

# Administrative Regulation Institutional Factors and Business Efficiency

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Different business environments may have differential impacts. The improvement in the institutional environment and increased certainty about the future greatly impact entrepreneurial activity and business results. The research aimed to investigate administrative barriers to business in (1) subdivisions of the Russian Federation on the example of monitoring and supervision activities of state bodies, and (2) the provision of public services.

Keywords: administrative regulation ; inspection ; business efficiency ; region

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## 1. Introduction

The literature highlights the significant role played by common institutions and policies when affecting a firm's economic results. Different business environments may have differential impacts. The improvement in the institutional environment and increased certainty about the future have much impact on entrepreneurial behavior ([Gamidullaeva et al. 2020](#)). The concept of a barrier is used quite actively in the scientific literature to position diverse obstacles in the development of certain institutions, processes, and activities, wherein the 'barrier' category is most frequently used in relation to the business environment and the sphere of entrepreneurship. The latter is based on the principles of a certain freedom of economic activity of an economic entity, limited by the criteria of security and economic feasibility, clearly regulated by the current legislation. Such varieties of barriers as barriers to entry ([Ross 2020](#); [Hoshi et al. 2003](#); [Narovlyanskaya and Kartasheva 2012](#)) and trade barriers ([Yeats 1979](#)) are sufficiently studied in the current scientific literature. Besides, there are three primary groups of barriers for every business. They include (1) capital (financial backing), (2) knowledge (level of education and/or experience), and (3) persistence (staying power) ([Zhang et al. 2017](#)).

At the end of the last century, scientists stated the fact that the institutional framework has a significant impact on the efficiency and rate of economic growth. They recognized that politically open societies that support the rule of law grow faster and are much more efficient than societies in which certain freedoms are restricted by the regulator ([Scully 1998](#)). When studying the impact of regulation on economic and social processes, scientists rightly identify two distinct trends in regulation over the last two decades of the last century: (1) an unprecedented increase in the number of new requirements in the field of health, safety, and the environment, and (2) a significant economic deregulation ([Guasch and Hahn 1997](#); [Hahn 1998](#)).

In modern science, there is a study of the relationship between the quality of the administrative environment for business, and the propensity to become an entrepreneur in the EU member states against the background of other world economies: BRIC, Japan, and the USA. The purpose of such studies is to determine the impact of regulation on the difference in GDP between developed and underdeveloped countries ([Anders 2011](#)).

Currently, the naturally managerial concept of 'administrative barriers' is actively used in Russian legal and economic science. Having appeared relatively recently, this concept was first used in the Decree of the President of the Russian Federation On Measures for Eliminating Administrative Barriers to Development of Entrepreneurship (No. 730 of 29 June 1998) ([Presidential Executive Office 1998](#)). Initially, the considered 44 concept was exclusively used when implementing the entrepreneurial activity. Moreover, 45 scientists interpreted it as "obstacles arising from the organization and implementation of 46 entrepreneurial activity in small businesses created by individual officials of the executive 47 branch" ([Filimonov 2001](#)). Later, the concept of excessive administrative procedures (actions) began to be used in the normative array, which coincides with the concept of an administrative barrier and is an expression of the latter in the context of the administrative procedural approach. A procedural approach to the concept of an administrative barrier investigates the problem of excessive public services. S. E. Naryshkin and T. Ya. Khabrieva rightly spoke of fictitious and excessive public services; the latter are administrative barriers, in their opinion. Excessive public service (administrative barrier) is a service

exceeding an entity's private introduction costs over its private and public benefits, considering the income effect ([Naryshkin and Khabrieva 2006](#)).

## **2. Administrative Regulation Institutional Factors and Business Efficiency in a Region**

The quality of administrative institutions is considered a crucial element of any institutional environment; the more effective administrative institutions, the lower administrative barriers in the economy.

Several fundamental approaches should be highlighted when considering administrative barriers in the economy.

