracy be achieved?, commissioned by the Initiative Neue Soziale Marktwirtschaft (INSM), Bonn.

Holz, M.; Schlepphorst, S.; Brink, S.; Icks, A.; Welter, F. (2019): Enterprises' Perception of Bureaucracy IfM Bonn: IfM-Materialien Nr. 274, Bonn.

### Impressum

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