

Research on the Importance of Internal Governance and External Supervision Based on the Comparison Between Social Organizations and Commercial Organizations

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ABSTRACT

There are both commonalities and differences between social organizations and commercial organizations. The commonality is that the two belong to both social organizations in a broad sense and are both objects of social management. The difference is that social organizations are non-profit and commercial organizations are for-profit. For-profit determines the effectiveness of the internal governance of commercial organizations and the weak dependence on external supervision. Non-profit and public welfare determine the weakening of the internal governance of social organizations and the strong dependence on external supervision. The alternative and complementary relationship between internal governance and external supervision is the premise and basis for the possible importance of the two. The focus of the reform of the social organization management system is to build an effective external supervision system.

KEYWORDS: *social organization; commercial organization; internal governance; external supervision*

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I. INTRODUCTION

Generally speaking, social organizations in a broad sense refer to the common activity groups established by people to achieve specific goals. Social organizations in the narrow sense refer to non-governmental social organizations that mainly carry out various voluntary activities for the purpose of profit. [1] The social organizations referred to in this article refer to social organizations in the narrow sense. Obviously, both social organizations and commercial organizations belong to social organizations in a broad sense and have the attributes of social group organizations. The difference between the two is that they have their own independent connotations. Social organizations are non-profit and can be composed of natural persons, legal persons and property separately or together. A commercial organization refers to an economic entity engaged in the production and sale of goods for profit, mainly composed of natural persons or legal persons. It can be seen that the organizational objectives, content and

composition of social organizations and commercial organizations are different. From the perspective of organizational goals, social organizations do not aim at profit, and their purpose of existence is mainly public welfare or mutual benefit; commercial organizations are aimed at profit, mainly to realize the individual interests of the members of commercial organizations. From the perspective of the content of organizational activities, social organizations are mainly engaged in voluntary public welfare activities, which are reflected in the voluntary and gratuitous nature of the members of the organization; commercial organizations are mainly engaged in market trading activities such as commodity production and sales, based on the principle of freedom of operation and equal compensation. From the perspective of organizational composition, in addition to natural persons or legal persons, social organizations can also be composed purely of property, that is, property itself can establish specific

social organizations, while commercial organizations can only be composed of natural persons or legal persons. The connotation of the thing is the embodiment of the essential attribute of the thing, and also the basis for analyzing and understanding the thing. The difference in connotation between social organizations and commercial organizations, such as non-profit and for-profit, gratuitous and paid, etc., which determine the completely independent existence of the two. This independence even conceals the commonality that the two belong to both social group organizations. The results of scholars' research also fully illustrate this point. Most scholars carry out research on social organizations or commercial organizations as an independent object, and few scholars associate the two together for comparative research. The author believes that no matter how great the difference between social organizations and commercial organizations is, the commonality between the two belonging to social group organizations is undeniable. Especially when social organizations and commercial organizations exist as social management objects, it is more necessary to compare and study the commonalities and differences between the two to provide a theoretical basis for the formulation of their own scientific and reasonable social management systems.

In recent years, the Chinese government has attached great importance to the work of simplifying administration and delegating power, combining decentralization and management, vigorously deepening the reform of the commercial system, and gradually implementing many major reform measures such as lenient and strict management, first license and then certificate, capital subscription, annual report, three certificates in one, comprehensive supervision, and social credit, which have effectively promoted mass entrepreneurship and innovation. At the same time, the Party Central Committee and the State Council also attach great importance to the reform of the management system of social organizations, and put forward the overall requirements for strengthening the legislation of social organizations, reforming the management system of social organizations, stimulating the vitality of social organizations, and establishing a modern social organization system. Both social and commercial organizations belong to secondary social group organizations, with organizational attributes that achieve specific goals and undertake specific functions. They bring together people with different abilities and serve specific goals through clear regulations. They are important participants in modern social and economic life and an important

foundation for the composition of modern society. [2] As the participating subjects of social and economic life, they have become the object of social management. It is necessary for regulators to integrate both into the social management system. On the other hand, regulators do not always adopt the same system and method for the management of social participants. Adopting different systems and methods according to the characteristics of management objects is the prerequisite for the effective management of social participants. That is, the difference between social organizations and commercial organizations itself directly determines that regulators will manage them according to different systems and methods. As one of the objects of social management, there is no doubt that the results of the reform of the commercial system have a certain guiding and reference effect on the reform of the management system of social organizations, but the difference in connotation and essential characteristics of the two is the most fundamental decisive factor of which management system and method should be adopted by social organizations. The author believes that as the object of social management, the internal governance and external supervision of social or commercial organizations are the core content of the reform of the social management system. Starting from the essential characteristics of social organizations and commercial organizations, it is of great significance to study and compare the internal governance and external supervision mechanisms of the two, which is of great significance for determining the direction and content of the reform of the social organization management system. Therefore, this article intends to carry out a comparative study of social and commercial organizations based on the distinction between the importance of internal governance and external supervision.

