

Recruitment of employees: Administrative burdens on Slovenian SMEs in comparison with Europe*

*Karin Širec Rantaša***

In recent years, the issue of administrative burden on enterprises due to legislation has received much attention. Everywhere it is acknowledged that it is important to reduce and minimize this administrative burden as far as possible, because it hinders the development of enterprises and the growth of employment. In this paper we present the required procedures governing employment regulation, the administrative burden that results out of them, and finally we draw conclusions and make some recommendations for further action in government policy in the field of hiring employees. The research has been conducted on a representative sample of Slovenian enterprises and compared with the results of The 2001 ENSR Survey on SMEs.

In den letzten Jahren hat das Problem der administrativen Belastung auf Unternehmen aufgrund der Gesetzgebung große Aufmerksamkeit auf sich gezogen. Es ist allgemein anerkannt, dass es wichtig ist, diese Belastung so weit wie möglich zu verringern, weil diese die Entwicklung der Unternehmen und das Wachstum der Beschäftigung hemmt. In diesem Aufsatz zeigen wir die nötigen Abläufe zur Beschäftigungsregulierung auf und die bürokratische Last, die daraus resultiert und schliesslich ziehen wir ein Fazit und geben Vorschläge zur staatlichen Politik der Einstellung von Angestellten. Die Untersuchung wurde anhand einer Stichprobe unter slowenischen Unternehmen erstellt und mit den Ergebnissen der 2001 ENSR Survey on SMEs verglichen.

Keywords: SMEs / entrepreneurship / administrative burdens / employment

* Manuscript received: 13.10.03, revised: 11.04.04, accepted: 01.06.04.

** Karin Širec Rantaša, M. Sc., Teaching and Research Assistant, Faculty of Economics and Business, University of Maribor. Main research areas: Resource-based firm theory, entrepreneurship Corresponding address: karin.sirec@uni-mb.si

1. Introduction*

In the last twenty years, the European Union countries have implemented various employment regulations which along with lasting administrative procedures present a burden for enterprises. They have a negative impact on their competitive position. It has been investigated that legal administrative burdens have an even more powerful impact on small new enterprises. The reason is their limited management resources and no specialist staff to understand and meet the legal requirements (OECD 2001: 21). On the other hand, the social importance of SMEs is becoming more and more recognized, because they are an important generator of employment. They represent over 99 % of all enterprises in Europe (as well as in Slovenia). Some 20.4 million SMEs employ 66 % of the total European workforce. Micro enterprises alone employ 34 % of the total European workforce (European Commission 2002a). This is why in recent years the major focus in European countries when specifying regulation is geared to liberalization of entry procedures that a start-up must bear before it can operate legally and, on the other hand, with the proper arrangements unburden the existing small enterprises.

The reason for research on administrative burden in hiring an employee has been chosen as the topic for last year's initiative of The European Observatory for SMEs, because it has been recognized that administrative burdens in the field of employment regulations substantially affect the recruitment decisions for 31 % of the approximate six million enterprises in Europe-19. These enterprises also show a statistically significant smaller employment growth than those enterprises that are only marginally affected by administrative burdens (European Commission 2002c: 7). With regard to this specific regulatory field the impact of administrative burdens on the employment decision to take on employees or not and therefore a possible impact on the growth of SMEs can be identified.

In this paper, we present the required procedures governing employment regulation, the administrative burden that results out of them, and finally we will draw conclusions and make some recommendations for further action in government policy in the field of hiring employees. For this reason our Institute for entrepreneurship and small business management has conducted an extensive research on a representative sample of Slovenian enterprises (see section 3). We have compared our results with The 2001 ENSR Survey on SMEs (European Commission 2002c).

* The article is based on the results of basic research project J-5-3299-0585 01 03 and target research programme CRP 3311-01-828 524, sponsored by the Ministry of Education, Science and Sport and the Ministry of the Economy.

2. Administrative burdens: theoretical framework and definition

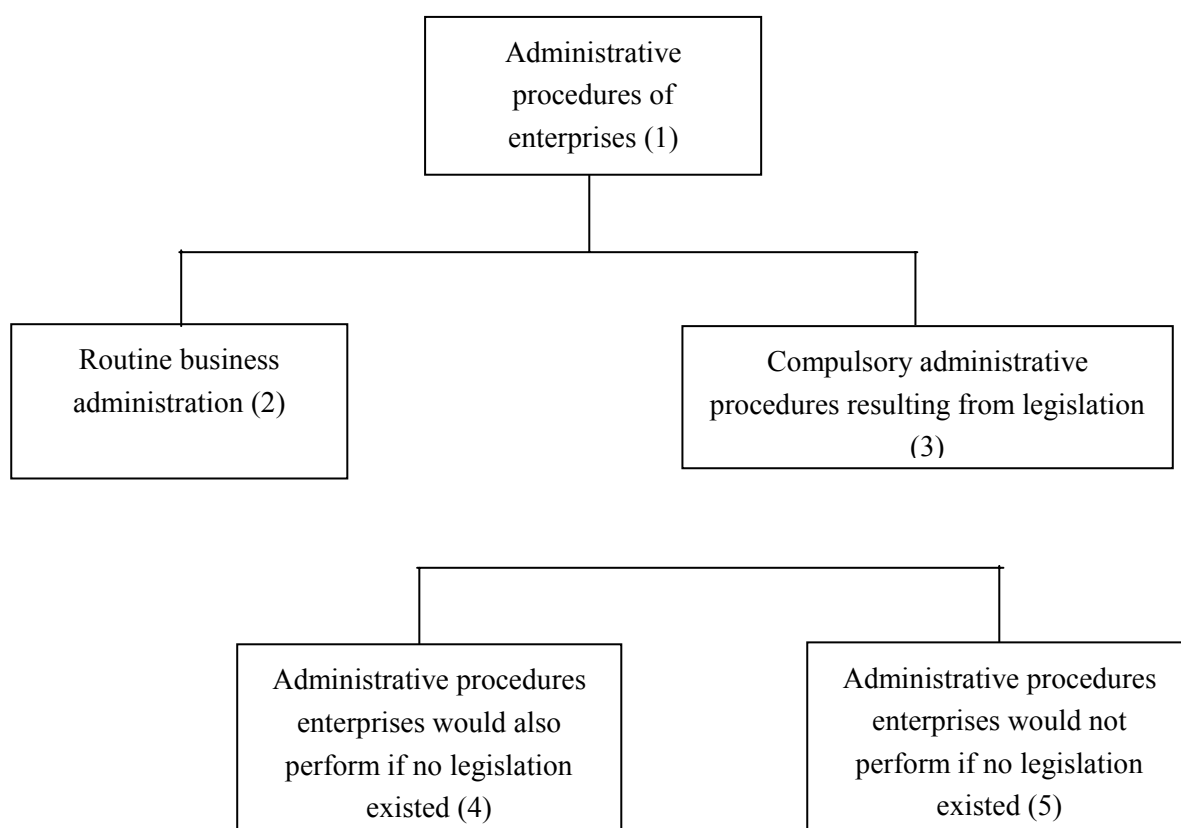
In economic literature there is no standard definition of administrative burdens because the identification is rather complex and difficult (Nicoletti G. et al. 2000: 17). The best way to define administrative burdens is to establish the definition with concrete research.

In the broadest sense we can define administrative burdens as:

“administrative obligations that result from legislation and which are obligatory for enterprises” (European Commission 1995: 277).

The idea is that enterprises would not fulfil what is demanded from them if the legislation did not exist. So, an entrepreneur does not have a direct benefit from administrative obligations for his business. Thus from his point of view he faces administrative burdens as something he has to cope with.

Figure 1. Theoretical framework of types of administrative procedures for enterprises (European Commission 1995: 277)



A part of all administrative procedures that enterprises carry out (block 1 in Figure 1), is done for their own needs, because it gives them specific and valuable information about the enterprises (block 2). These procedures belong to the routine business administration (warehousing, procurement and sales administration, records of debt, etc.).

Enterprises carry out the rest of the administrative procedures in order to meet obligations that result from national and international legislation (block 3). We divide administrative procedures in two groups. The first group gives the enterprise specific and valuable information and any enterprise would carry them out even if no legislation existed (see block 4) – e.g. annual accounts. It is however possible that if no legislation existed, enterprises would undertake these procedures in a different way, and, for instance, less frequently than at present. The rest of the administrative procedures would not be carried out (block 5) by enterprises if legislation did not exist, as they are of no immediate value for the individual enterprise. This does not mean, however, that the obligations themselves are without value; they provide information that is used by enterprises and by society as a whole. It is essential however that the individual entrepreneur does not see a direct benefit from carrying out these procedures, which is why they are considered to be a burden.

Administrative burdens can be measured in terms of time that they take, the number of forms that must be filled in, the number of obligations that must be met, or in terms of their financial costs. In terms of financial costs, administrative burdens consist of on labour costs (or a part of it) of those employees involved in getting the information that is necessary to fulfil the legislative obligations, the costs of training and education needed for these employees, the labour costs (or a part of it) of self-employed people who do their own administration tasks, the costs (or a part of it) of machinery needed (computers) that is being used to meet legislative obligations, and the costs of external advice and assistance.

In our research we are going to examine only the administrative burdens related to employment. As we have already mentioned, the description of what can be associated with administrative burdens in detail relies significantly on the field of research the definition is applied to. For this research such a definition of administrative burdens has been chosen which makes it possible to focus on two important aspects associated with the recruitment of employees.

Administrative burdens stem from the number and nature of the obligatory administrative procedures entrepreneurs have to go through in the recruitment process including obligatory contacts with authorities, “form filling”, and delivery of the requested information to the respective authorities. In addition, administrative burdens comprise the preparatory work and information collection because entrepreneurs first have to find out which specific regulations are relevant for their individual case, they have to understand these norms and they have to work out which precise actions are demanded from them.

Administrative burdens under this definition may therefore on the one hand stem from the number and nature of administrative procedures in the recruitment process, their complexity and obscurity. On the other hand, they

may result from the (frequently changing) employment legislation and its complexity and obscurity. Both aspects might pose considerable administrative burdens on enterprises and therefore present a bottleneck for employment creation especially in small firms (European Commission 2002c: 11).

3. Sample, data and methodology

A postal questionnaire was sent to the following described sample. It contained 12 questions, covering different fields of our research.

We used stratified disproportional random sampling. We did this because we needed the sample estimation not only for analyzing the whole statistical population, but also for each separate stratum. Stratification was managed on the basis of class size and the number of employees in an enterprise. Population relations in Slovenia according to data of the Institute for Entrepreneurship and Small Business Management are:

Table 1. Population relations

Number of employees	Size of population in stratum	Share of population in stratum – weight
0-9	97257	0,946
10-49	4431	0,043
50-249	1167	0,011
TOTAL	102855	1,000

Table 2 presents data about the number of questionnaires sent by post and the answers received (we have considered the 95 % confidence interval and 5 % significance level)

Table 2. The number of questionnaires sent by post and the answers received

Stratum	Needed size of the sample in stratum	Expected rate of the answers in %	Number of sent Questionnaires	Number of received answers	Rate of answers in %
0-9	321	8	4012	337	8,4
10-49	302	10	3020	526	17,4
50-249	250	15	1144	290	25,3
TOTAL	873		8176	1153	

Because of the small number of received answers, there is a higher possibility that the statistical parameters are biased. To receive enough answers we sent the higher number of questionnaires. Out of 250 questionnaires, 17 were not answered properly. 224 questionnaires were sent back because of inexistent address. The response rate was 26%.

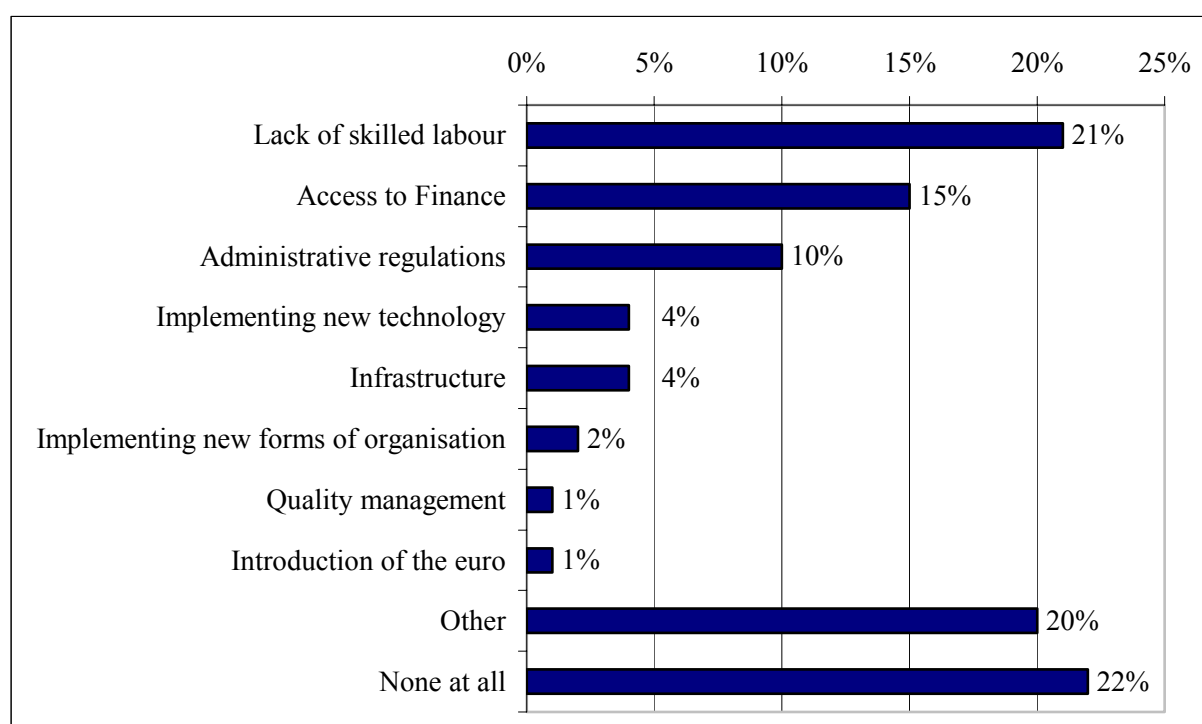
Descriptive statistics and simple regression analysis have been used.

