World Journal of Management Science
Print ISSN: 2959-9628
Online ISSN: 2959-9636
DOI: https://doi.org/10.61784/wms3119

INSTITUTIONAL TRANSACTION COSTS IN ADMINISTRATIVE INSPECTIONS OF ENTERPRISES

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Abstract: Administrative inspections of enterprises perform important institutional functions by reducing information asymmetry, controlling public risks, and maintaining market order, but their operation also imposes costs on firms, government, and society. Drawing on new institutional economics, this article distinguishes necessary compliance costs from institutional friction costs and develops an analytical framework of total governance costs comprising firms' compliance costs, government enforcement costs, interagency coordination costs, and losses from regulatory failure. It finds that fragmented rule provision, departmental segmentation and data barriers, quantitative performance assessment, and liability avoidance jointly drive the emergence and accumulation of institutional transaction costs. Reform should therefore aim not to minimize the number of inspections, but to integrate rules, assess costs, classify risks, coordinate joint inspections, reuse data, recognize results across agencies, and recalibrate incentives so as to reduce unnecessary burdens on firms while improving regulatory effectiveness.
Keywords: Administrative inspections of enterprises; Institutional transaction costs; New institutional economics; Administrative burdens; Risk-based regulation

1 INTRODUCTION

Administrative inspections of enterprises are an important institutional arrangement through which administrative authorities obtain information on corporate compliance, identify risk hazards, and ensure the performance of statutory obligations. In areas such as food safety, workplace safety, environmental protection, and product quality, firms generally possess more information about their production and operations than consumers and regulators, while their activities may generate external costs borne by workers, consumers, and the public. Corporate self-discipline, market reputation, and ex post judicial remedies alone are often insufficient to identify and contain public risks in a timely manner. Administrative inspections therefore have a legitimate role in reducing information asymmetry, lowering the social cost of supervision, and preventing public loss. Yet inspections are not costless. Firms must locate applicable rules, prepare supporting materials, assign personnel, cooperate with on-site verification, and undertake corrective action, while government must formulate inspection plans, organize enforcement personnel, process information, and supervise outcomes. When inspection items are dispersed, departmental plans overlap, the same documents must be submitted repeatedly, enforcement standards are unstable, or corrective results are not mutually recognized, firms bear costs beyond those necessary to perform their legal obligations; these are additional costs generated by institutional friction. The 2022 Opinions of the General Office of the State Council on Further Optimizing the Business Environment and Reducing Institutional Transaction Costs for Market Entities called for improved sharing of regulatory information, standardized administrative discretion, and more precise and effective regulation. The 2024 Opinions on Strictly Regulating Administrative Inspections Involving Enterprises further addressed excessive inspection items, high frequency, arbitrariness, multiple-agency inspections, repetitive inspections, and campaign-style inspections by establishing systematic rules on inspection bodies, items, plans, frequency, methods, and oversight [1-2]. Existing scholarship has developed along three interrelated lines. Research in new institutional economics explains differences in institutional efficiency through transaction costs, institutional constraints, and the alignment of governance structures; the work of Coase, North, Williamson, and others shows that market exchange, firm organization, and public governance all entail information-search, coordination, monitoring, enforcement, and adaptation costs, and that institutions reduce uncertainty by assigning appropriate governance structures to different transactions [3-9]. Research on economic regulation and public-sector incentives focuses on information constraints, interest structures, and performance incentives within regulatory agencies, showing that multiple objectives, hard-to-measure outputs, and liability pressures can induce quantity-oriented and defensive administrative behavior [10-11]. Research on administrative burdens and administrative law analyzes the institutional burdens arising in firm-government interactions from the perspectives of learning, compliance, and psychological costs, as well as the legal basis of inspection powers, procedural control, and remedies [12-20]. These bodies of work provide an important foundation, but further explanation is needed as to how inspections create additional costs while performing risk-governance functions, and how reform can reduce those costs by changing information structures, organizational relations, and behavioral incentives. Accordingly, this article adopts a total-governance-cost perspective, incorporating firms' compliance costs, government enforcement costs, interagency coordination costs, and the expected losses caused by inadequate regulation into a unified framework. After distinguishing necessary compliance costs from institutional friction costs, it examines the generation of institutional transaction costs across three stages—rule provision, inspection implementation, and outcome handling—and proposes corresponding institutional reforms.

