

Entrepreneurship in focus

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Psychological costs as a key component of the bureaucratic burden on companies

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Summary

Compliance costs measured in terms of time and financial resources significantly underestimate the bureaucratic burden on companies. At least as important, if not more so, are the so-called psychological costs arising from a wide range of emotional strains associated with fulfilling bureaucratic obligations, which can sometimes have serious real-economic as well as more atmospheric consequences for companies.

Regulatory requirements (bureaucracy) are indispensable for the well-functioning of modern economies and societies. Many enterprises, however, report a very high and steadily increasing bureaucratic burden. For many companies, bureaucracy has become a major obstacle to investment and growth (cf. Holz et al. 2023; Akalan et al. 2025). The bureaucratic burden is usually measured in terms of time and financial resources (monetary costs) that businesses incur in complying with government regulations. However, various studies conducted by IfM Bonn in recent years have shown that the bureaucratic burden on companies extends far beyond monetary costs and encompasses also emotional burdens (so-called psychological costs) (cf. Holz et al. 2023, among others).

This insight was initially triggered by half-standardised expert interviews that IfM Bonn conducted with entrepreneurs in preparation for a quantitative business survey (cf. Holz et al. 2019). It was striking that most respondents spoke very emotionally about their experiences with bureaucracy and frequently mentioned emotional burdens such as stress, anger, and uncertainty. Since then, IfM Bonn has addressed this aspect in several bureaucracy-related studies, thereby developing a deeper understanding of this source of bureaucratic burdens.

Psychological costs are significant

The emotions triggered by fulfilling bureaucratic obligations span a wide spectrum. According to a representative survey of 1,034 enterprises conducted by Holz et al. (2023), dealing with bureaucracy produces anger, rage, and aggression in more than half of the companies (55%). More than four out of ten businesses feel powerless and left alone, experience confusion, feel an instinct to flee, or would prefer to avoid completion of the tasks altogether. Approximately one quarter of enterprises report a loss of autonomy or a sense of being overwhelmed. Only about 10% of companies fulfill their bureaucratic obligations (largely) without emotions. Especially owner-managed micro-enterprises often feel left alone and overwhelmed by bureaucracy. This reflects, among other things, their more limited resources and specialised expertise, and the fact that bureaucracy in these companies is often handled by

the owners themselves in addition to their primary business responsibilities. In contrast, large enterprises more frequently mention emotions related to confusion and loss of autonomy.

The vast majority of enterprises (87%) assess the psychological costs as at least as burdensome as the pure time and financial costs. More than half of the companies (53%) even consider them to be more burdensome. As a consequence, statistical measurements based solely on time and financial costs significantly underestimate the actual bureaucratic burden on enterprises.

In this context, it is also noteworthy that psychological costs do not necessarily arise where monetary costs (i.e., time and financial expenditures) are high. On the contrary, we find evidence that some bureaucratic requirements may behave differently (cf. Icks/Weicht 2023; Schneider et al. 2024). For example, although the monetary costs of implementation in the area of standardisation are very high, careful compliance with these requirements protects companies from potential claims for damages and is thus considered reasonable. Conversely, high psychological costs can occur alongside low monetary costs: this can happen, for instance, when firms have to compile and submit extensive documentation and declarations multiple times in the course of participating in public tenders or when fulfilling statistical obligations whose rationale is not clear to them. These results suggest that the primary cause of psychological costs does not lie in monetary costs.

Causes of psychological costs

Psychological costs also do not arise simply because companies would inherently associate bureaucracy with negative emotions. A multitude of legal regulations provide enterprises with legal and planning certainty. Moreover, enterprises would comply with some legal norms even without government coercion—albeit in a less formalised manner—since these norms support their business activities ("anyway costs"), for example, accounting regulations or product safety requirements (cf. Akalan et al. 2025).

Our research suggests that psychological costs primarily arise because many businesses often perceive the bureaucratic regulations they must comply with as impractical and disproportionate (cf. Holz et al. 2023; Icks/Weicht 2023; Schneider et al. 2024; Akalan et al. 2025). Examples include the obligation to provide annual occupational safety training for long-term employees or the documentation requirements under the Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz). Enterprises often understand the original intent of the law but criticise the implementing provisions as (unnecessarily) burdensome and restrictive. In general, the majority of companies feel that they are subject to excessive control by legislators and would like to see more trust in their entrepreneurial qualifications and integrity, as well as greater autonomy and flexibility in fulfilling bureaucratic obligations.

Emotional discontent also results from the high density of regulations and from difficulties in complying with the relevant rules. Enterprises frequently complain about a lack of transparency and difficulties in finding, understanding and applying the relevant bureaucratic norms. Uncertainty, stress, and fears about possible fines also arise as result of frequent changes in the law. Only 40% of companies are confident that they fully comply with all legal requirements (cf. Holz et al. 2023). Frustration is further exacerbated by inefficiencies in administrative procedures (e.g., multiple data transfers, non-digital processes, lack of feedback) or by long, unpredictable delays in (building) approval procedures (cf. Holz et al. 2025).

Consequences of psychological costs

Emotions such as anger, frustration, and annoyance can have an activating effect on human behavior. Therefore, it is not surprising that enterprises change their behaviour when the bureaucratic burden exceeds a certain "threshold of inappropriateness" (cf. Holz et al. 2019). In the case of public procurement, this is relatively straightforward: if the psychological costs are too high, companies no longer participate in public tenders (cf. Schneider et al. 2024). The same applies to (building) approval procedures and the execution of investment projects. According to Holz et al. (2023), more than 40% of enterprises refrain from investing in Germany due to the high bureaucratic burden. Approximately 18% – three times as many as in the past five years – increasingly consider investing abroad.

In contrast, legal regulations must generally be implemented by companies on a mandatory basis. However, our studies show that businesses are modifying their behaviour in this area as well. More than one in four enterprises (28%) engage in "autonomous bureaucracy reduction" and deliberately choose not to comply with certain regulations (cf. Holz et al. 2019). In most cases, this represents a form of "self-defence" as companies do not see themselves in a position to implement all regulations with their limited resources. It is particularly worrying that more than three-quarters of entrepreneurs lose their enjoyment

of entrepreneurial activities due to the bureaucratic burden (cf. Holz et al. 2023).

Economic policy recommendations

If the high (psychological) costs of bureaucracy are not effectively counteracted, there is a risk that their effects will become increasingly noticeable not only at the level of individual enterprises, but also across the economy as a whole. In this regard, reducing bureaucracy constitutes both a policy of start-up and business promotion and should place greater emphasis on addressing the causes of psychological costs. The action plan developed by Holz et al. (2023) for all phases of the regulatory cycle provides specific recommendations for policy measures, as do Schneider et al. (2024) for public tenders and Holz et al. (2025) for commercial building permit procedures. In brief, key starting points include simplifying and stabilising legal provisions, reducing the density of controls and regulations (e.g., through trust-based regulation), and offering effective (personalised) advisory and support services. In addition to the widespread digitisation of administrative procedures and the greater incorporation of entrepreneurial expertise into legislation and evaluation (e.g., through practice checks), particular focus should be placed on fostering an "enabling culture" throughout all phases of the regulatory cycle.

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