4. Administrative burdens and their importance for SMEs

4.1 Major business constraints on SMEs

This section focuses on possible business constraints on SMEs in general and the significance of administrative regulations in particular. The latter is only one of the factors, which might have a negative impact on the business performance of SMEs. The 2001 ENSR Survey on SMEs reveals the importance of administrative regulations compared to a number of other sources of SMEs' business constraints over the last two years (European Commission 2002c: 14).

Figure 2. The most important business constraint identified by enterprises, Europe-19, 2001



Source: The 2001 ENSR Survey on SMEs in "Observatory of European SMEs", 2002/No. 7

Figure 2 shows that all over Europe-19, 10 % of SMEs (in total approx. 2 million enterprises) indicate administrative regulations as being the most important constraint on their business performance. Currently, administrative regulations represent the third important constraint on European SMEs. Only lack of skilled labour (21 %) and access to finance (15 %) are cited more often. 22 % of enterprises report that there is no specific major business constraint at all.

These results indicate that administrative regulations constitute a considerable bottleneck for business activities from the enterprises' point of view. This is particularly true for larger scale enterprises. 13 % of SMEs with 10 to 49

employees and 16 % of those employing 50 to 249 employees report administrative regulations to be the most important business constraint.

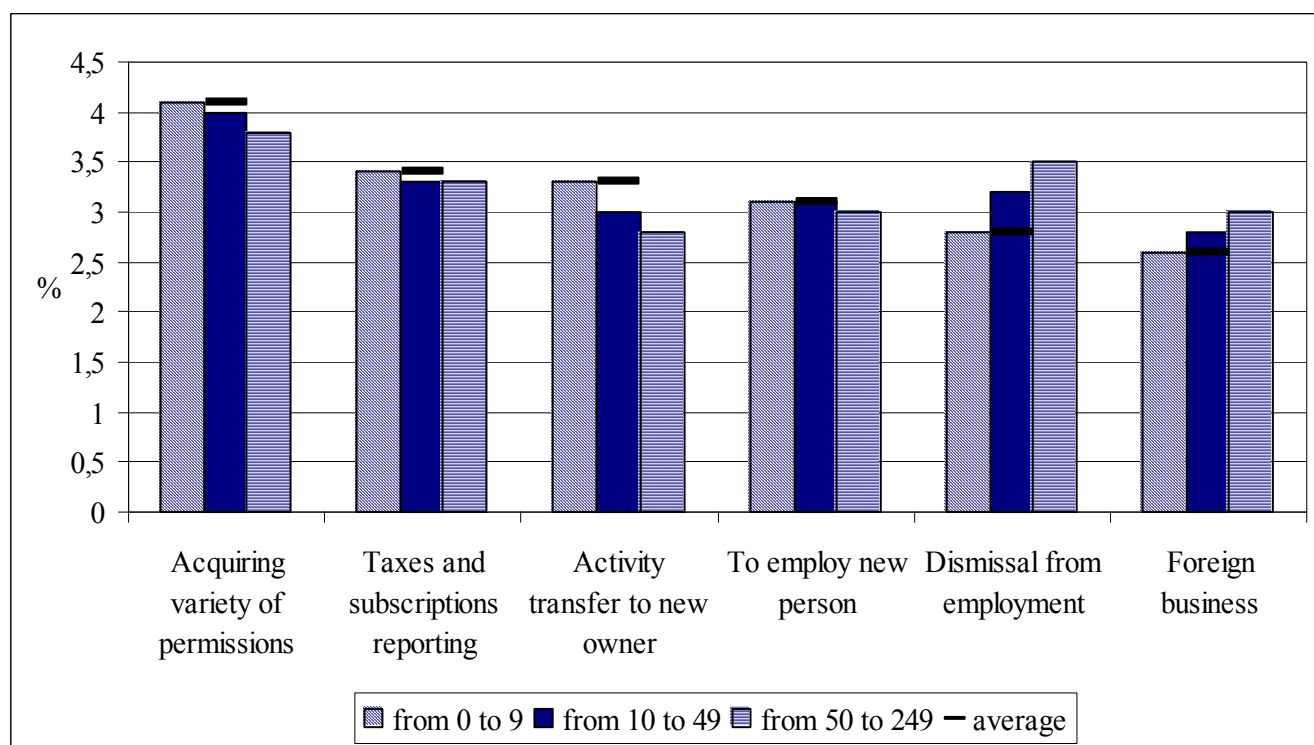
Much greater differences can be found by looking at the individual countries. In some countries the need to address the problem of administrative regulations seems to be much higher than in other countries (Germany, Denmark, France, Liechtenstein).

We asked Slovenian enterprises (from the selected sample) the same question as we had asked two years previously (2000) (Rebernik M. et al. 2001). We were interested in how much time enterprises actually need for administrative tasks demanded by the state, and which tasks are most time consuming. The comparison of data shows the fruitfulness of the so-called anti-bureaucratic programme, which was created in Slovenia by the government.

The comparison between the year 2000 and 2002 shows a positive trend in the time devoted weekly to administrative tasks required by the state. In the year 2000, the average time demanded to administrative tasks provided by the state was 6 to 8 hours weekly. Two years later it was reduced to less than 3 hours weekly.

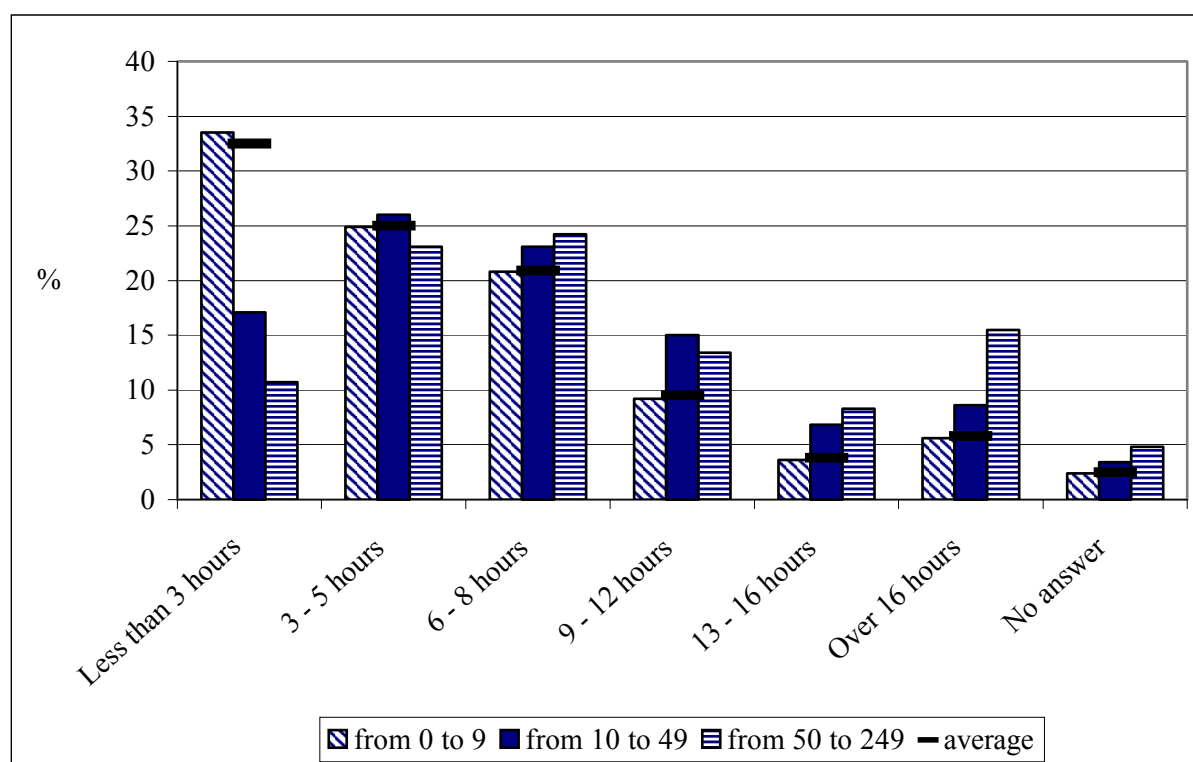
Enterprises ranged the tasks demanded by the state on the scale from 1 (least time) to 5 (most time). The situation in comparison with the year 2000 is here nearly the same. By far the most time is still taken in obtaining various permits.

Figure 3. Which administrative tasks required by the state take most time for enterprises?



Source: The 2002 IPMMP Survey on SMEs in "Slov. Entrepreneurship Observatory 2002"

Figure 4. How much time weekly do enterprises devote to administrative tasks required by the state?



Source: The 2002 IPMMP Survey on SMEs in “Slov. Entrepreneurship Observatory 2002”

The following section examines administrative burdens related to recruitment of employees.

4.2 Administrative burdens and SMEs recruitment decisions

The 2001 ENSR Survey on SMEs presents evidence on the extend to which administrative burdens in the field of employment regulations influence entrepreneurs' recruitment decisions (see *Table 3*).

Table 3: Impact of administrative burdens on SMEs' recruitment decisions, by enterprise size, Europe-19, 2001

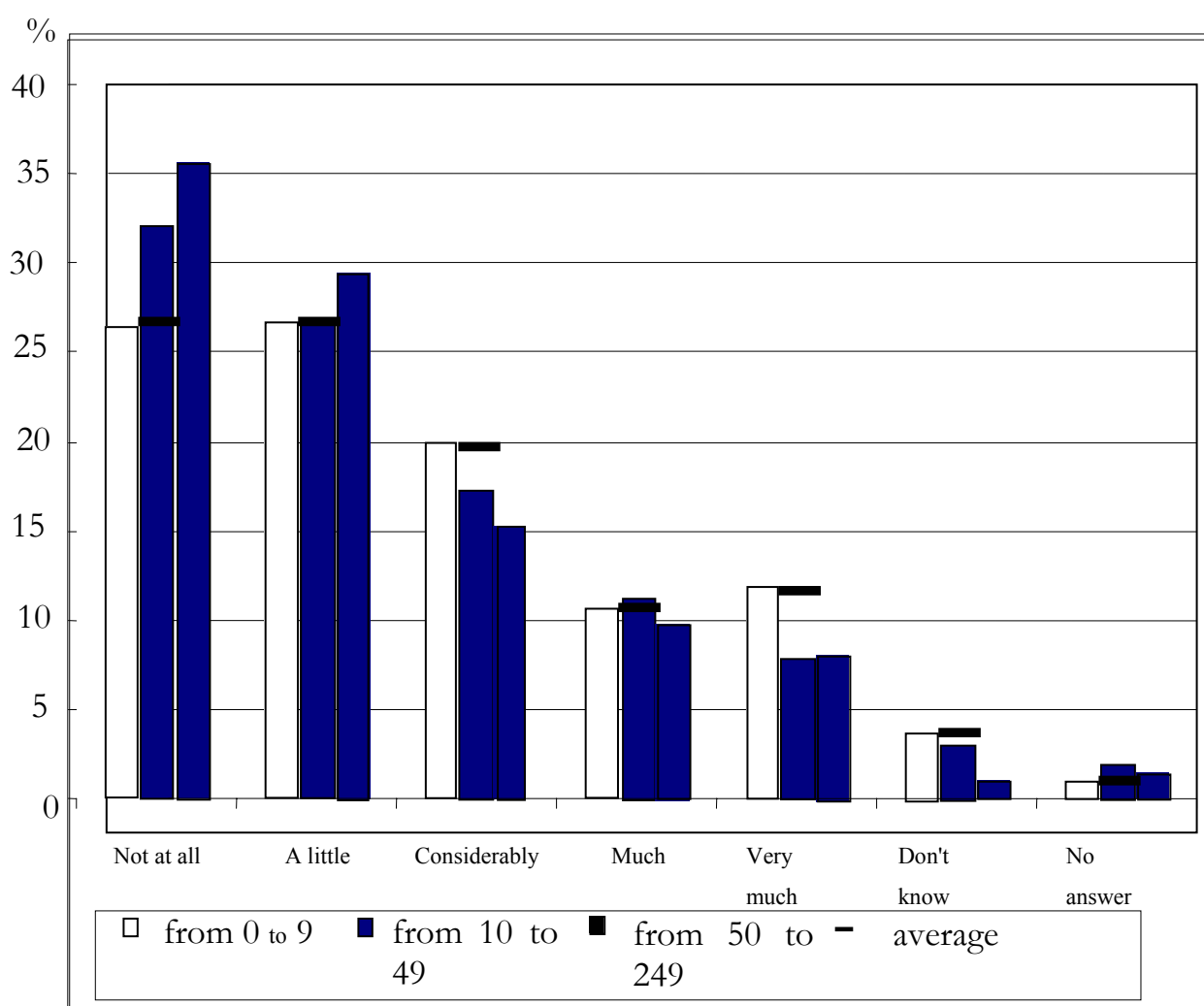
	Number of employees					
	0	1	2-9	10-49	50-249	Total
Not at all/a little	73%	74%	67%	67%	68%	69%
Considerably/(very) much	27%	26%	33%	33%	32%	31%
Total	100%	100%	100%	100%	100%	100%

Source: The 2001 ENSR Survey on SMEs in “Observatory of Europe SMEs”, 2002/No. 7

On average all across Europe-19, 31 % of enterprises state that administrative burdens substantially affect their recruitment decisions.