2 A THEORETICAL EXPLANATION OF INSTITUTIONAL TRANSACTION COSTS IN ADMINISTRATIVE INSPECTIONS OF ENTERPRISES

2.1 Institutional Provision Both Reduces Transaction Costs and Generates Governance Costs

New institutional economics does not confine transaction costs to expenses incurred in the exchange of goods. It also includes the costs of searching for information, defining rights, negotiating, monitoring, enforcing, and resolving disputes. Coase's analyses of the nature of the firm and the problem of social cost show that, so long as information is incomplete and rights are not self-enforcing, the price mechanism, hierarchical organization, and government regulation all consume resources. Institutional choice therefore cannot rest on an assumption that any mode of governance is costless [3-4]. North further defines institutions as systems of rules that constrain and shape social interaction. Their principal function is to reduce environmental uncertainty, stabilize expectations, and make interactions repeatable; however, the characteristics of enforcement, organizational structures, and implementation methods also determine the costs of institutional operation [5]. From this perspective, the continuing relationship between firms and administrative authorities in identifying inspection items, submitting materials, verifying facts, confirming rectification, and resolving disputes may be understood as an institutionalized interaction imbued with public authority. This does not equate administrative inspections with market transactions between equal parties. Rather, transaction-cost theory is used to examine the resources consumed by the exercise of administrative power and the distribution of those costs among government, firms, and society.

Administrative inspections have the dual effect of reducing transaction costs and generating governance costs. On the one hand, specialized inspections enable administrative authorities to obtain production and operating information in a centralized manner, reducing the costs that consumers, workers, and the public would otherwise incur in separately monitoring firms. Inspections may also identify risks before harm occurs, thereby reducing accident response, tort compensation, and social relief expenditures. On the other hand, inspection rulemaking, organizational implementation, interagency information coordination, and firms' efforts to demonstrate compliance all consume resources. For analytical purposes, the total governance cost of administrative inspections of enterprises may be understood as the sum of firms' compliance costs, government enforcement costs, interagency coordination costs, and the expected losses from regulatory failure. Firms' compliance costs include the time, labor, and opportunity costs of understanding rules, preparing documents, and cooperating with inspections. Government enforcement costs are the administrative expenditures required to formulate plans, organize personnel, and process outcomes. Coordination costs arise when regulatory departments and levels of government exchange information, consolidate inspection items, and allocate responsibility. Losses from regulatory failure include both serious risks left undiscovered by insufficient inspection and the social loss caused when excessive inspection disrupts normal business operations. Williamson's work on governance structures shows that institutional performance depends on the fit between governance arrangements and transaction attributes; reform should therefore compare the overall effects of feasible institutional arrangements rather than minimize any single category of cost in isolation [6-8]. Mechanically reducing inspections may lower firms' short-term cooperation costs while increasing accident risks in high-risk sectors. Conversely, building an integrated regulatory platform may require substantial initial public expenditure but reduce repetitive reporting and verification over time. The appropriate objective is therefore the relative minimization of total governance costs, not the lowest possible number of inspections or the smallest immediate burden on firms.

2.2 Necessary Compliance Costs Should Be Distinguished from Institutional Friction Costs

The costs imposed on firms by administrative inspections cannot all be classified as unreasonable institutional transaction costs. Firms enter markets and use labor, natural resources, and public infrastructure to conduct production and business activities; they must therefore assume legal obligations commensurate with the risks they create. These obligations include establishing safety-management systems, maintaining operating records, providing truthful information, accepting necessary verification, and correcting unlawful conduct. When administrative authorities, acting within their statutory duties, require firms to provide necessary materials, cooperate with on-site inspections, or complete risk rectification, the resulting expenditures have a public-interest basis and may be described as necessary compliance costs. Treating every inspection-related cost as a burden to be eliminated would overlook the negative externalities that business operations may generate and could improperly shift responsibility for risk control in food safety, workplace safety, environmental protection, and other fields onto consumers and the public.