II. Substitution and Complementarity: Analysis of the Relationship between Internal Governance and External Supervision

There is a relationship of substitution and complementarity between internal governance and external supervision. [3] The existence of this relationship is not only the logical basis for the distinction of importance between internal governance and external supervision, but also the necessity of the distinction of importance. The following is an analysis of the basis and premise of the establishment of the relationship and the specific content of the alternative and complementary relationship.

1. The basis and premise of the establishment of substitution and complementarity

Internal governance is usually used to describe the institutional arrangements related to corporate governance in the modern corporate system. These institutional arrangements are confirmed by law and are the basis of corporate governance. [4] The main content of the company's internal governance refers to the division of power and authority between the internal shareholders' meeting, the board of directors, the board of supervisors, the manager and other institutions. Its essence is the mutual supervision and balance between the various stakeholders within the company. The goal of corporate governance is to achieve the overall business objectives of the company. Therefore, internal governance can also be regarded as a cooperation mechanism between various stakeholders within the company. In fact, the above contents of the internal governance of the company are also common in other organizations, so internal governance is not unique to the modern corporate system, but is widely used in various organizations. It can be considered that all organizations have more or less, complex or simple internal governance mechanisms. The author believes that internal governance generally plays a role in two aspects. First, better achieve the organization's predetermined goals or tasks through internal governance. It is the source of the active formulation and implementation of relevant internal governance systems by the organization and internal stakeholders. It is also the theoretical basis for different organizations to formulate internal governance with different incentive and constraint mechanisms. The second is to prevent the organization itself or various interest subjects within the organization from engaging in illegal acts through internal governance, and to ensure that the organization itself and internal interest subjects carry out business legally. This is also the reason why the law has a certain degree of internal governance requirements and regulations for all organizations.

External supervision, as the name implies, means that a specific subject is subject to the supervision and management of external authorities. External competent departments can not only refer to legal competent departments, such as the supervision from the competent administrative departments, or also refer to the agreed competent departments, such as the self-discipline requirements of industry associations. The external supervision of this article mainly refers to the regulatory acts implemented by institutions that enjoy the regulatory authority of a specific subject based on the law. The goal of external supervision is to prevent regulators, as representatives

of public interests, from being infringed by regulatory objects and from engaging in illegal acts by regulatory objects. Once the subject of supervision infringes on the public interest or engages in illegal acts, the regulatory agency has the right to punish him accordingly. Therefore, the essence of external supervision can also be regarded as a mandatory institutional arrangement made by the law to achieve regulatory goals.

It can be seen that both internal governance and external supervision belong to a management and control mechanism for regulatory objects, and the role of internal governance overlaps with external regulatory goals. This is the basis for the alternative and complementary relationship between internal governance and external supervision. On the other hand, both internal governance and external supervision are not always effective. From the perspective of internal governance, internal governance is not only a static institutional arrangement, but also a dynamic process in which various stakeholders play games around the institutional arrangement. Whether it is a mistake in the institutional arrangement or a conflict in the dynamic game process, it may make internal governance lose its due effect. From the perspective of external supervision, the lag of regulatory laws and the lack of flexibility of regulatory rules may also invalidate supervision. It can be seen that there is a possibility of failure in both internal governance and external supervision. This possibility provides a prerequisite for the substitution and complementarity between the two.

2. Specific analysis of the relationship between substitution and complementarity

Alternative relationship refers to the mutual substitution relationship between internal governance and external supervision in terms of supervision. In fact, substitution does not mean that internal governance and external supervision can completely replace each other. The alternative relationship between the two is limited to areas where both can play a supervisory role. For example, as far as social organizations are concerned, social organizations, as the subject of participation in social and economic activities, the legitimacy of their external behaviors and the impact on public interests can be supervised by both internal governance mechanisms and external supervision mechanisms. Of the two mechanisms, as long as one mechanism plays an effective supervisory role, the goal of internal governance or external supervision can be achieved. In the extreme, if one of the two mechanisms can effectively play a supervisory role, then the other mechanism can be

weakened or even need to exist. For example, in a one-person natural person company, internal governance is almost zero, but due to the effective existence of external supervision, a one-person natural person company can also appear as an independent subject in socio-economic life.