*The first approach* reflects the institutional concept ([Auzan and Kryuchkova 2001, 2002](#); [Malikov 2003](#); [Nikolaev and Shulga 2003](#)). In this context, administrative barriers are formal mandatory rules for conducting business in the markets for goods and services established by state authorities and local self-government when the private introduction costs of an economic entity exceed its private and public benefits, taking into account the income effect ([Auzan and Kryuchkova 2002](#)).

*The second scientific position* considers administrative barriers in relation to integration processes, which are embodied in the acts of the Eurasian Economic Union ([Balandina 2011](#)).

*The third approach* is related to the category of procedures, and is based on positioning the administrative barrier as an unnecessary administrative procedure (or its part). Here, administrative barriers are considered concerning the procedures for exercising public functions and providing public services ([Rodrik et al. 2004](#); [Naryshkin and Khabrieva 2006](#); [Madsen 2009](#); [Mason and Brown 2011](#); [Agamagomedova 2017](#)).

In the framework of the procedural approach, an administrative barrier is an excessive administrative procedure or action in a universal form.

Administrative barriers to business are often considered in the context of corruption, abuse, and discretion of authorities. The acts of state power contain provisions according to which the causes and conditions that create corruption and create administrative barriers are combined ([Presidential Executive Office 2015](#)).

As for the correlation of administrative barriers in the economy and business, it should be noted that in most cases, these concepts have a common nature and coincide. Researchers believe that administrative barriers in the economy include all kinds of formal requirements for doing business, which ultimately leads to cost overruns for entrepreneurs. At the same time, the category of administrative barriers in the economy may include other obstacles to the development of the economy that are not directly related to profit-making by business entities. For example, we can talk about the institution of self-regulation, and obstacles to its development can be interpreted as an administrative barrier.

In turn, administrative barriers to business can be divided into several types: barriers to (1) the provision of public services; (2) obtaining a certain administrative and legal status (e.g., obtaining the status of a small or medium business); (3) passing state monitoring; and (4) supervision. The latter are directly related to the business—the sphere controlled by the state to ensure security, the interests of consumers of goods and services, and other public interests.

State control (supervision) is understood as the activities of state bodies aimed at preventing, detecting, and suppressing violations of mandatory requirements, carried out through preventive measures.

There are several types of administrative barriers for businesses when passing state monitoring and supervision.

*First*, they can be divided into legal and illegal ones.

Legal administrative barriers are also called formal barriers. These are restrictions on entrepreneurial activity that are established in legislative acts to prevent unscrupulous entities from entering the market ([Tereshchenko and Kalmykova 2011](#)).

Illegal administrative barriers arise in cases of a gap in the law and the exercise of discretion by a public representative.

*Second*, administrative barriers can be systematized by the nature of costs:

- Time costs;

- Financial (material) costs;
- Costs associated with the number and types of documents requested by the regulatory body;
- Costs related to organizational barriers to continued business growth

*Third*, administrative barriers to business can be divided, namely:

- Barriers arising when a company enters a certain market of goods (services);
- Barriers arising from the functioning of the company and its main activities;
- Barriers arising when a company develops new types of economic activity (e.g., foreign economic activity), new categories of goods (services), or when a company enters new markets, etc.

*Fourth*, administrative barriers to business depend on the category of business and (or) the scope of its activities. In the hospitality industry, administrative barriers will have their own content and structure, and they will be somewhat different in the tourism industry.

*Fifth*, in passing state monitoring and supervision, administrative barriers to business can be divided according to the level of such control: monitoring and supervision by federal executive bodies, and municipal monitoring and supervision.

The effects of administrative barriers on business can be divided into purely economic (narrow approach) and social (broad approach).

An actual basis for direct losses for the population from rising retail prices are official, and shadow payments that business entities are forced to make to formally fulfill the requirements that constitute administrative barriers to doing business. Due to their economic nature, these payments represent various transaction costs that are the reason for the low business activity of economic agents ([Gamidullaeva and Tolstykh 2017](#); [Vasin et al. 2018](#); [Gamidullaeva 2019b](#)).