What should be reduced are the institutional friction costs that firms incur, beyond performing the same statutory obligations, because of defects in institutional design, organizational coordination, and enforcement methods. Three questions can help determine whether a cost is attributable to institutional friction: whether the requirement has a clear legal basis and is directly related to the risk being controlled; whether a lower-cost means could produce substantially equivalent regulatory results; and whether the cost has been unnecessarily magnified by departmental duplication, conflicting standards, or failures of information sharing. Administrative-burden theory classifies the burdens arising in interactions between individuals and the state as learning, compliance, and psychological costs, providing a useful foundation for identifying institutional friction [12-13]. The burdens borne by firms nevertheless have distinctive features. In addition to understanding rules and completing procedures, firms may experience interruptions to production, diversion of managerial time, lost business opportunities, and expectation costs caused by unstable enforcement standards. The relative burden of the same requirement also varies by firm size: large firms may spread fixed costs across specialized legal and compliance departments, whereas small and micro enterprises often bear higher unit costs because they have fewer personnel. Chinese research on corporate administrative burdens has likewise shown that fragmented policy information, complex documentary requirements, and weak government-business communication materially affect firms' institutional experience and assessments of the business environment [17]. Reducing institutional transaction costs therefore neither excuses firms from statutory duties nor makes subjective business satisfaction the sole criterion of evaluation. Its core purpose is to identify and remove repetitive, additive, and disproportionate costs that exceed the needs of effective risk governance.

2.3 Inspection Governance Structures Should Match the Attributes of Regulated Matters

A central proposition of Williamson's transaction-cost economics is that transactions characterized by different levels of uncertainty, frequency, and asset specificity require different governance structures; no single mode of organization is optimal for all transactions [6-8]. Applied to administrative inspections of enterprises, the choice among on-site inspection, random inspection, cross-departmental joint inspection, documentary review, and data monitoring should not be driven primarily by administrative habit, departmental preference, or the availability of technology. It should reflect the consequences of the relevant risk, the observability of information, the concealability of violations, the degree of technical specialization required, and the frequency with which risk changes. Specialized on-site inspections are more necessary for hazardous chemicals, major construction projects, special equipment, and critical food-production processes, where potential harm is severe and documentary materials cannot fully verify actual conditions. By contrast, repeated visits yield limited marginal benefits when the relevant information consists of corporate-registration data, administrative licenses, or standardized data that can be automatically cross-checked. Random sampling and off-site regulation are generally more economical for low-risk matters involving standardized conduct and continuously observable information. Research on risk regulation likewise demonstrates that preventive intensity, information acquisition, and enforcement costs should be configured differently across risk domains [15-16]. The problem, then, is not merely that there are too many inspections, but that inspection methods are often mismatched with the attributes of regulated matters. Frequent on-site inspection of low-risk firms with transparent information produces over-governance, whereas excessive reliance on self-reported data in high-risk and low-observability contexts may create nominal burden reduction while leaving substantive regulatory gaps.

3 MECHANISMS GENERATING INSTITUTIONAL TRANSACTION COSTS IN ADMINISTRATIVE INSPECTIONS OF ENTERPRISES

3.1 Fragmented Rule Provision Shifts Information-Integration Costs onto Firms

Institutions can reduce transaction costs only when actors are able to identify applicable rules at reasonable cost and organize their production and business activities on the basis of relatively stable expectations. Administrative inspections of enterprises are usually governed by multiple levels of norms, including statutes, administrative regulations, departmental rules, local regulations, normative documents, technical standards, and inspection-item lists. The competent authority, inspection items, legal basis, required materials, frequency, and evaluative standards may also be published separately by different departments. A rule issued by a single department may have a clear professional objective, but firms confront the cumulative institutional environment created by the overlap of multiple departmental regimes. When departments formulate rules mainly from the perspective of their own authority and risk responsibility, without coordinating the overall volume and interaction of obligations faced by firms, the task of integrating public rules is shifted from government to business. Firms must search multiple platforms, reconcile different departmental descriptions of the same matter, determine the relationship between old and new rules, and consult authorities, trade associations, or professional service providers to confirm their obligations. North emphasizes that institutional change is commonly incremental and path dependent: new rules are layered onto existing organizational structures and behavioral routines, and without continuous review, an increase in the number of rules does not necessarily improve institutional quality [5]. The fixed learning costs created by this accumulation are especially significant for small and medium-sized enterprises that lack specialized legal and compliance teams.