We asked Slovenian enterprises the extent to which administrative burdens in recruitment decisions have an impact on their decision to hire an employee. Results are shown in *Figure 5*. On average, 26,7 % of enterprises state that administrative burdens do not affect their recruitment decisions. An analysis of enterprise size reveals that this percentage is even higher in larger enterprises. By combining answers »considerably, much and very much« we can see that more than 40 % of enterprises state that administrative burdens do have a substantial influence on their recruitment decisions. Results also show that again this impact is more distinctive with smaller enterprises.

Figure 5. To what extent do administrative burdens related with hiring employees have an impact on your recruitment decisions?



Source: The 2002 IPMMP Survey on SMEs in "Slov. Entrepreneurship Observatory 2002"

In Table 4 we present consolidated data on the same question. In order to be able to compare the results of The 2001 ENSR Survey with Slovenian results, we have merged the data for Slovenia in Table 4.

Table 4. Impact of administrative burdens on SMEs' recruitment decisions, by enterprise size, Slovenia 2002

	Number of employees			
	0-9	10-49	50-249	Total
Not at all / a little	53,1%	58,8%	64,8%	53,4%
Considerably / (very) much	42,4%	36,3%	32,8%	42%
Don't know / no answer	4,5%	4,9%	2,4%	4,6%
Total	100%	100%	100%	100%

Source: The 2002 IPMMP Survey on SMEs in "Slovenian Entrepreneurship Observatory 2002"

By comparing the results we can see that Slovenian SMEs display a slightly higher percentage (42 %) regarding the impact of administrative burdens in their recruitment decisions, than European ones (see Table 3).

In Figure 6 we have combined the results of both pieces of research and analyse them by country. Again, some considerable differences can be found when looking at the situation in the individual countries.

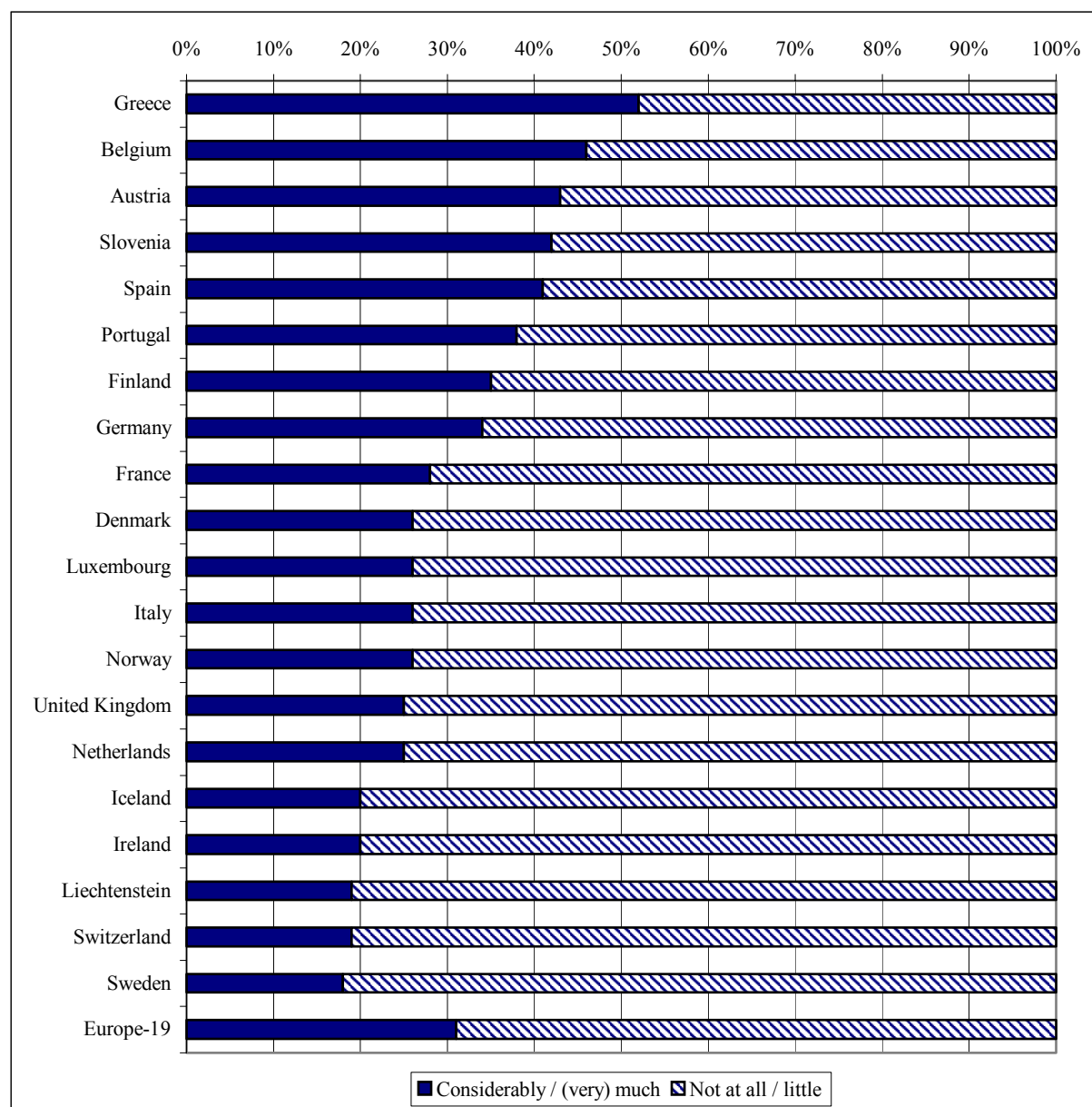
We find Slovenia in fourth place (42 %), after Greece (52 %), Belgium (46 %) and Austria (43 %). Thus, in these countries, from the enterprises' point of view there is a particular need to relieve SMEs of administrative burdens in the field of employment regulations.

These results suggest that administrative burdens are not primarily a problem of specific enterprise sizes or economic sector. Instead, it seems that it is more the specific legal and procedural environment in the individual country that determines the extent to which SMEs encounter administrative burdens in the recruitment process. Hence, the necessity to relieve SMEs from administrative burdens differs strongly between countries.

Further on, administrative burdens imposed on SMEs will be dealt with in two steps:

1. We will study the number and nature of obligatory administrative procedures in the recruitment process. Obligatory contacts with various offices, form filling, delivery of the requested information and finding out how the system is organized will be discussed.
2. We will study various areas of employment legislation that an entrepreneur has to consider. Administrative burdens stemming from this can be the consequence of complexity or obscurity of various norms or can stem from the legislation itself. Thus entrepreneurs can struggle a great deal in the process of recruitment, because they have to find out which specific regulations refer to their case.

Figure 6. Impact of administrative burdens in the field of employment regulations on SMEs' recruitment decisions, by country, Europe-19, 2001 and Slovenia 2002



Source: The 2001 ENSR Survey on SMEs in “Observatory of European SMEs”, 2002/No. 7 and The 2002 IPMMP Survey on SMEs in “Slovenian Entrepreneurship Observatory 2002”

These two steps will reveal if the administrative burdens are a consequence of technical requirements connected with administrative procedures, as for instance obligatory contacts with offices, form filling and delivery of requested information to various institutions, or the consequence of complex and obscure legislation in the field of employment – perhaps they are a consequence of both suppositions. Before we proceed, let us see how personal characteristics influence the entrepreneur's perception of administrative procedures.

4.3 SMEs' different perception of administrative burdens

The majority of new enterprises in Europe-19 start their business activities without employees. Some enterprises do not have any motivation to grow at all. However, enterprises that intend to grow are faced with administrative burdens. For the process of employment, the perception of the latter is, of course, the most important. We can assume that entrepreneurs who are new to the recruitment procedure find the administrative burden to be much greater than someone who is familiar with the procedure.

Entrepreneurs' personal characteristics also influence their perception of administrative burdens. The research shows that age and education of entrepreneurs represent two important factors in their combat with recruitment procedures. Entrepreneurs have to find out for themselves which specific regulations are relevant for their individual case, they have to understand the rules/norms and which precise procedures are demanded from them. In conclusion, administrative procedures do not represent a burden in themselves. The procedures of collecting the necessary data in a complex and often obscure employment legislation environment usually represent the biggest administrative burden for SMEs.

5. The nature of administrative burdens

5.1 Administrative procedures in the recruitment process

In this section, the number and the nature of administrative procedures will be discussed, together with the administrative burdens stemming from them. The term administrative procedure comprises all obligatory contacts of the entrepreneur with different offices within the recruitment process. Only those procedures are described, which are obligatory for all different types of entrepreneurs and are directly related to recruitment.

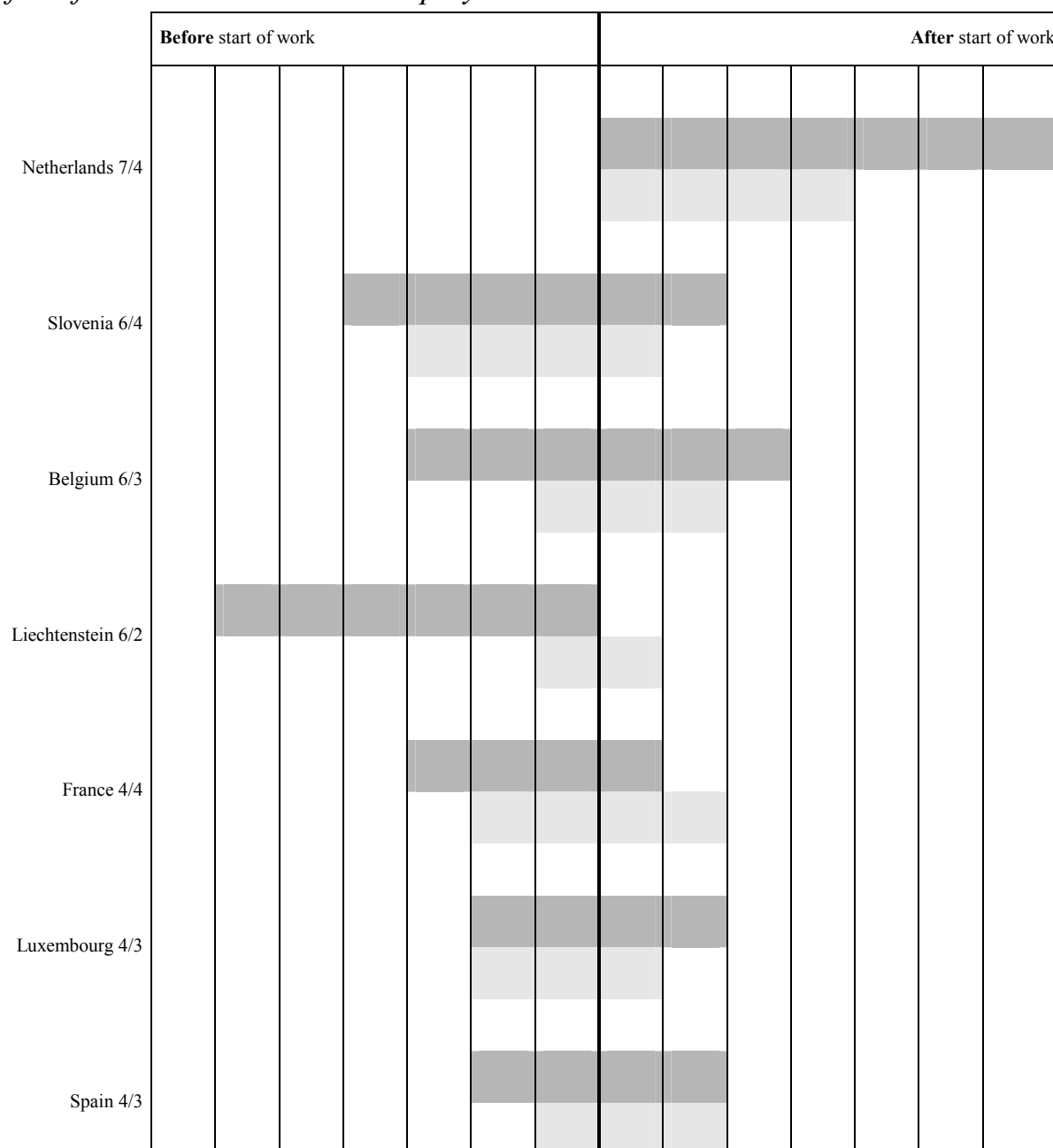
Evidence provided by the ENSR-Partner Institutions shows that in all countries of Europe-19, each administrative procedure requires only a very limited amount of time. Once the obligatory information has been collected and generated, it usually takes between five minutes and an hour to complete all obligatory forms.¹

Figure 7 illustrates the total number of obligatory administrative procedures by country. We have added the Slovenian data. Two distinctions have been made. First, in some countries some of the administrative procedures have to be