A great amount of research on the problem of assessing and reducing administrative barriers to business presented in foreign literature is devoted to a case study, an overview of best regulatory practices, and administrative support for business in the EU and other countries of the world; these are works by [R. E. Berney \(1980\)](#), [Berney and Swanson \(1982\)](#), [Guasch and Hahn \(1997\)](#), [Scully \(1998\)](#), [Spolaore and Wacziarg \(2014\)](#), [R. W. Hahn \(1998, 1999\)](#), [Evans and Walpole \(2000\)](#), [Hahn and Litan \(2000\)](#), [Gree and Thurnik \(2003\)](#), [A. Gibb \(2000\)](#), [F. Sterzel \(2001\)](#), [Chittenden et al. \(2002\)](#), [M. Munnich \(2004\)](#), etc. An extensive review of the world's best regulatory practices to reduce the burden of business (administrative burden) is presented by the [European Commission \(2012\)](#).

[Boeheim et al. \(2006\)](#) analyzed four case studies using EU countries as an example. As a result, the authors developed several approaches for assessing administrative barriers to business, including the Standard Cost Model, and also conducted some research in the context of economic sectors. [R. Arendsen et al. \(2014\)](#) attempted to assess the reduction in the negative impact of administrative barriers through the introduction of e-government in the Netherlands.

The specificity of the research on administrative regulation and its impact on businesses in various countries is mostly associated with the digitalization of interaction between the state and economic entities, with special (targeted) measures to support businesses at the national and regional levels. At the same time, for countries with transitional economies, the approach of considering the regulation system itself as a barrier factor for entrepreneurship development is more in demand. In contrast, the most visible element of this system is state control and supervision. State control and supervision are forms of interaction between business and public authorities, the obligation and scope of which most significantly affect the development of entrepreneurial and other economic relations, including at the regional level. Scientists who view administrative barriers as an institution of a transformational economy also include state control and supervision ([Narovlyanskaya and Kartasheva 2012](#)).

Scientists are also actively exploring the factors of administrative reforms in various countries, taking into account the specifics of a national government. For example, F. C. Liao examines administrative reform and the conditions for reducing administrative barriers in China, and concludes that administrative reform can optimize the business environment in three areas: balanced development path, reform path, and resource path. They understand the reduction in the administrative burden on the business as the basis for promoting the business environment and stimulating its development ([Obeng 2019](#); [Liao 2020](#)).

Research of administrative regulation in the business sphere is naturally differentiated depending on (1) the category of business (small and medium business, other classifications) and (2) the category of the country in which regulation is carried out (developed countries, countries with economies in transition, etc.). Researchers also consider the management aspects of small business development in developed countries and transitional economies, provide their comparative analysis ([Zahorskyi et al. 2019](#)). With regard to individual developing countries, scientists talk about public-private partnerships and contractual regulation that minimized the risks associated with administrative interference by governments in private investment ([Fariza 2012](#); [Diaz 2017](#)).

Concerning certain areas of government regulation, scientists emphasize the importance of voluntary programs that combine elements of public and private governance. An example is the reduction of the administrative burden that agricultural producers face when wanting to obtain organic certification ([Carter et al. 2018](#)). At the same time, in particular countries and areas of government regulation, scientists note an increase in the repressiveness of administrative pressure and the practice of sanctions (or penalties) regulatory measures ([Tollenaar 2018](#)).

Of particular value are studies containing a quantitative assessment of the administrative impact formed by regulatory legal acts containing mandatory requirements, including ones in the security field. At the same time, an important issue is finding the optimal balance between reducing the administrative burden on business and preventing negative impact on security, as well as recommendations for eliminating and simplifying administrative requirements and procedures based on the calculation of costs for each administrative requirement ([Pilvere et al. 2013](#); [Rauch et al. 2013](#); [Prykhodko 2015](#)).

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