Fragmented rules also increase firms' expectation costs through vague standards and inconsistent enforcement. Statutes and regulations generally state only basic obligations, whereas actual inspections may involve extensive technical details concerning facility operation, recordkeeping, personnel training, risk assessment, and document retention. If authorities publish only general norms without developing inspection criteria and practical guidance that firms can understand, firms cannot know with sufficient certainty what level of conduct will be regarded as compliant. When different regions, departments, or inspectors reach different judgments on similar facts, firms may preserve more documentation than is genuinely needed, adopt corrective measures beyond their legal obligations, or delay innovative business decisions whose regulatory boundaries remain unclear. Such defensive compliance appears voluntary, but it is a rational response to institutional uncertainty. Administrative-law scholarship has noted that uncertainty regarding inspection items, standards, and procedures expands enforcement discretion and can produce continuing effects on business operations [18-20]. The publication of inspection rules must therefore address more than the formal question of whether rules have been made public. It must also ensure that departmental lists are interoperable, that firms can retrieve relevant requirements at low cost, and that inspection standards support stable expectations.

3.2 Vertical and Horizontal Administrative Fragmentation Converts Departmental Rationality into Repetitive Costs for Firms

Administrative inspections of enterprises are characterized by extensive specialization. The same firm may be subject to oversight by authorities responsible for market regulation, environmental protection, emergency management, fire and rescue, human resources, and social security. Specialization enables inspectors to accumulate domain-specific knowledge, but it also creates cross-departmental coordination costs. Under a vertically and horizontally fragmented administrative structure, each department formulates its own inspection plans, develops its own information systems, and evaluates its own performance. It can observe the direct benefits produced by its inspections, yet need not bear the full external costs created by inspections already conducted by other authorities and by firms' cumulative cooperation. Thus, even where each department possesses an independent legal basis for inspection, firms may receive multiple visits within a short period and repeatedly submit business licenses, staff lists, testing reports, training records, and rectification materials concerning substantially similar facts. The overlap of routine regulation, special campaigns, and supervisory tasks across levels of government may also prevent a frequency ceiling imposed by any single department from constraining the total number of inspections actually experienced by a firm. This is a typical case of local rationality producing overall inefficiency: departments demonstrate performance by increasing inspections, while dispersing the costs of staff diversion, document preparation, and business interruption onto firms. Research on governance structures shows that externalities and coordination failures persist when actors located on different sides of organizational boundaries do not bear the full costs of their decisions [6-8, 21].

Insufficient data sharing further reinforces this cost transfer. Information already held by an administrative authority through business registration, licensing, electronic certificates, or another department's inspection may still be requested from the firm again. Differences in data formats, reporting periods, and evidentiary standards also force firms repeatedly to organize and convert the same operational information. Data barriers cannot be attributed solely to underdeveloped information technology. Regulatory data are also associated with administrative authority, responsibility, and exposure to risk. When one department permits another to rely directly on its data, it may assume responsibility for updating the information, correcting errors, and managing the consequences of downstream use. If sharing rules and liability boundaries are unclear, requiring the firm to prove the same facts again may become the safer organizational choice for each department. Digitalization therefore has two possible effects: interconnected platforms and data reuse can reduce corporate burdens, whereas separate departmental systems, incompatible reporting formats, and repeated electronic entry merely convert paper burdens into digital ones. Research on credit-based regulation and the digital transformation of public services shows that digital platforms do not automatically produce collaborative governance; inconsistent data standards, duplicated platforms, and ambiguous responsibility for use may create new forms of digital administrative burden [22-23].