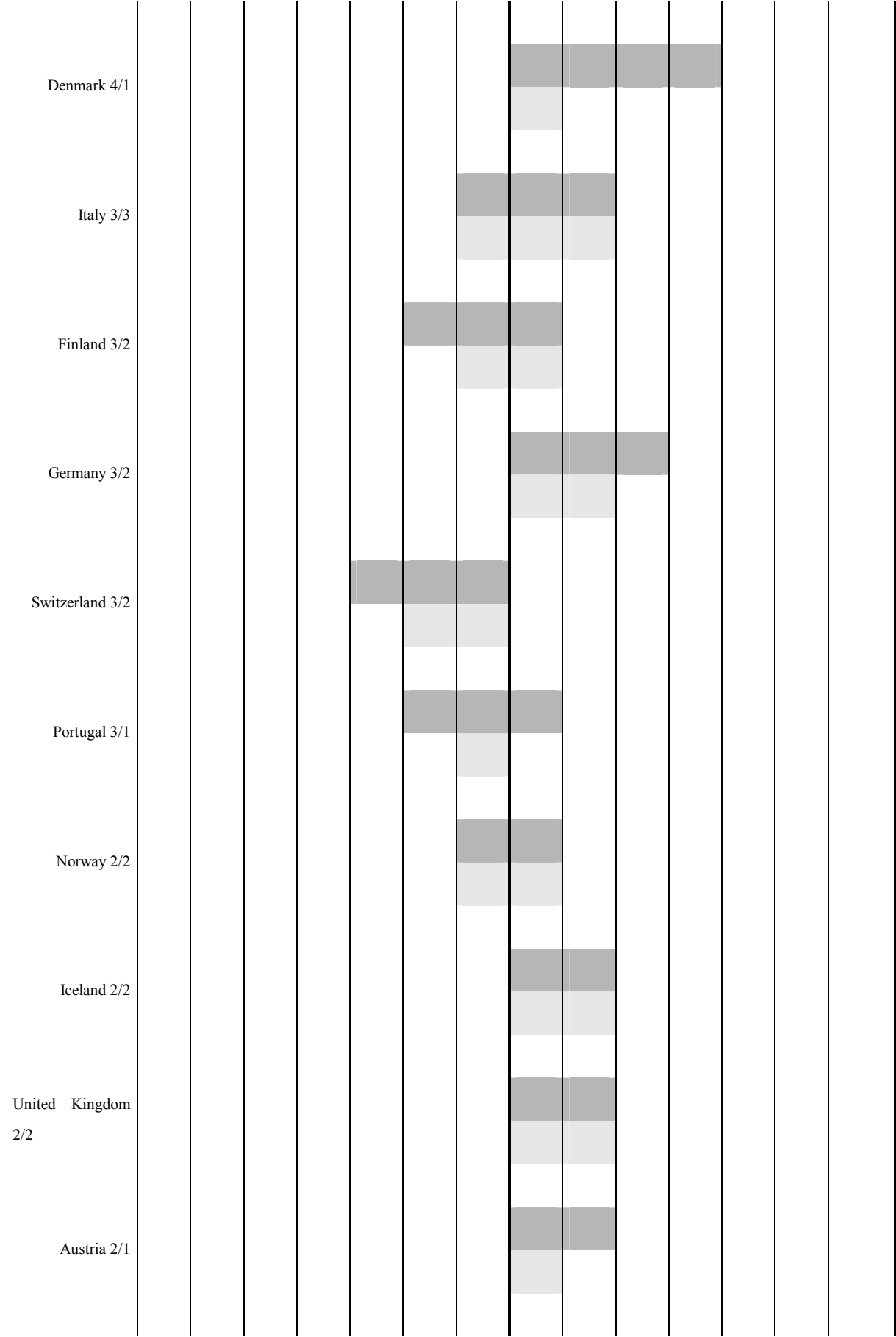
¹ The indicated time requirements do not include the time spent on preparatory work such as selecting and familiarizing oneself with the relevant laws and regulations but only the technical steps that have to be undertaken in terms of administrative procedures referring to the first part of the definition of administrative burdens.

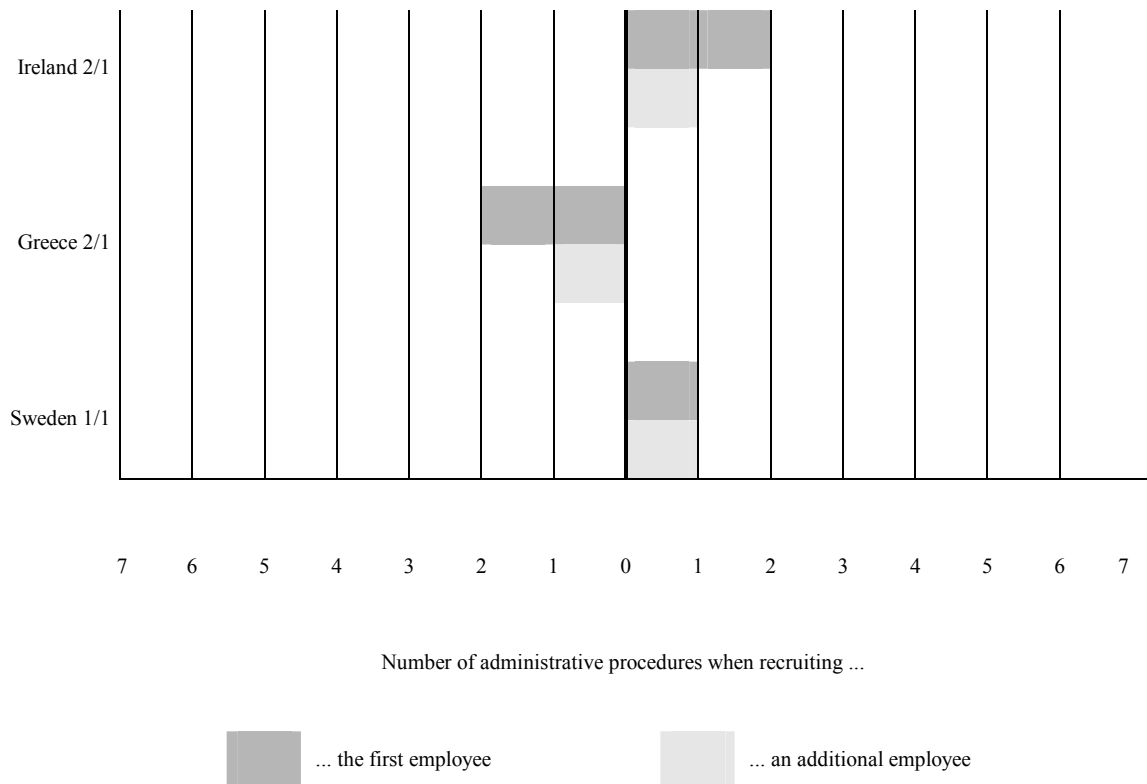
completed before the start of work of the newly recruited employee,² while other steps have to be gone through after the employee has started to work. Second, a distinction has been made between procedures related to the recruitment of the first employee and procedures related to the recruitment of a subsequent employee. As there are registrations that have to be done only once, i.e. when recruiting the first employee, the number of obligatory steps can differ between these two cases.

Figure 7. Number of administrative procedures recorded when the recruitment of the first and an additional employee



² By definition, those administrative steps which have to terminate on the actual starting day of work are considered as belonging to the phase “before the start of work”.





Source: Analyzed by IfM Bonn on the basis of ENSR-partner contributions and The 2002 IPMMP Survey on SMEs

In ten out of the investigated 19 countries, employers have to go through administrative procedures either before or after the start of work of the newly recruited employee. In the other nine countries (Belgium, Finland, France, Italy, Luxemburg, Portugal partly, Spain, Norway and Liechtenstein partly the recruitment process covers both time periods. The same holds for Slovenia. As far as the recruitment of the first employee is concerned, administrative procedures tend to last slightly longer in these countries than in the other countries.

In Europe-19, on average, 3.3 administrative procedures have to be gone through when recruiting the first employee. In Slovenia there are 6, that have to be undertaken, which means that our enterprises are in a rather worse situation. In order to recruit a subsequent employee an entrepreneur has to go through on average 2.1 administrative procedures in the countries of Europe-19. Here too, Slovenia with 4 steps reflects the worst conditions. On average, employers have to deal with 1.2 steps less when they recruit a subsequent employee compared to the recruitment of the first employee.

In the next section, the likely source of administrative burdens will be studied, namely complexity and obscurity of employment regulation.

5.2 Complexity and obscurity of employment regulation

Complexity and obscurity of employment regulation refers to the second part of the definition of administrative burdens, which influence the level of an entrepreneur's readiness for recruitment.

In the course of the 2001 ENSR Survey on SMEs, enterprise owners were asked to identify one single field of employment regulation which entails the highest administrative burdens on them (see *Table 5*).

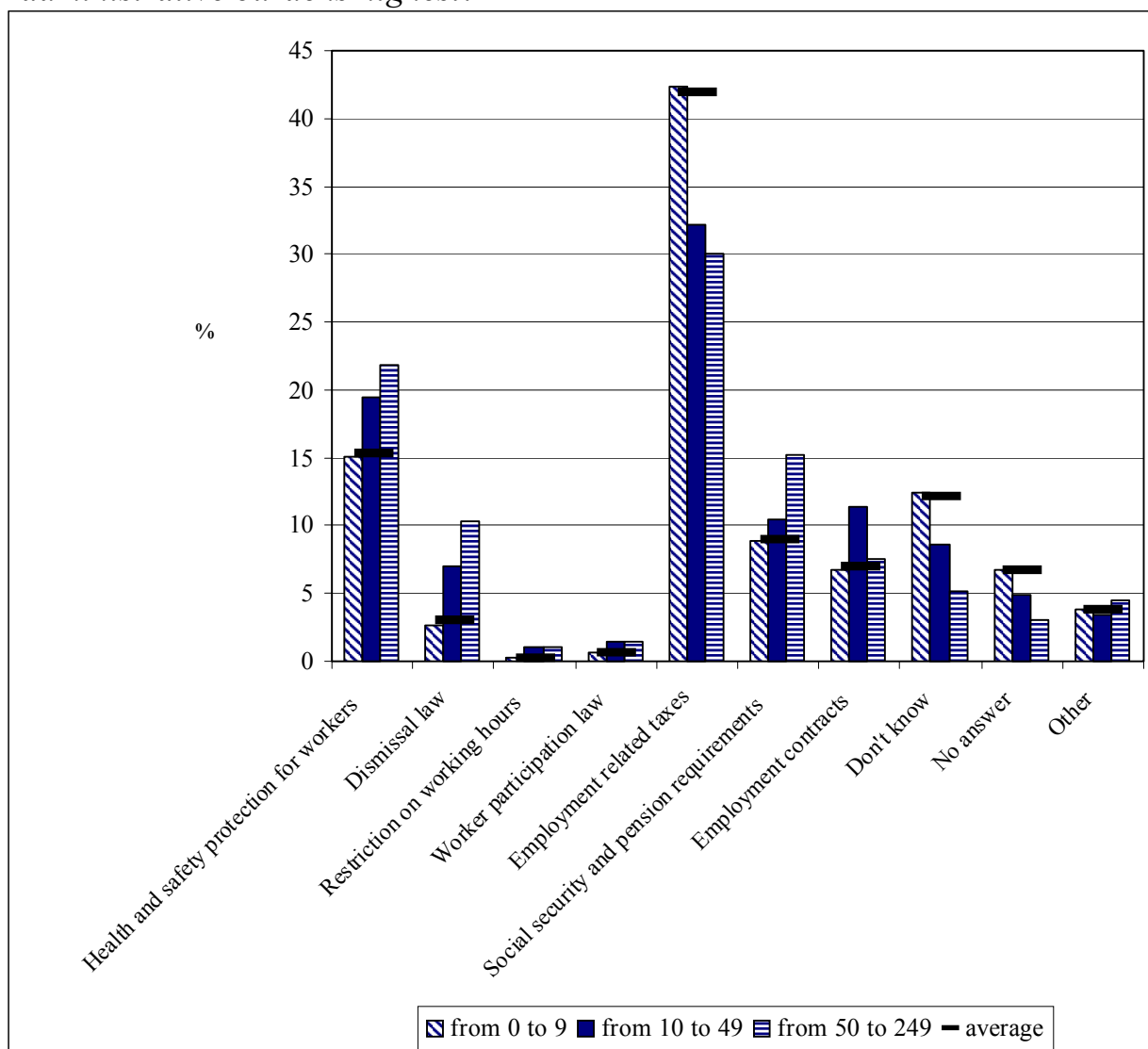
Table 5. Fields of employment regulation with highest administrative burden, by enterprise size, Europe-19, 2001

	Number of employees					
	0	1	2-9	10-49	50-249	Total
Health & safety protection for workers	12%	22%	34%	38%	40%	30%
Social security & pension requirements	13%	14%	15%	10%	9%	14%
Employment related taxes	10%	10%	13%	14%	11%	12%
Restriction on working hours	2%	5%	7%	7%	6%	6%
Sector-specific requirements	5%	5%	5%	7%	4%	5%
Dismissal law	0%	2%	4%	6%	7%	4%
Employment contracts	2%	2%	4%	3%	4%	3%
Collective bargaining	1%	1%	2%	2%	3%	2%
Worker participation law	1%	1%	1%	1%	3%	1%
Don't know/no answer	54%	38%	15%	12%	13%	23%
Total	100%	100%	100%	100%	100%	100%

Source: The 2001 ENSR Survey on SMEs in "Observatory of European SMEs", 2002/No. 7

Slovene enterprises were also asked to identify the areas that are related to employees that entail the highest administrative burdens. Enterprises have to collect and deliver various reports and information to the relevant authorities. 42 % of enterprises believe (*Figure 8*) that duties connected with taxes and contributions pose the highest burdens on them. The second place or 15.4 % of administrative burdens represent health and safety protection of workers. Enterprises estimate that the administrative burden is lower in the field of working hours and worker participation – collective agreement. It is interesting that smaller enterprises find taxes and contributions as those that posing the highest burden, whereas bigger enterprises believe that health and safety pose the highest administrative burden.

Figure 8. In which one of the following fields of employment regulations are administrative burdens highest?