Complementary relationship refers to the mutually reinforcing relationship between internal governance and external supervision. Taking commercial organizations as an example, internal governance is an institutional arrangement reached by shareholders and other internal stakeholders based on the principle of autonomy under the legal framework, and is a manifestation of the exercise of private rights. External supervision of commercial organizations is the regulatory measures taken by the competent regulatory agency based on the law, which is the result of the exercise of public power. The more scientific and reasonable the internal governance system is and the more thoroughly implemented, the easier it will be for external supervision to be implemented and the higher the efficiency of implementation. On the contrary, the stricter the external supervision, the more interested subjects within the commercial organization pay more attention to the scientificity, rationality of internal governance and the thoroughness of the implementation of the governance system, thus promoting the improvement of the effectiveness of internal governance.

The existence of an alternative and complementary relationship between internal governance and external supervision, on the one hand, shows the importance of internal governance and external supervision in playing a supervisory role; on the other hand, it also shows that the simultaneous existence of internal governance and external supervision is not necessary. This provides a choice for a specific organization to choose when designing a supervision or management system, that is, whether to choose whether to focus on internal governance or external supervision, or whether to balance the two, or even retain one party and abandon the other. That is to say, in the supervision or management system design of a specific organization, the importance of internal governance and external supervision can not be the same. According to the principle of main determining the essential characteristics of things, the importance of internal governance and external supervision can only be determined by analyzing the specific characteristics of the specific organization. There are great differences in connotations between social and commercial organizations. The dependence of the two on internal governance and external supervision is not

the same, so it is necessary to conduct differentiated research.

III. Comparison of internal governance mechanisms between social organizations and commercial organizations

Internal governance is a system of checks and balances for the distribution of rights, obligations and responsibilities between internal institutions of the organization. All organizations have an internal governance mechanism to take organizational actions more effectively and achieve organizational goals. In this sense, the internal governance goals of social organizations and commercial organizations are no different. However, after all, there are huge differences between social organizations and commercial organizations, which are also reflected in their internal governance mechanism.

1. The driving force of internal governance comes from different sources.

As mentioned above, the purpose of internal governance is to take more effective organizational actions to achieve organizational purposes. In the case of commercial organizations, the purpose of members participating in the organization is to obtain property benefits, and the purpose of the commercial organization itself is also to make profits. Therefore, how to ensure the profit of the commercial organization and ensure the profitability of the members of the organization has become the focus of internal governance concerns. Take a company in a commercial organization as an example. The company is a virtual legal person and independent of shareholders. In the pursuit of paying attention to their own interests, the demand for internal governance is the most prominent. According to the company's law, the company implements a shareholder limited liability system, and the risks and income of members are closely related to the amount of funds contributed. Therefore, it becomes the basic rule of internal governance to enjoy the right to vote according to the proportion of capital contribution and to decide the company's matters on the principle of majority. Take the general partnership as an example. China's partnership law stipulates that the general partner shall bear unlimited joint and several liability for the debts of the partnership. The essence of this method of responsibility is to keep all general partners under the same level of risk burden. Therefore, the management rights of the general partnership are equally distributed to each general partner. That is, the one-person-one-vote system has become the basic governance rule of universal partnerships. On the surface, these two rules are the result of the law, but in essence, they are only a legal

recognition of the fair allocation of risks and benefits between the participants of commercial organizations. The origin is still the institutional arrangement of various interest subjects within the commercial organization based on the independent interest orientation. On the other hand, according to the design of the commercial organization system, the members of the commercial organization are the substantive and ultimate holders of the property of the commercial organization. In a sense, the property of a commercial organization is directly related to the economic interests of the members of the organization. For the decision and implementation of external acts of commercial organizations, members of commercial organizations are willing to realize supervision systems such as prevention or prevention of recurrence through internal governance mechanisms. Therefore, the motivation for the formulation and implementation of the internal governance system of commercial organizations mainly comes from its members, which is the direct pursuit of their private interests, which constitutes the most fundamental source of the motivation for the formulation and implementation of the internal governance system. This driving force from internal members and their direct interests provides a full guarantee for the effective arrangement and implementation of the internal governance mechanism of commercial organizations.