Cross-departmental joint inspections face a similar risk of formalism. If a purported joint inspection merely brings several departments into a firm at the same time, without first removing duplicate items, unifying documentary requirements, and integrating on-site procedures, a single visit may become a concentrated accumulation of multiple departments' inspection tasks. The firm appears to undergo only one inspection, but it must simultaneously respond to divergent requirements, and the short-term disruption to operations may even intensify. A joint inspection reduces institutional transaction costs not because inspectors appear together in time and space, but because a lead authority coordinates plans, consolidates documentary requirements, and integrates the handling of results, thereby preventing the government's internal division of labor from becoming an external repetitive burden on firms. The Opinions on Strictly Regulating Administrative Inspections Involving Enterprises require matters capable of consolidation not to be inspected repeatedly, matters suitable for joint action not to be inspected separately by multiple authorities, and matters capable of being addressed through documentary review, information sharing, or smart regulation not, in principle, to trigger on-site visits. These requirements directly respond to the externalization of interagency coordination costs [2].

3.3 Quantitative Incentives and Liability Avoidance Amplify the Costs of Excessive Inspection

Public-sector governance objectives are often multidimensional and long term. Whether serious risks have been effectively prevented and market order has sustainably improved is difficult to observe directly, whereas the number of inspections, firms covered, problems identified, and cases opened is readily countable. When higher-level authorities cannot fully observe local risk conditions or the efforts of frontline enforcers, measurable indicators tend to become proxies for performance. Dixit's analysis of public-sector incentives shows that public organizations commonly face multiple objectives, multiple principals, and outputs that are difficult to measure accurately. When performance assessment concentrates on a small set of quantifiable indicators, organizational members reallocate resources toward activities that are easier to assess and away from tasks that are harder to measure but may be more substantively valuable [11]. Research on the incentives of local governments and grassroots departments also shows that, when promotion, accountability, or departmental evaluation is tightly linked to particular indicators, actors reorganize their attention and administrative resources around those metrics [24]. In the context of administrative inspections, assessment systems that emphasize coverage rates, the number of problems found, and case volume may encourage frontline personnel to prove diligence by increasing visits. In high-liability areas such as workplace safety, food and drug safety, and environmental protection, uncertainty about ex post accountability may also induce defensive inspection: expanding scope, increasing frequency, generating repeated documentary traces, and conducting multiple follow-up checks to reduce personal exposure. Inspection costs are then borne mainly by firms, while the potential benefit of exculpation accrues primarily to inspectors and their agencies, creating an asymmetry between those who bear the costs and those who benefit from the decision.

The handling of inspection outcomes may continue to magnify these costs. If an inspection opinion merely states that "management is inadequate," "records are incomplete," or "risk hazards exist," without identifying the legal basis, required corrective measures, and acceptance criteria, firms may have to seek repeated clarification or undertake excessive rectification. If facts and corrective results already verified by one authority are not accepted by another, the firm must resubmit evidence and undergo further checks. Firms that consider the inspection item, frequency, or procedure improper may also incur substantial remedial costs by repeatedly contacting different agencies. Administrative-burden research shows that interactions with government impose not only information and procedural costs, but also psychological pressure arising from unequal power relations, uncertain outcomes, and repeated demands for proof [12-13]. Moreover, the relationship between firms and regulators is ongoing. When deciding whether to complain, firms consider not only the immediate loss caused by the present inspection but also the possible effect of the complaint on future communication and regulatory relations. Even where administrative reconsideration and litigation are formally available, these procedures may not be well suited to problems requiring immediate correction, such as excessive inspection frequency, repetitive documentary demands, or irregular on-site procedures. Multiple-agency inspection, repeated rectification, and ineffective remedies should therefore not be attributed simply to the work style of individual inspectors. They are closely connected to the measurability of performance, the allocation of responsibility, departmental interests, and the externalization of corporate costs.