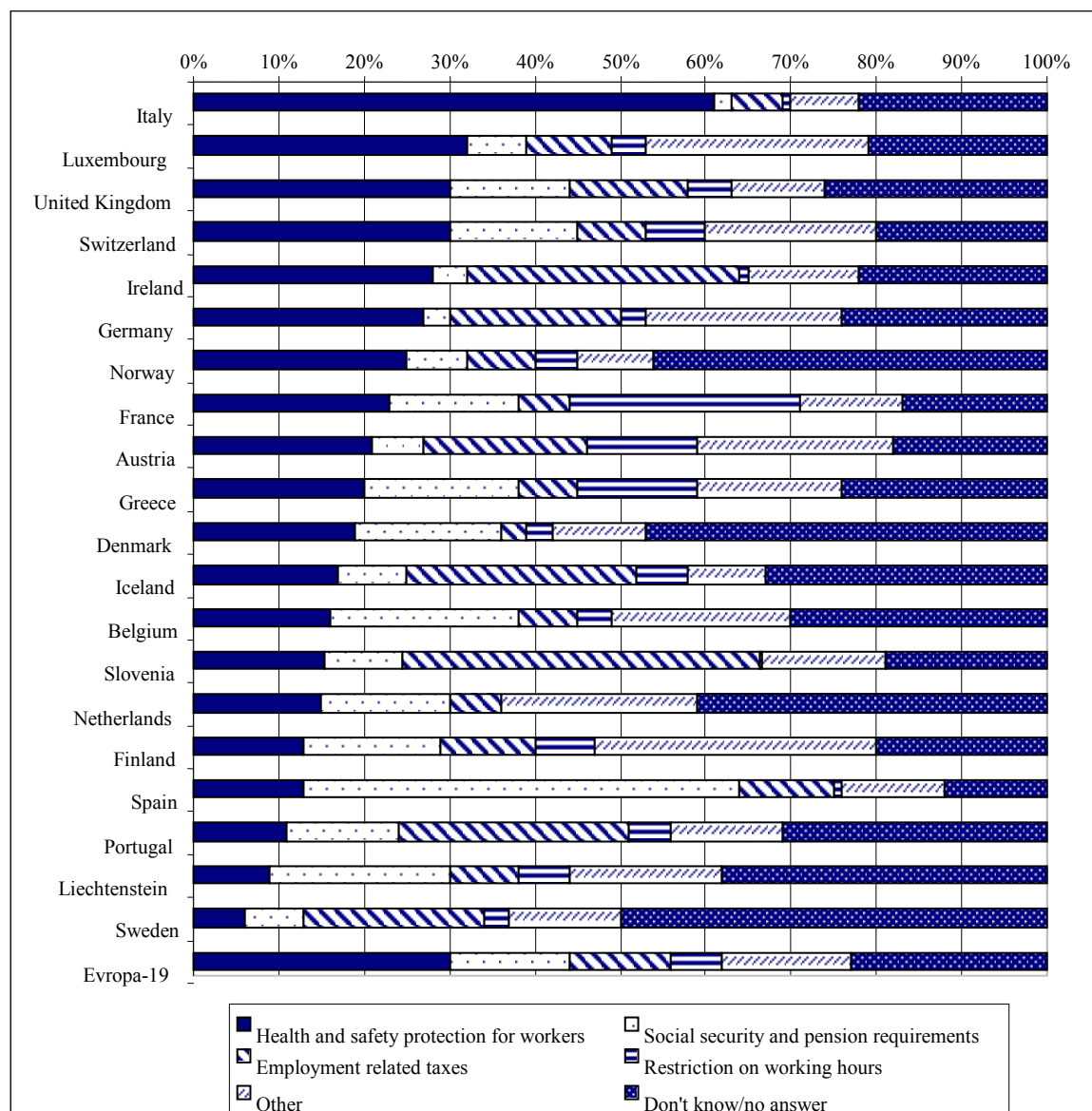
Source: The 2002 IPMMP Survey on SMEs in “Slovenian Entrepreneurship Observatory 2002”

The comparison of Slovenian research data with the Europe-19 Survey reveals some differences. The results of The ENSR Survey show that enterprises mainly cite health and safety regulations as the most important field (30 %). Of course we can define quite a few differences between the enterprise-size classes. A major part of micro enterprises claim to face high burdens in the fields of social security and pension requirements as well as in employment related taxes. Interestingly, those enterprises employing two and more employees also face serious difficulties in identifying one single regulatory field entailing the highest administrative burdens.

The analysis by country shows much more pronounced differences. Indeed, there are great differences with regard to the different fields of employment legislation SMEs complain about (see Figure 9).

It is interesting to note that in all countries of Europe-19, SMEs again have difficulties in singling out one specific regulatory field that causes the highest administrative burden. In ten out of the 19 countries, the ‘don’t know/no answer’ – category is the option chosen most often. Across Europe-19, on average almost every fourth enterprise is not able to identify one particular regulatory field.

Figure 9. Fields of employment regulation with the highest administrative burden, by country, Europe-19, 2001 and Slovenia, 2002



Source: The 2001 ENSR Survey on SMEs in “Observatory of European SMEs”, 2002/No. 7 and The 2002 IPMMP Survey on SMEs in “Slovenian Entrepreneurship Observatory 2002”

It can be concluded that administrative burdens stem from the complexity and obscurity of the employment regulation in its entirety. These are caused by various laws and their interplay. Thus it is difficult for SMEs to single out just

one particular regulatory field. This is the reason why entrepreneurs devote much of their time and energy to studying the complexity of employment regulation, which, consequently, makes them less likely to recruit employees.

6. Administrative burdens and recruitment behaviour of enterprises

In this section we will look at the extent to which administrative burdens resulting from employment regulations have an influence on the behaviour of entrepreneurs in the recruitment process. First, those enterprises will be analysed that gave a positive answer to the question about the substantial influence of administrative burdens on their decisions about recruitment. We will try to find out if they actually recruit fewer employees than enterprises that do not complain about administrative burdens. In the second part of this section we will analyse the extent to which SMEs use alternative forms of employment in order to avoid administrative burdens related to recruitment legislation.

6.1 Administrative burdens and employment growth

By employing regression analysis we will estimate if administrative burdens have a substantial influence on the employment growth of SMEs in Slovenia. On the basis of the 2001 ENSR Survey on SMEs, the influence of administrative burdens on European SMEs' actual employment growth has been investigated. With regression techniques it was possible to identify the kind of correlation between the impact of administrative burdens resulting from employment regulations perceived by entrepreneurs and the actual employment growth in these enterprises. European SMEs that say that administrative burdens substantially affect their recruitment decisions are associated with smaller employment growth during the period 1999 to 2000 (European Commission 2002c: 31). However, the regression coefficients in absolute terms are rather low.

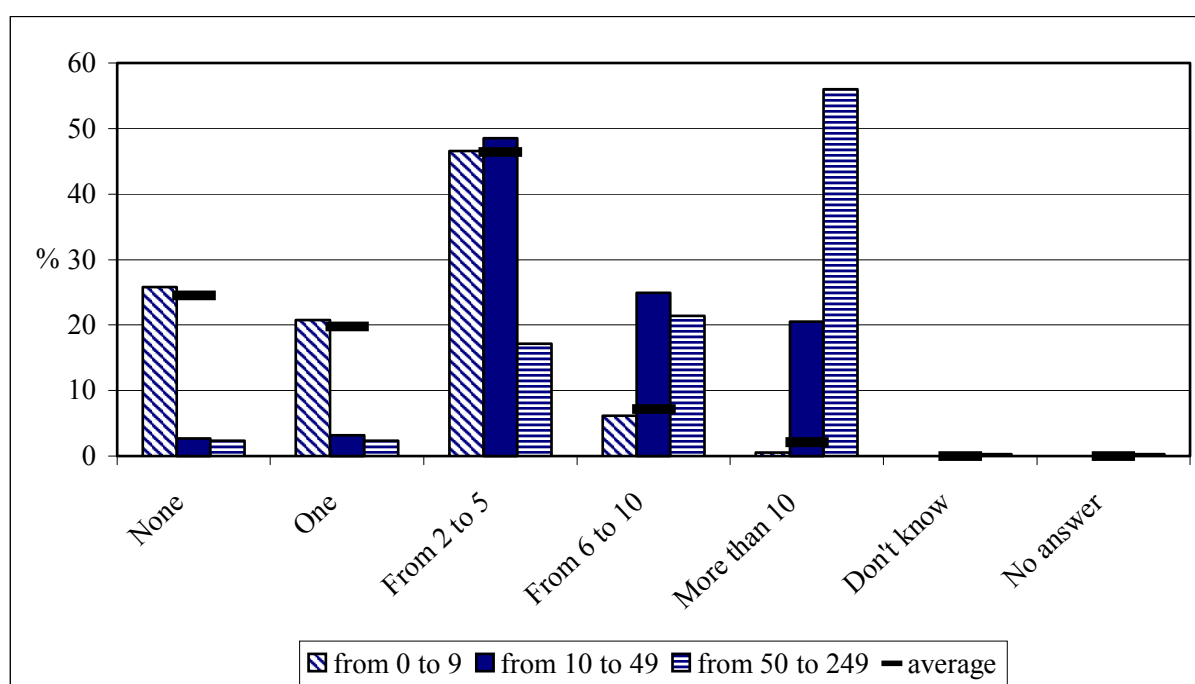
For the sake of our research SMEs were asked about the number of employees recruited in the last three years (regular employment + temporary employment relationship + replacement).

Figure 10 shows that micro and small enterprises recruited on average (46 %) two to five employees in the last three years, whereas medium-sized enterprises recruited on average more than ten people (56 %). In the latter case regular employment, temporary employment relationship and replacement are included.

The regression analysis was carried out in order to test the answers of the chosen sample of Slovenian firms. The answers of enterprises which believe that administrative burdens have a huge impact on their decisions about recruitment were compared with the actual number of employees that were actually recruited in the last three years. The dependent variable (recruited

workers) is negative, but the coefficient is so low that it is impossible to speak about statistically significant variables. Thus we can conclude that the actual influence of administrative burdens on employment growth is rather limited. The fact is that there are numerous other factors which influence the SMEs' recruitment decisions (i.e. present and expected market opportunities, a lot of demand for the enterprise's goods/services, etc.).

Figure 10. How many employees did you approximately hire (all regular employees, either first time, additional or replacement; either part-time or full-time) in the last three years?



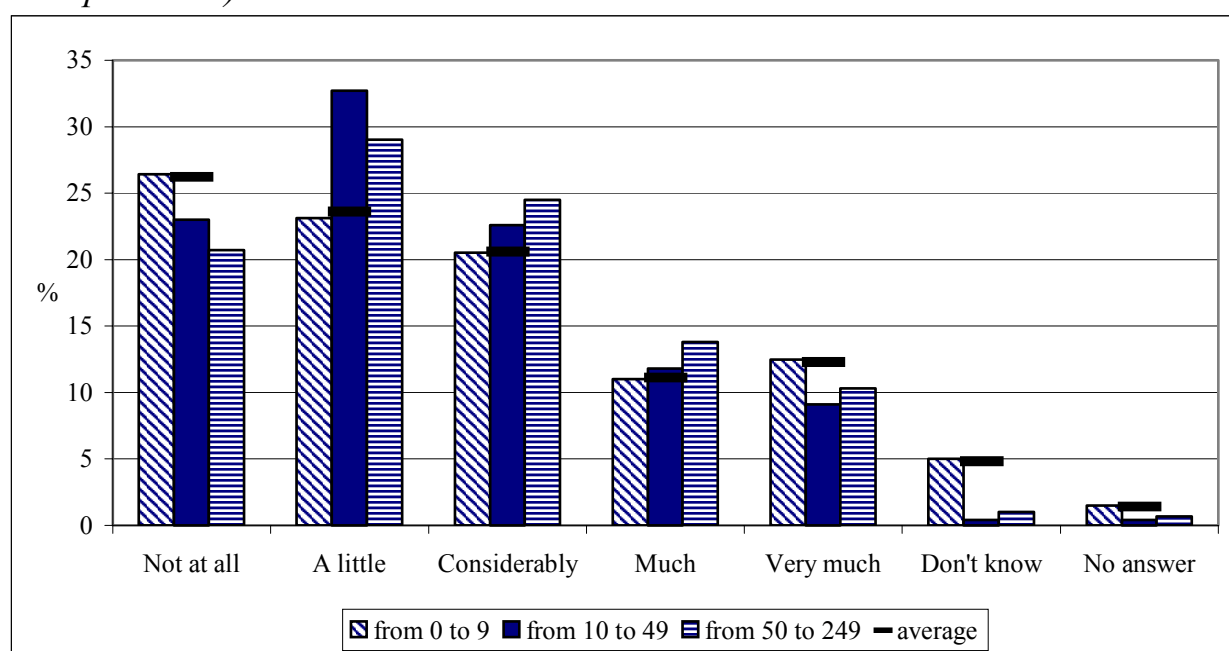
Source: The 2002 IPMMP Survey on SMEs in "Slovenian Entrepreneurship Observatory 2002"

The regression analysis was carried out in order to test the answers of the chosen sample of Slovenian firms. The answers of enterprises which believe that administrative burdens have a huge impact on their decisions about recruitment were compared with the actual number of employees that were actually recruited in the last three years. The dependent variable (recruited workers) is negative, but the coefficient is so low that it is impossible to speak about statistically significant variables. Thus we can conclude that the actual influence of administrative burdens on employment growth is rather limited. The fact is that there are numerous other factors which influence the SMEs' recruitment decisions (i.e. present and expected market opportunities, demand for the enterprise's goods/services, etc.).

6.2 The use of alternative strategies in recruitment procedures

By outsourcing work instead of recruiting regular employees an enterprise can avoid administrative burdens. The answers to the question about the extent of consideration given to this strategy showed that almost a half of SMEs consider this alternative rarely or not at all. *Figure 11* shows a precise structure of answers according to the size of SMEs. It is suggested that medium-sized enterprises are more likely to outsource work in order to avoid administrative burdens stemming from recruitment.

Figure 11. Do you occasionally outsource work in order to avoid administrative burdens that emerge when hiring regular employees? (by enterprise size)



Source: The 2002 IPMMP Survey on SMEs in “Slovenian Entrepreneurship Observatory 2002”

Table 6. Outsourcing as a strategy to avoid administrative burdens resulting from the recruitment of regular employees, by enterprise size, Europe-19, 2001

	Number of employees					
	0	1	2-9	10-49	50-249	Total
Not at all/a little	71%	76%	81%	80%	79%	79%
Considerably/very much	14%	16%	15%	16%	17%	15%
Don't know/no answer	15%	8%	4%	4%	4%	6%
Total	100%	100%	100%	100%	100%	100%

Source: The 2002 IPMMP Survey on SMEs in “Slovenian Entrepreneurship Observatory 2002”

Table 7 presents consolidated results of Slovenian research.