Compared with commercial organizations, social organizations have non-profit characteristics. First of all, the purpose of the existence of social organizations is not profit, but mutual benefit or public welfare undertakings. According to the different purposes of social organizations, some are mutually beneficial social organizations and some are public welfare social organizations. Secondly, after the social organization obtains the property from the member or donor, the property loses physical contact with the member or donor. Even in a social organization with members, a member can exercise the management right of the social organization according to the voting right, but this management right is not related to any property interests of the member's own. That is to say, members of social organizations are not exercising their management rights for their own private interests. In a social organization without a member, once the donor completes the donation, the ownership of the property will be transferred to the social organization. In addition to certain supervision rights, the original owner of the property can no longer exercise any property rights based on the property, even without the authority to vote and participate in the

management of social organizations. It can be seen that in social organizations, there is no internal interest subject similar to that in a commercial organization that still enjoys property rights in a specific way. Therefore, the internal governance of social organizations also lacks the driving force similar to the internal governance of commercial organizations. To put it bluntly, in social organizations, the internal governance mechanism of mutual supervision and checks and balances driven by the self-interest of individual internal interests is relatively weak. The internal governance of social organizations is more supervised and balanced by the internal management subjects of social organizations, such as the directors of social organizations, for the public interests of social organizations. Obviously, the intensity of supervision and checks and balances as indirect interest subjects is far from comparable to that of direct interest subjects in commercial organizations. It can be seen that in social organizations that lack the real driving force of internal governance, it is not realistic to expect to achieve the purpose of social organization through internal governance.

2. The organizational purpose of internal governance is different.

The organizational purpose of the internal governance of commercial organizations is that commercial organizations can achieve profit as independent subjects. The interests of the commercial organization are consistent with the interests of the internal interests of the commercial organization. Therefore, perfect internal governance is the result of voluntary actions of all internal interests. On the contrary, the organizational purpose of the internal governance of social organizations is mutual benefit or public welfare undertakings. In mutually beneficial social organizations, the purpose of social organizations is basically the same as the goal of members' participation in mutually beneficial organizations. Even if the purpose of social organizations does not involve the material interests of individual members, the purpose of social organizations is still possible to play a certain role in the internal governance of social organizations in the pursuit of spiritual interests and members enjoy certain management rights. The role of supervision. However, in a public welfare social organization that does not have a member, the purpose of the social organization is not necessarily the same as that of the management body of the social organization, such as the council or director, but the purpose of the donors who have carried out donations for the public welfare social organization. Because, generally speaking, donors will pay attention to the

purpose of the relevant public welfare social organization and understand the purpose of the social organization before implementing the donation. If the purpose and purpose of the social organization are consistent with the donor's personal donation purpose, then the donor may carry out the donation. However, because the donor does not participate in the management of social organizations and cannot participate in the internal governance structure of public welfare social organizations, the organizational purpose of public welfare social organizations is subjectively separated from the purpose of the donor. The internal governance of public welfare social organizations can only rely on the static internal governance mechanism stipulated in the constitution of the social organization, while the so-called dynamic game process cannot be talked about at all, which may greatly reduce the internal governance effect of public welfare social organizations.

As can be seen above, unlike the investors of commercial organizations who actively implement and improve the internal governance mechanism, the property donors of social organizations are objectively unable to pay attention to and participate in the internal governance of social organizations, and the internal governance of social organizations may be useless. Therefore, the management and supervision of social organizations may require more mandatory provisions and strict enforcement of the external regulatory legal system. For example, forcing social organizations to publicize the source and whereabouts of their donated property.

IV. Comparison of external regulatory targets of social organizations and commercial organizations

External supervision is the supervision and management of social and commercial organizations by competent regulatory agencies in accordance with the law. Compared with internal governance, external supervision is the result of the exercise of public power. The goal of external supervision is to achieve the content of the legal provisions on which supervision is based. To put it bluntly, external supervision is a means to realize the law and a way to realize the value of the law. Legal value refers to the corresponding relationship that the subject assigns a certain attribute to the law to meet the needs of its value subject. External supervision is the exercise of power by the administrative supervision department on behalf of the country or the government. Therefore, external regulatory objectives can be converted into the legal value of the corresponding laws.