4 GOVERNANCE PATHWAYS FOR REDUCING INSTITUTIONAL TRANSACTION COSTS IN ADMINISTRATIVE INSPECTIONS OF ENTERPRISES

4.1 Improve Rule Provision and Cost Assessment Using Total Governance Cost as the Benchmark

Reform should first move beyond the single criterion of judging an inspection regime by whether the number of inspections rises or falls. Demsetz argues that institutional comparison should not contrast a real-world arrangement characterized by incomplete information, enforcement costs, and opportunistic behavior with an ideal system free of cost and friction. The relevant comparison is among the costs and benefits of feasible institutional alternatives under actual conditions [25]. Aoki's comparative institutional analysis similarly emphasizes institutional interdependence: changing one rule may affect overall performance through organizational structures and behavioral expectations [26]. Administrative inspections should therefore not be deemed optimal merely because inspections are fewer or firms spend less time cooperating. Evaluation must simultaneously consider corporate compliance costs, government enforcement costs, interagency coordination costs, and the social risks created by insufficient regulation. For high-risk matters that are difficult to observe, on-site inspections remain institutionally justified when their short-term burden on firms is outweighed by a substantial reduction in the expected loss from major accidents. For low-risk matters involving information already held by government, repeated on-site verification has low marginal value and should be replaced by data reuse or random inspection.

On this basis, inspection requirements should be integrated according to how firms identify and use rules, rather than disclosed entirely through the organizational structure of administrative authority. A unified information platform should present, in one place, the competent inspection bodies, inspection items, legal bases, documentary requirements, evaluative standards, methods, and indicative frequency applicable to a particular industry and business scope. This would allow each firm to form a compliance checklist aligned with its actual operations. Changes in legal authority, technical standards, or documentary requirements should be updated simultaneously, and adjustments that materially increase corporate obligations should be accompanied by an appropriate transition period. Inspection-item lists should confirm, organize, and publicize existing statutory inspection powers; they must not create new corporate obligations through list compilation, checklists, or detailed internal work requirements. Annual inspection plans should be linked to item lists and frequency controls and should coordinate routine inspections, random sampling, special campaigns, and higher-level supervision so that separate plans do not accumulate at the firm level. The Opinions on Strictly Regulating Administrative Inspections Involving Enterprises have already established requirements for publication of inspection items, annual planning, and frequency control; the next step is to strengthen the alignment among lists, plans, and standards [2].

A concise and workable mechanism for regulatory cost assessment should also be established before major inspection regimes and special inspection plans are introduced. OECD research on regulatory compliance costs decomposes regulatory burdens into information obligations, substantive compliance activities, public enforcement costs, and indirect opportunity costs, and recommends comparing regulatory options by identifying the quantity of required materials, the frequency of activities, the time involved, and personnel costs [14]. This method can be adapted to administrative inspections without requiring complex monetization of every plan. At a minimum, authorities should explain what materials firms must submit, whether the same information is already held by another agency, how much staff time an inspection will consume, whether documentary review or data matching could serve as an alternative, and whether the proposal imposes a clearly disproportionate burden on small and micro enterprises. Cost assessment must not become a corporate veto over public-safety regulation. Its function is to require an explanation of why an inspection is necessary, why a particular method has been selected, and whether a feasible alternative could achieve similar regulatory results at lower total cost. Firms, chambers of commerce, and trade associations may participate through public consultation, roundtables, and pilot evaluation to help identify duplication and conflict among regulatory requirements, but such participation does not alter the administration's ultimate legal responsibility to protect the public interest.

4.2 Configure Inspection Methods and Interdepartmental Coordination According to Risk and Information Attributes

Inspection methods should be determined by the risk and information attributes of the regulated matter. Authorities may dynamically classify firms by considering the inherent risk of the industry, business scale, history of violations, complaints and reports, accident hazards, real-time monitoring information, and internal governance capacity. Matters involving severe consequences, concealed violations, and information that cannot be verified remotely require continued professional on-site inspection. Matters of ordinary risk and high standardization may rely mainly on random inspection. For firms with sustained compliance, low risk, and observable data, on-site frequency may be reduced and documentary review, data matching, and remote monitoring used more extensively. Risk classification must not become a fixed credit label. When a low-risk firm exhibits abnormal data, becomes the subject of complaints, or generates a significant risk signal, inspection intensity should increase promptly; when a high-risk firm completes rectification and remains compliant, inspection frequency should also decline. Research on inclusive and prudent regulation and credit-based regulation emphasizes that differentiated regulation is not simply a classification of “good” and “bad” firms. Its value lies in dynamically allocating limited regulatory resources in response to changing risks [20, 22]. The core of risk classification is to align inspection resources with the distribution of risk, reducing low-value inspections while enabling authorities to devote more professional capacity to high-risk matters.