Table 7. Outsourcing as a strategy to avoid administrative burdens resulting from the recruitment of regular employees, by enterprise size, Slovenia, 2002

	Number of employees			
	0-9	10-49	50-249	Total
Not at all/a little	49,5%	55,7%	49,7%	49,8%
Considerably/very much	44%	43,5%	48,6%	44%
Don't know/no answer	6,5%	0,8%	1,7%	6,2%
Total	100%	100%	100%	100%

Source: The 2002 IPMMP Survey on SMEs in “Slovenian Entrepreneurship Observatory 2002”

Whereas for 79 % of all European-19 enterprises, administrative burdens resulting from regular employment are no reason to outsource some of their business activities at all or just a little, Slovenia is facing a much lower percentage (49,8 %). However, all in all, 15 % of European-19 enterprises admit that their decision, to outsource work is substantially affected by the intention to avoid administrative burdens that they would face if they were to recruit regular employees. In Slovenia this answer was cited in 44 % of all the answers. This is true, by and large, for all enterprise-size classes.

We can find similar answers also between the smallest and the other SMEs with regard to the share of firms that cannot say something concrete about outsourcing work as a strategy to avoid administrative burdens resulting from regular employment. One explanation is that the outsourcing potential is rather limited in very small enterprises.

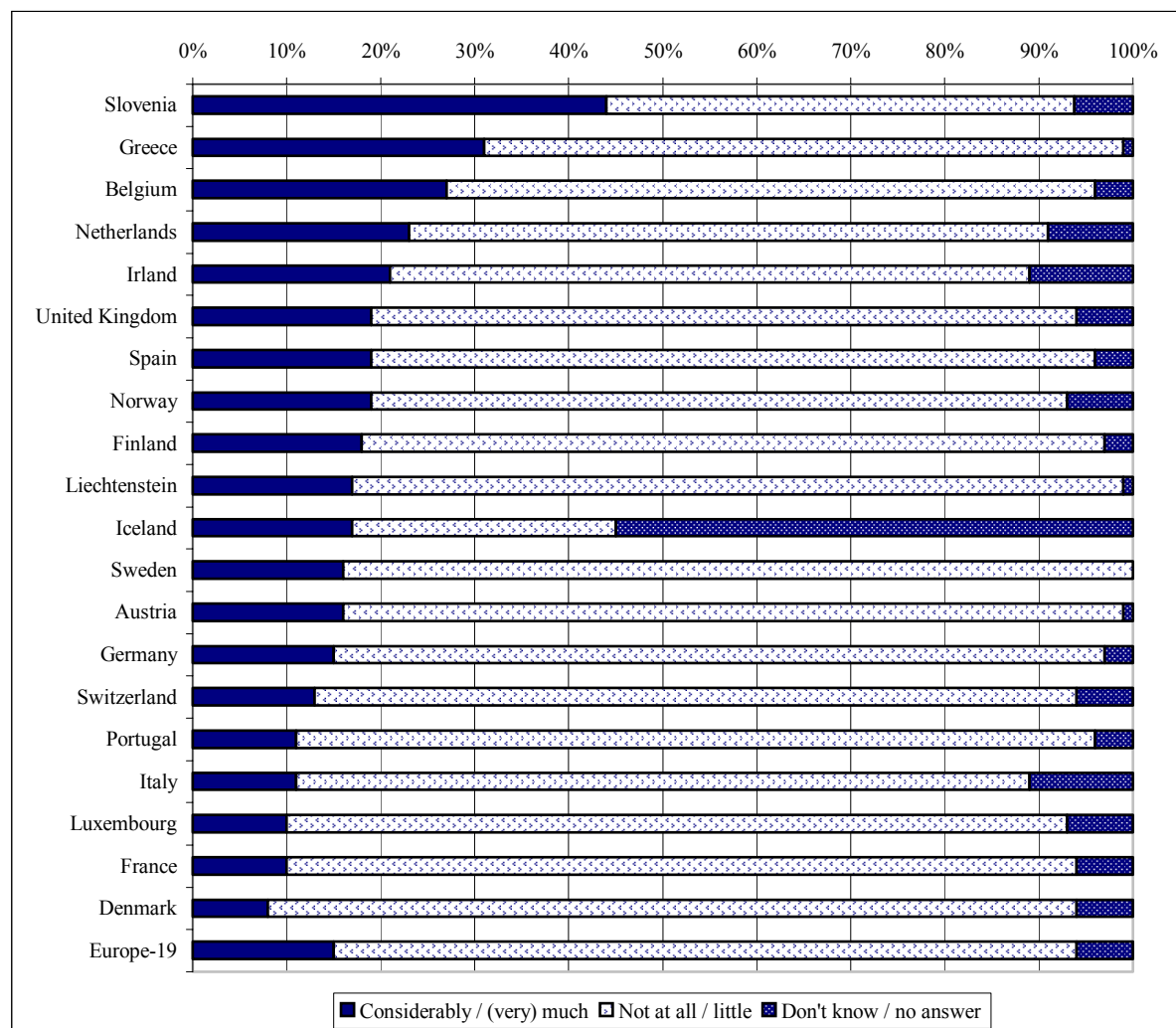
Figure 12 shows the comparison between the Europe-19 and Slovenian enterprises. Again we can see the deviation of Slovenian results from the European average.

The analysis by country suggests that apart from Slovenia, Greece, Belgium, the Netherlands and Ireland there does not seem to be evidence for systematic outsourcing strategies in order to avoid administrative burdens resulting from regular employment.

Let us consider another alternative. An enterprise can avoid administrative burdens resulting from regular employment by hiring, for a limited period of time, temporary workers through Student service or Public works. SMEs were asked if and to what extent they were considering this possibility.

Let us compare again The 2001 ENSR Survey results with the Slovenian findings.

Figure 12. Outsourcing work as a strategy to avoid administrative burdens resulting from the recruitment of employees, Europe-19, 2001 and Slovenia, 02



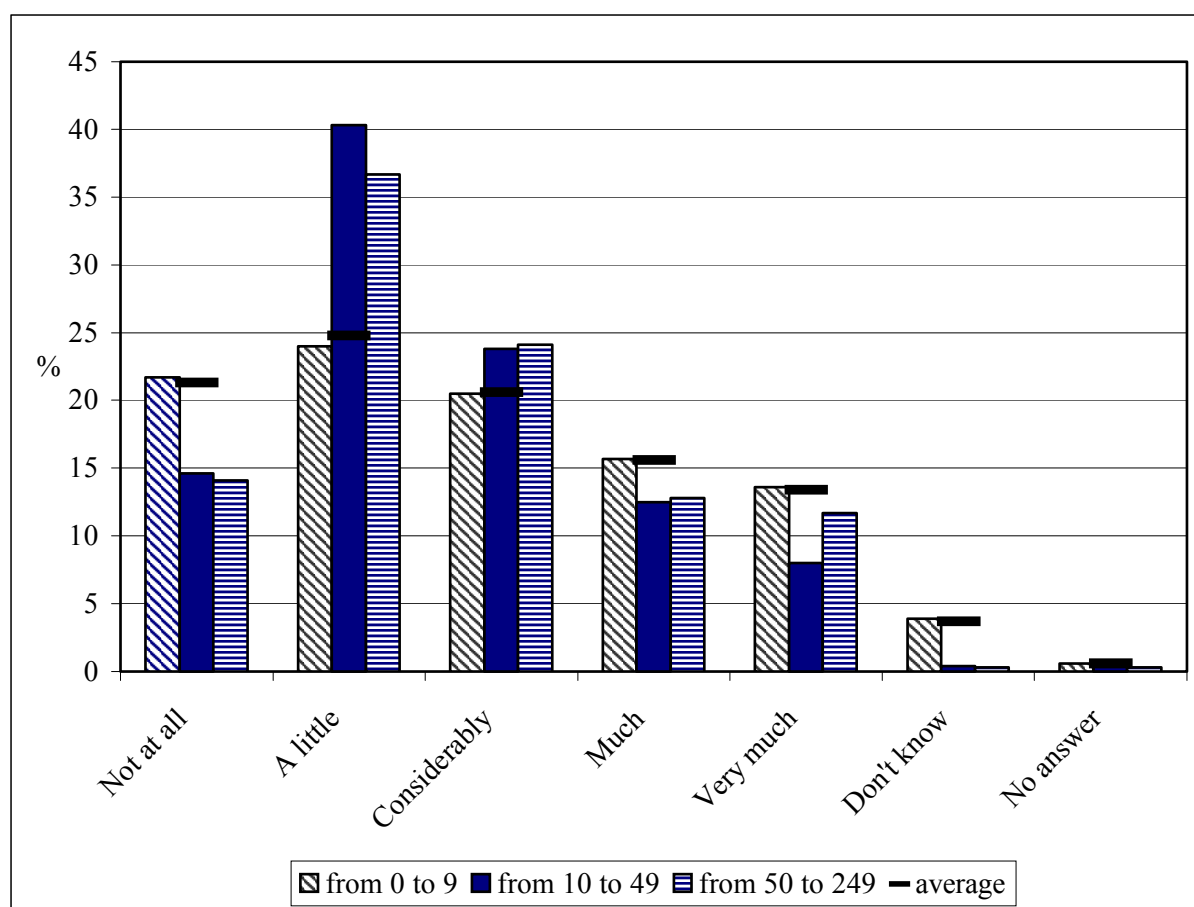
Source: The 2001 ENSR Survey on SMEs in “Observatory of European SMEs”, 2002/No. 7 and The 2002 IPMMP Survey on SMEs in “Slovenian Entrepreneurship Observatory 2002”

Table 8. Use of temporary agency work (Student service or similar agencies) as a strategy to avoid administrative burdens resulting from the recruitment of regular employees, by enterprise size, Europe-19, 2001

	Number of employees					Total
	0	1	2-9	10-49	50-249	
Not at all/a little	78%	82%	88%	84%	85%	87%
Considerably/very much	7%	9%	7%	12%	13%	7%
Don't know/no answer	15%	9%	5%	4%	2%	6%
Total	100%	100%	100%	100%	100%	100%

Source: The 2001 ENSR Survey on SMEs in “Observatory of Europe SMEs”, 2002/No. 7

Figure 13. Do you occasionally hire employees through Student service or similar agencies in order to avoid administrative burdens that emerge when hiring regular employees? (by enterprise size)



Source: The 2002 IPMMP Survey on SMEs in “Slovenian Entrepreneurship Observatory 2002”

Table 8. Use of temporary agency work as a strategy to avoid administrative burdens resulting from the recruitment of regular employees

2001	Number of employees					Total
	0	1	2-9	10-49	50-249	
Not at all/a little	78%	82%	88%	84%	85%	87%
Considerably/very much	7%	9%	7%	12%	13%	7%
Don't know/no answer	15%	9%	5%	4%	2%	6%
Total	100%	100%	100%	100%	100%	100%

Source: The 2001 ENSR Survey on SMEs in “Observatory of Europe SMEs”, 2002/No. 7

We have consolidated the answers to the same question for Slovenian enterprises. The results are shown in the Table 9.

Table 9. Use of temporary agency work (Student service or similar agencies) as a strategy to avoid administrative burdens resulting from the recruitment of regular employees, by enterprise size, Slovenia, 2002

	Number of employees			
	0-9	10-49	50-249	Total
Not at all/a little	45,7%	54,9%	50,8%	46,1%
Considerably/very much	49,8%	44,3%	48,6%	49,6%
Don't know/no answer	4,5%	0,8%	0,6%	4,3%
Total	100%	100%	100%	100%

Source: The 2002 IPMMP Survey on SMEs in "Slovenian Entrepreneurship Observatory 2002"