1. External regulatory objectives of commercial organizations

In the legal system of commercial organization, the main value of law is to protect the safety of transactions and maintain effective market competition order. The protection mechanism for transaction security is to ensure the property credit of commercial organizations to protect the counterparty. For example, for ordinary partnerships, the law stipulates unlimited joint and several liability, the main purpose of which is to provide as many general guarantees for the counterpart of the transaction as possible, and protect the safety of the counterpart of the transaction to promote the occurrence of the transaction. For corporate enterprises, the law not only stipulates the legal personality and the limited liability system of shareholders, but also stipulates the corresponding rules such as capital maintenance and the company's external liability for all its property. The former stipulates that it is conducive to promoting investors to invest at ease under the premise that the risk is expected, while the latter provides a general guarantee for the company's transaction counterpart through capital maintenance and all the company's property, which plays a role in protecting transaction security. Although the reform of the commercial system has changed the capital payment system to a capital subscription system, this does not prevent shareholders from still bearing the responsibility of capital contribution within the scope of subscription. At the same time, the reform of the commercial system also promulgated the Interim Regulations on the Publicity of Enterprise Information. Publicizing the credit status of enterprises provides a basis for judging the transaction counterpart when choosing the transaction object. Therefore, compared with the past, the value of the legal system of commercial organizations protecting the security of transactions is not only not weakened, but also enhanced. From the perspective of maintaining the order of effective market competition, the goal of external supervision of commercial organizations is to supervise the business behavior of commercial organizations and avoid monopoly and unfair competition. In fact, as a rational economist, the external regulatory goals of the above-mentioned commercial organizations are likely to be achieved through a good internal governance mechanism. After all, whether it is to protect the security of transactions or to maintain an effective market competition order, there is a positive correlation of interests for the profit of commercial organizations. External supervision is only a correction of individual illegal acts of individual

commercial organizations. It is also the same. The reform of the management system of commercial organizations has adjusted many original prior supervision to post-post supervision, which cannot be said to be related to the importance of the same governance and external supervision to commercial organizations. The social supervision and management of commercial organizations should focus on internal governance, followed by external supervision.

2. External regulatory objectives of social organizations

Compared with commercial organizations, the legal value of the legal system of social organizations is not reflected in the maintenance of the security of transactions and the order of effective competition. Because for social organizations, they are engaged in voluntary public affairs or public welfare activities. The relationship between social organizations and counterparts is not a trading relationship, but a free help or assistance relationship. In this relationship, the relative is in a position of unilateral benefit and does not need to pay. Naturally, the legal system of social organizations does not have the legal value of protecting the security of transactions. Similarly, the legal system of social organizations does not reflect the value of maintaining an effective competitive order, because for public welfare undertakings, more such public welfare organizations are better. So what should be the value of the legal system of social organizations? The author believes that on the one hand, members of social organizations volunteer to participate in public welfare activities, or individuals donate property and labor services to social organizations, etc., which is the individual's pursuit of higher-level spiritual needs and is the embodiment of altruism in human nature. Social organizations have become an important way for individuals to participate in public or public welfare undertakings. On the other hand, society also needs more individuals to participate in public or public welfare undertakings, especially some public affairs and public welfare affairs that cannot or are not suitable for the participation of the government, and the existence of social organizations is more needed. Therefore, both individuals and society need the healthy development of public welfare social organizations. The important point of the healthy development of social organizations is to make donors have full trust in social organizations, that is, social organizations should have a certain degree of credibility. Once the donor loses trust in the social organization, the difficulty of raising funds by the social organization will be unimaginable and even affect the normal operation of the social organization.

It can be considered that the trust of donors in social organizations is the key to the smooth development and healthy development of social organizations. The value of the legal system of social organizations should focus on this point, solve the problem of donor trust in social organizations through system design, and ensure the maintenance of the credibility of social organizations. Specifically, social organizations should enable donors to truly realize their altruistic human needs and make their donated property work in accordance with the donor's will. Therefore, the external supervision objectives of social organizations should require social organizations to publicize the source and destination of the donor's property and accept the donor's supervision. For the above reasons, it is difficult to ensure the maintenance of the credibility of social organizations in the internal governance mechanism of social organizations. The maintenance of social credibility needs to be achieved through the external supervision of social organizations.

V. Conclusion

Social organizations and commercial organizations belong to social organizations in a broad sense, have common characteristics, and belong to the object of social management. But the difference between the two is more significant. The profitability of commercial organizations determines that the interests of the commercial organization may form a perfect internal governance mechanism, and extend the effect of this internal governance mechanism to the outside, thus reducing the demand for external supervision. The non-profit and public welfare characteristics of social organizations make it difficult for social organizations to have the driving force to form and improve the internal governance mechanism. This determines that the maintenance of the credibility of social organizations needs to rely more on external supervision. It can be seen that internal governance and external supervision are not of the same importance to social and commercial organizations. Commercial organizations can rely more on internal governance, while social organizations need to rely more on external supervision. Therefore, the reform of the social organization management system should focus on building an external supervision system.

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