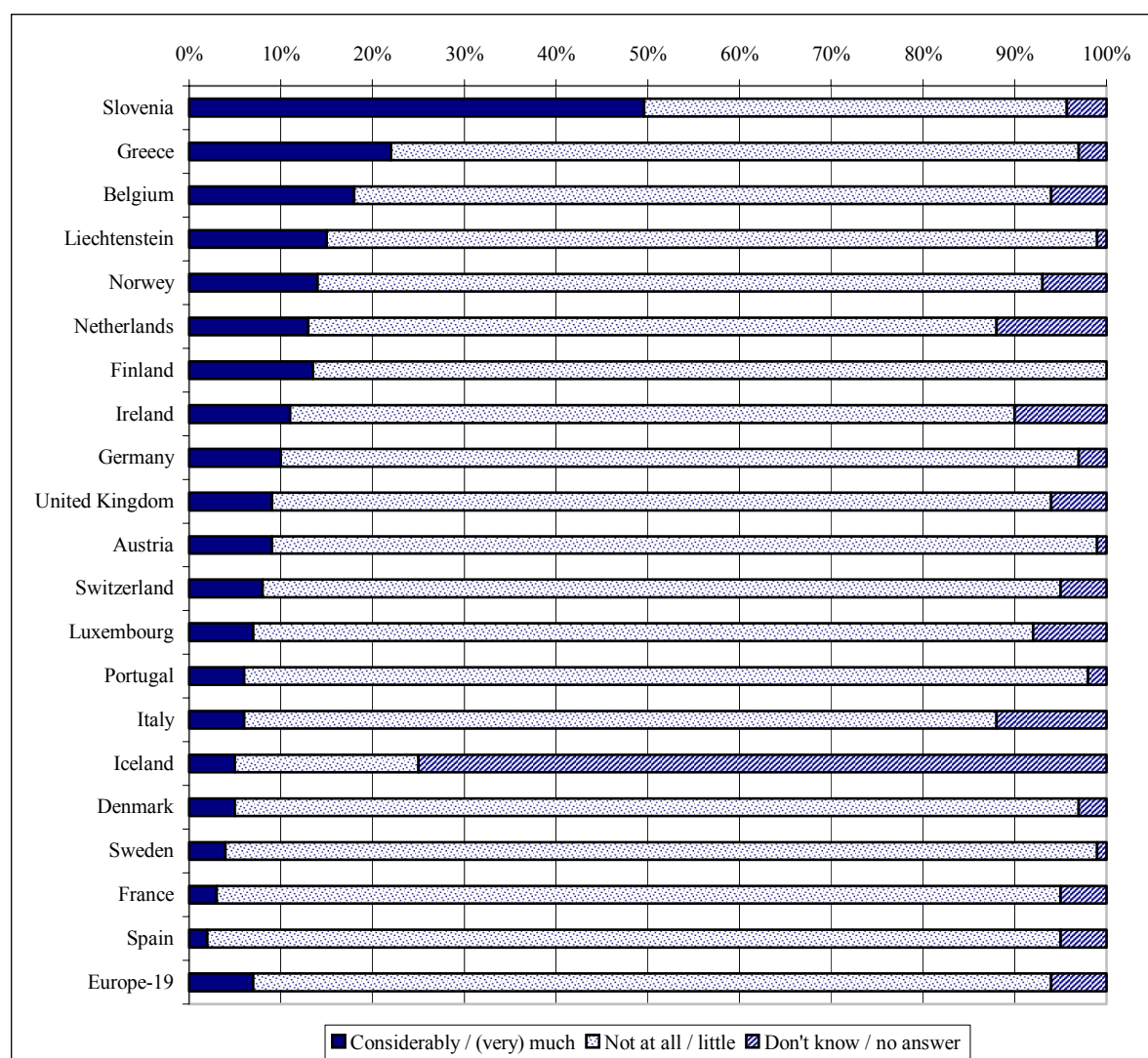
The analysis by enterprise size shows that in fact 87 % of all European-19 enterprises said that their decision to make use of temporary agency labour is not influenced at all or only a little by the intention to avoid administrative burdens resulting from the recruitment of regular employees. For Slovenia the percentage is 46,1 %. However we can determine that in Europe-19, as well as, in Slovenia, larger SMEs with ten or more employees more often follow this strategy. Similar results can be found in the micro-size class. Those enterprises find it difficult to say if their use of temporary agency labour is influenced by such a consideration in order to avoid administrative burdens from regular employment (don't know/no answer).

The analysis by countries again shows the deviation of Slovenian results in comparison with the European-19 average.

We were interested in finding out how frequently SMEs were hiring workers through Student service or similar agencies. Figure 15 suggests that, on average, 33 % of SMEs did not hire workers through Student service or similar agencies. 42 % of SMEs occasionally make use of such temporary labour. We can see that micro enterprises rarely hired employees through Student service and similar agencies in the last three years. 60 % of middle-sized enterprises occasionally hired such workers.

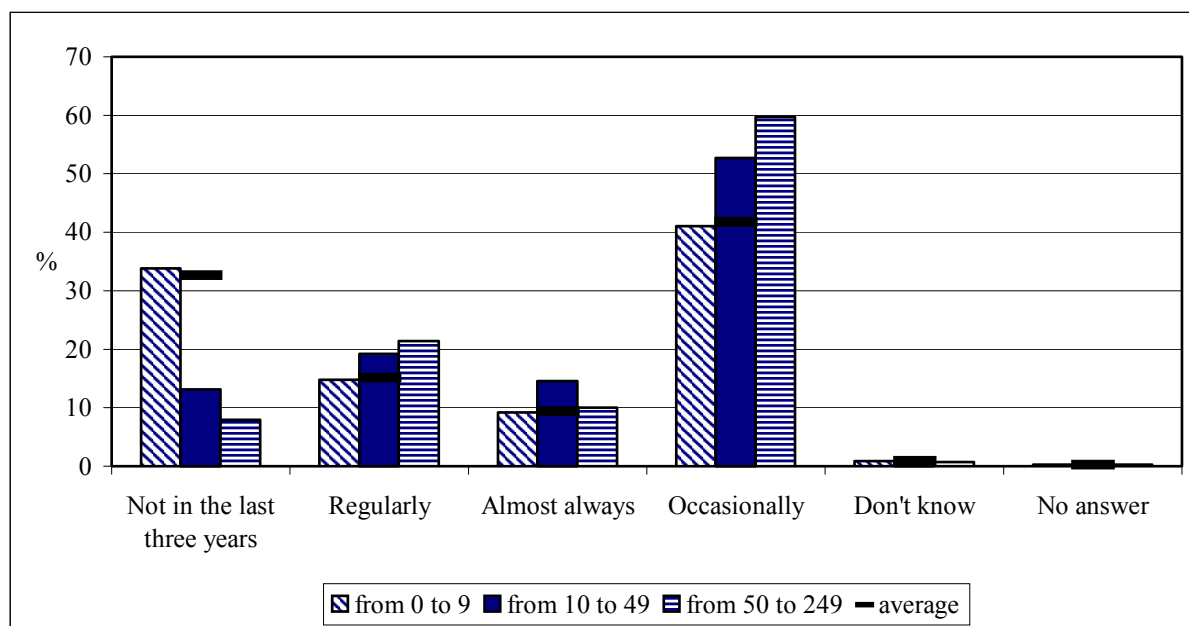
It can be concluded that none of the discussed alternatives (outsourcing, Student service, and Public works) represent a strategic tool with which enterprises could avoid administrative burdens resulting from the recruitment procedures. We found that medium-sized enterprises are more likely to outsource work and to hire workers temporarily through Student service or Public works.

Figure 14. Use of temporary agency work (Student service or similar agencies) as a strategy to avoid administrative burdens resulting from the recruitment of regular employees, by country, Europe-19, 2001 and Slovenia, 2002



Source: The 2001 ENSR Survey on SMEs in “Observatory of European SMEs”, 2002/No. 7 and The 2002

Figure 15. How often did you employ any Temporary Agency Workers over the last three years? (by enterprise size)



Source: The 2002 IPMMP Survey on SMEs in “Slovenian Entrepreneurship Observatory 2002”

7. Government initiatives

7.1 E-government

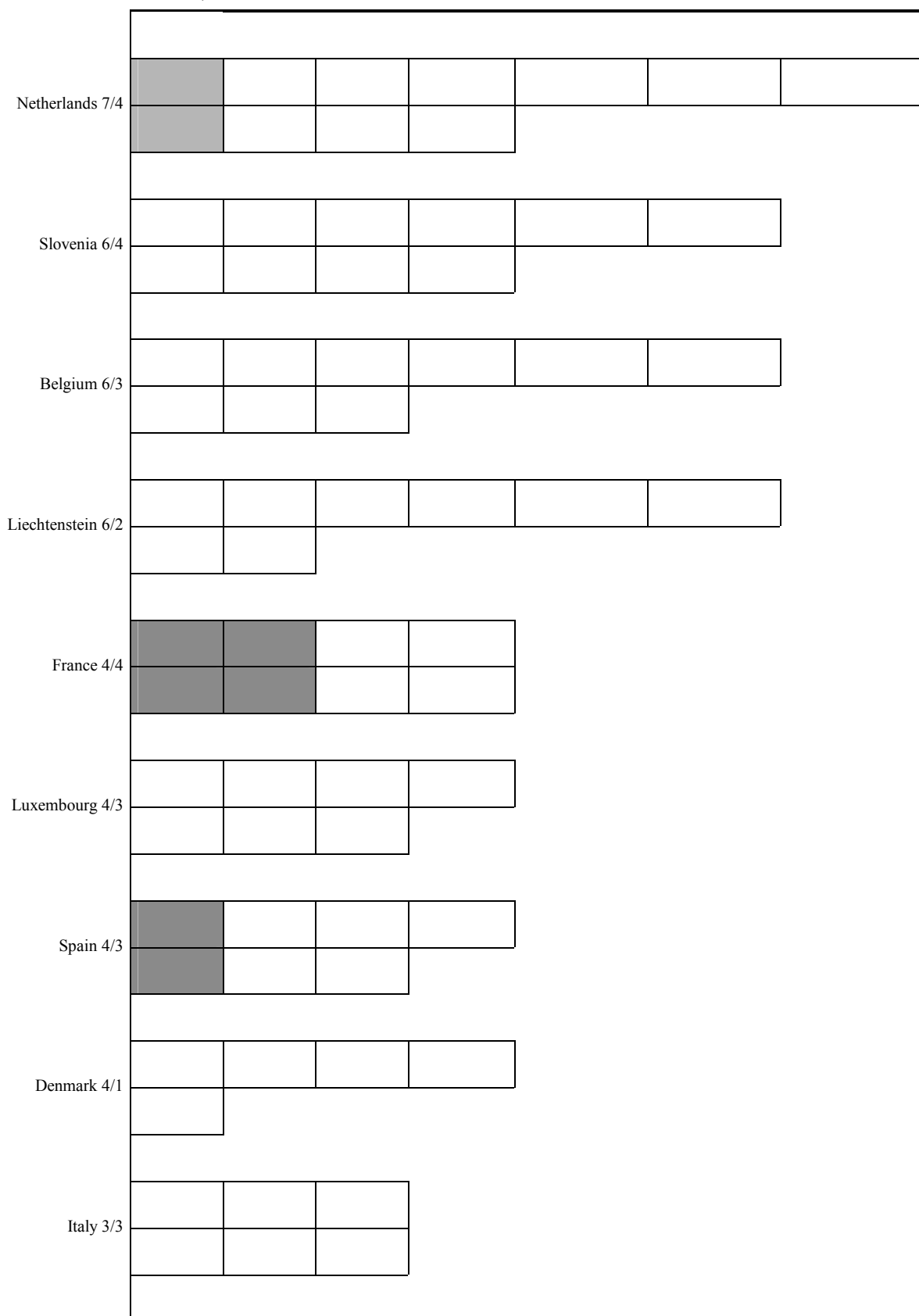
In this section we analysed the extent to which administrative authorities provide enterprises with the possibility to make use of electronic data transmission in the recruitment process.

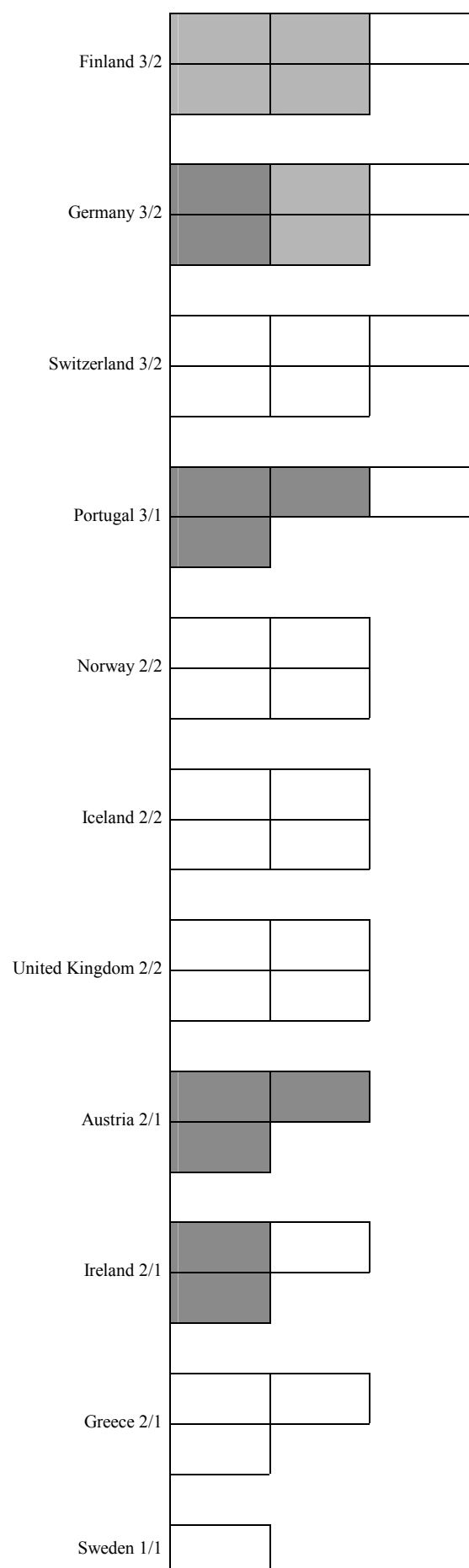
Generally speaking, almost all institutions that have to be contacted in the course of the recruitment process offer some basic information and advice on the Internet. In some countries the necessary forms can be downloaded (not in Slovenia). However, even if such information and advice are welcomed, they do not necessarily contribute towards the simplification of administrative procedures related to recruitment.

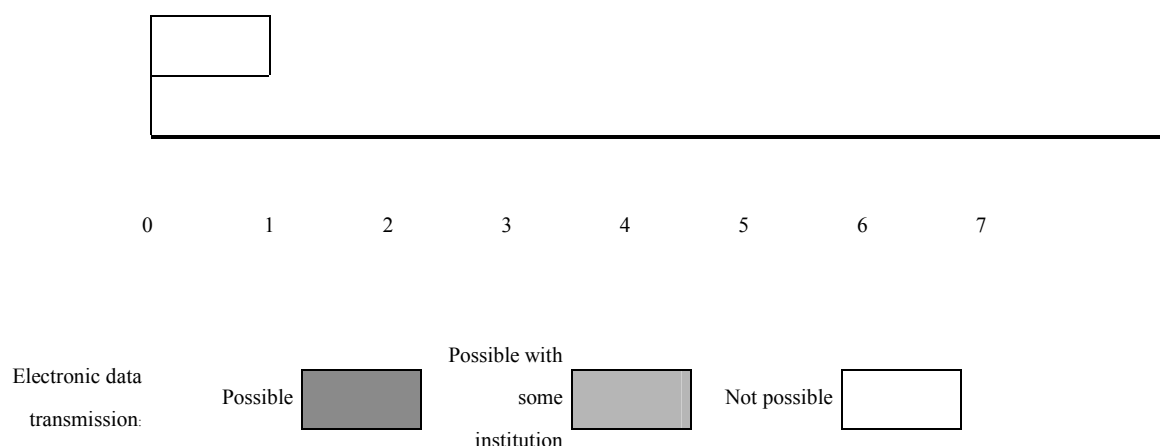
We can only speak about the simplification of administrative procedures if the relevant procedures can be carried out by making use of electronic data transmission without any paper documents. Such procedure would save employers' time.

However, as shown in Figure 16, In Europe-19 as well as in Slovenia currently only a small number of administrative procedures can be carried out online. Figure 16 shows the total number of obligatory administrative steps that have to be gone through when the first and a subsequent employee are recruited. It further indicates how many of these procedures can be carried out by making use of electronic data transmission.

Figure 16. Number of administrative procedures that can be carried out via electronic data transmission in the recruitment process, by country, Europe-19, 2001 and Slovenia, 2002







The first bar for each country indicates the number of procedures for the first employee.
The second bar indicates the number of procedures for additional employee

Source: Analyzed by IfM Bonn on the basis of ENSR-partner contributions and The 2002 IPMMP Survey on SMEs

In those countries that are already offering opportunities for electronic data transmission in the recruitment process, it is generally the social offices or tax authorities that have introduced the possibility of online communication for firms. Austria is the most advanced country as far as the introduction of electronic government in the recruitment process is concerned. Indeed, Austrian employers are actually obliged to carry out the necessary registrations with the Social insurance office online on the Internet or by e-mail or fax. Of course, the enterprise needs computer hardware and software.

7.2 Use of government support

The 2001 ENSR Survey on SMEs reveals that the total share of enterprises that have received government support in the recruitment process is 9 % (see Table10). One explanation for this low share is that support directly addressed to the recruitment process is not a common approach in most of the countries of Europe-19.

Table 10. Government support received to cope with administrative obligations when recruiting employees since 1997, Europe-19

	Number of employees					
	0	1	2-9	10-49	50-249	Total
Yes	3%	7%	10%	13%	16%	9%
No	97%	93%	90%	87%	84%	91%
Total	100%	100%	100%	100%	100%	100%

Source: The 2001 ENSR Survey on SMEs in "Observatory of European SMEs", 2002/No. 7

The kind of government support received, mainly concentrates on subsidies (48 %), tax reduction (33 %) and some training (12 %). The share of firms actually

having received government support increases with enterprise size. So, it might be that especially very small enterprises are not well informed about this kind of support. Let us look at the Slovenian results.

Slovenian enterprises were asked about the amount of government support related to recruitment received in the last three years. 79 % of respondents gave a negative answer.

Table 11 gives research results according to the size class. The number of enterprises that received support grows with their size. It seems as if micro companies are not well-informed about such support. The cause for this situation can be attributed to everyday business activities which overburden small entrepreneurs, who are unlikely to find enough spare time to inform themselves about such government programmes. Inadequate and obscure information received from the state can be the second reason for such an unfavourable situation.

Table 11. The percentage of Slovenian enterprises that received government support to assist them in coping with administrative obligations when hiring workers (by enterprise size)

	Number of employees			
	0-9	10-49	50-249	Total
Yes	19%	31,4%	29%	19,6%
No	80,4%	67,8%	69,7%	79,8%
Don't know / no answer	0,6%	0,8%	1,3%	0,6%
Total	100%	100%	100%	100%

Source: The 2002 IPMMP Survey on SMEs in "Slovenian Entrepreneurship Observatory 2002"

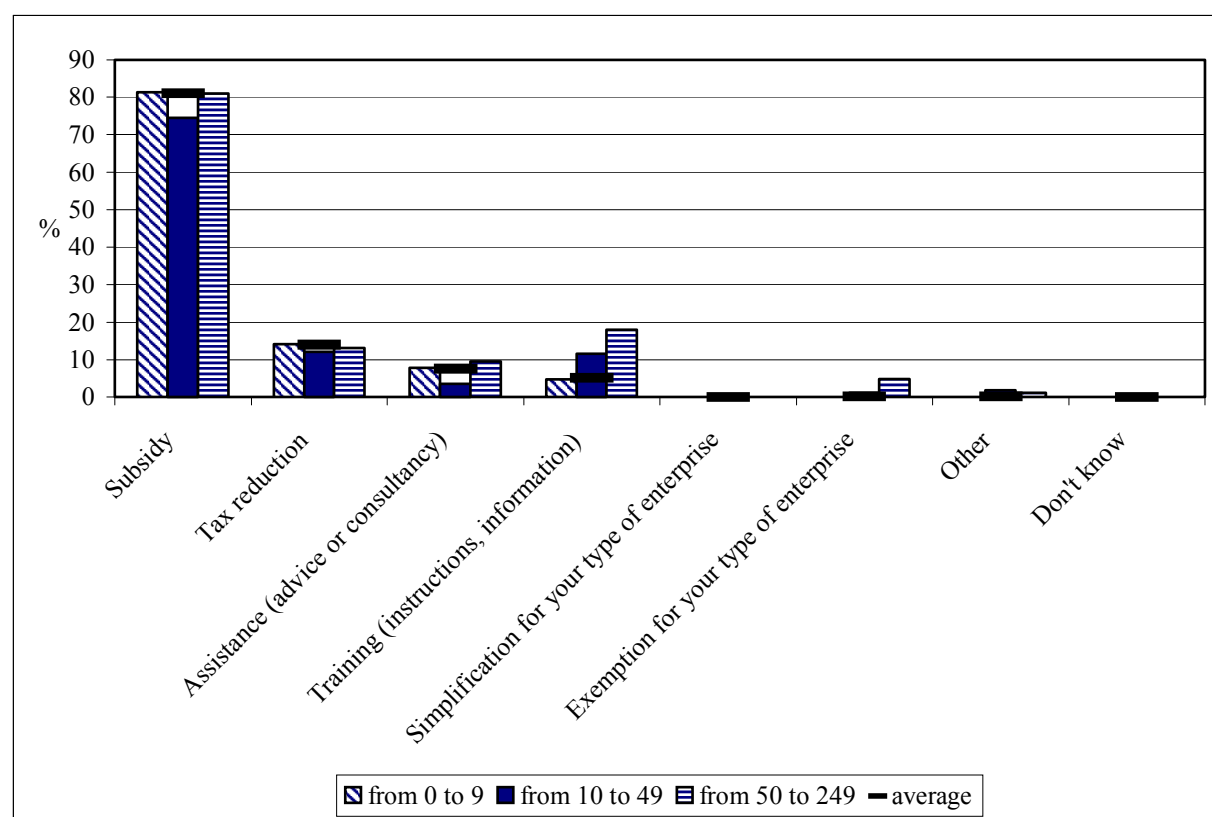
Of course, there are other explanations. Some micro enterprises do not intend to grow. And there are personal reasons, like for instance education level and the willingness of an individual to confront such matters.

Due to the mentioned reasons the state cannot always fully influence the use of offered initiatives. There also has to be a certain willingness and interest on the side of the entrepreneur.

Those who gave a positive answer to the previous question were asked about the type of support they had received. On average, 81 % of SMEs received state subsidies, 14 % of enterprises mentioned lower taxes.

So, we have defined similarities in almost all aspects of government support between European-19 and Slovenian enterprises.

Figure 17. Types of government support that was granted in order to help enterprises cope with administrative burdens when hiring employees (by enterprise size)



Source: The 2002 IPMMP Survey on SMEs in “Slovenian Entrepreneurship Observatory 2002”

So, we have defined similarities in almost all aspects of government support between Europe-19 and Slovenian enterprises.

8 Conclusions

Our research focuses on administrative burdens related to recruitment and their impact on employment growth in SMEs. A comparison of administrative regulations, performed in a broad sense with other possible business constraints for SMEs, shows that for 10 % of SMEs in Europe-19 administrative regulations in general represent the most important business constraint. Only lack of skilled labour (21 %) and access to finance (15 %) are cited more often.

The results of the research in Slovenia show a positive trend (from 2000 to 2002) in time spent on administrative tasks weekly, as it decreased from 6 to 8 hours on average to less than 3 hours per week. The majority of time is still spent on collecting various permits.

Two potential sources of administrative burdens related to the recruitment of employees have been investigated:

the number and nature of obligatory administrative procedures in the recruitment process and

various areas of employment regulations that entrepreneurs have to consider.

The findings show that administrative burdens do not primarily stem from the number and nature of the obligatory administrative procedures in the process of recruitment. In Europe-19, on average, 3.3 administrative procedures have to be gone through when recruiting the first employee. In Slovenia there are 6, that have to be undertaken, which means that our enterprises are in a rather worse situation. In order to recruit a subsequent employee an entrepreneur on average has to go through 2.1 administrative procedures in the countries of Europe-19. Also here Slovenia with 4 steps reflects the worst conditions. On average, employers have to deal with 1.2 steps less when they recruit a subsequent employee compared to the recruitment of the first employee.

From the point of view of SMEs, administrative burdens are caused by various regulations and their interplay. Thus, it is difficult for SMEs to single out only one particular regulative area. That is why entrepreneurs devote considerable time and energy to study the complexity of employment regulation, which, consequently, makes them less motivated for the recruitment of employees. In order to relieve SMEs of administrative burdens and to foster employment, a more thorough, holistic approach to deregulation and more transparency of procedures would be needed.

European SMEs that say that administrative burdens substantially affect their recruitment decisions are associated with smaller employment growth during the period 1999 to 2000 (European Commission, 2002c, 31). However, the regression coefficients in absolute terms are rather low. The results of our research have also shown a rather limited influence of administrative burdens on employment growth. The fact is that there are numerous other factors which influence SMEs' recruitment decisions (e.g. present and expected market opportunities, demand for the enterprise's goods/services, etc.).

The effects of two strategic tools with which enterprises could avoid administrative burdens were studied: outsourcing and temporary hiring of workers through Student services or Public works. It can be concluded that none of the discussed alternatives (outsourcing, Student service, and Public works) represents a strategic tool that would make it possible for enterprises to avoid administrative burdens related to recruitment. It is indeed interesting, that Slovenian enterprises do use both strategies more often than Europe-19. But it is also evident that medium sized enterprises are those, who use both strategies most often.

We studied the extent to which administrative authorities provide enterprises with electronic data transmission in recruitment procedures and found that only general representative information can be found on the Internet and that no

definite tasks can be carried out which were be connected with the process of recruitment. We therefore believe that the most suitable approach for the support of employers in recruitment procedures should be in the form of a simplified procedure, communication of general help and institutional support, in addition to electronic access to information. In the field of government support we have found that Slovenian enterprises face slightly better conditions than their Europe-19 counterparts.

In the following we will give an overview of simplification measures in order to simplify existing administrative obligations when recruiting employees in order to avoid administrative burdens. These are the main areas where further steps should be planned in Slovenia:

1. For the hiring process the modernisation of the social and health security system is necessary. An electronic registration system could fully remove the use of paper documents in order to simplify administrative formalities, reduce the number of social documents and increase the centralisation of all social information in one database.
2. A network of social security and solidarity shops could be introduced in order to cover the entire country by these services. The aim is to be locally available to entrepreneurs, and thus facilitating their relations with public authorities as far as social security issues are concerned with respect to availability of information, support and advice.
3. A web site could be launched, which would integrate services and contents from different departments needed to be addressed in the process of recruitment. A web site could function as a one-stop shop where citizens and enterprises can carry out different administrative procedures on-line, avoiding the hassle of having to go to different institutions in person. It could provide all the information on different job contracts and administrative procedures concerning the hiring of employees.
4. Existing authorities should co-operate on how to simplify regulations. They should follow a formal regulation for public authorities, which means that no authority or central agency is allowed to initiate a new regulation without doing a calculation of the costs resulting for SMEs.
5. Efforts must be made, not only to reduce the existing administrative burdens, but also to prevent the imposition of additional burdens, employment related issues being part of this.

References

European Commission (2002a): Observatory of European SMEs; SMEs in Europe, including a first glance at EU Candidate Countries, Brussels.

- European Commission (1995): The European Observatory for SMEs«. Third Annual Report, 1995. European network for SME Research.
- European Commission (2002b): The Observatory of European SMEs 2002 - Report 2002/No. 1: Highlights from the 2001 Survey; Report 2002/No. 2: SMEs in Europe, including a first glance at EU candidate countries.
- http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.htm
- European Commission (2002c): The Observatory of European SMEs 2002 - Report 2002/No. 7: Recruitment of employees: Administrative burdens on SMEs in Europe.
- http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.htm
- Kako ustanoviti gospodarsko družbo (2002): <http://www.pckrsko.si/ustanGV.htm>.
- OECD (2001): Businesses' Views on Red Tape, Administrative and regulatory burdens on small and medium-sized enterprise, Paris.
- PCMG (2001): Analiza pogojev in postopkov za registriranje pridobitne dejavnosti, Ljubljana.
- UMAR (2000): IV. prestrukturiranje podjetniškega sektorja. Ekonomsko ogledalo.
- Nicoletti, G./Scarpetta, S./Boylaud, O. (2000): Summary Indicators of Product Market Regulation with an Extension to Employment Protection Legislation, in OECD (ed.), Economics Department Working Papers, No. 226, Paris.
- Rebernik, M./Močnik, D./Rus, M. (2001): Slovene Entrepreneurship Observatory 2000. Institute for Entrepreneurship and Small Business Management, Maribor.
- Rebernik, M./Knez-Riedl, J./Močnik, D./Rus, M./Širec Rantaša, K./Tominc, P./Krošlin, T. (2001): Slovene Entrepreneurship Observatory 2002. Institute for Entrepreneurship and Small Business Management, Maribor.