Cross-departmental joint inspections and data reuse should advance in parallel with risk classification. Joint inspection should mean integration of matters, not merely assembly of personnel. Before entering a firm, the lead authority should consolidate participating departments' plans, remove duplicate items, unify documentary requirements and on-site procedures, and define the boundaries of each department's professional judgment. Materials already submitted to the lead authority should not, in principle, be requested again by other participating departments. A unified corporate regulatory file can record recent inspection dates, items, documents submitted, conclusions, and rectification status. Before initiating a new inspection, an authority should review prior records to identify multiple or repetitive arrangements within a short period. Data reuse must also evolve from a matter of platform construction into a system of governance rules, including clear data catalogues, format standards, updating responsibilities, access authority, and error-correction mechanisms. Data lawfully obtained and verified by one department should be available to other departments within the scope of their statutory duties; firms should not be required to prove the same fact repeatedly because responsibility within government is unclear. At the same time, data sharing must comply with necessity and security principles. Regulatory convenience cannot justify unlimited collection of trade secrets, nor should firms be required to undertake the data conversion and systems integration that properly belong to public authorities. Research on China's reform to streamline administration, delegate powers, improve regulation, and strengthen services, as well as on digital administrative burdens, shows that technological platforms reduce corporate transaction costs only when business processes, organizational responsibilities, and data rules are adjusted together [21, 23]. The Law of the People's Republic of China on Promoting the Private Economy requires differentiated regulation based on firms' credit status and encourages the consolidation of multiple inspection items concerning the same target or their inclusion in cross-departmental joint inspections, reflecting an institutional direction that combines regulatory-resource allocation with interagency coordination.

4.3 Internalize Inspection Costs Through Mutual Recognition of Results and Incentive Compatibility

The institutional function of an administrative inspection should extend beyond identifying problems to include risk rectification, the formation of a stable compliance status, and the subsequent use of results. After an inspection, the authority should specify in writing the facts identified, the legal basis, corrective tasks, deadlines, supporting materials, and acceptance method, and should avoid indeterminate formulations such as “inadequate management.” Where rectification can be confirmed through written materials, system data, or remote means, another on-site visit should not be required; where an on-site review is genuinely necessary, the acceptance criteria should be communicated in full at one time. Mutual recognition should be conditioned on identity of facts, matters, and evaluative standards. Basic corporate information, licensing materials, and rectification facts already lawfully verified by one department should, in principle, be directly usable by others. Where another inspection is necessary because of a distinct professional risk, the authority should explain the added need and limit the scope to matters not previously verified. Administrative-law research on inspections shows that the clarity of findings, the closure of procedures, and the predictability of subsequent measures directly affect the continuing burdens borne by firms after an inspection [18-19].

More fundamentally, performance assessment and accountability mechanisms must be reformed so that administrative authorities internalize at least part of the external costs their inspection decisions impose on firms. Performance should no longer be evaluated mainly by the number of visits, firms covered, problems found, or fines imposed. It should also include the rate at which major risks are identified, the proportion of substantive hazards eliminated, reductions in repetitive inspections, the time firms spend cooperating, the rate of documentary reuse, first-pass rectification acceptance, and the efficiency of complaint handling. The number of inspections should be presumed neither better when higher nor better when lower. The relevant question is whether limited resources are directed toward the firms and matters that genuinely require oversight. Unsupported inspections, inspections beyond the authorized scope, repeated demands for materials, and the use of inspection powers for departmental or personal gain should trigger stronger accountability. Conversely, where enforcement personnel have acted reasonably in accordance with risk classification, approved plans, and professional standards but could not identify an unforeseeable risk because of technological or informational limitations, a sound safe-harbor mechanism for due performance is needed. Only by clarifying the boundary between lawful performance and dereliction can the system reduce the incentive of frontline personnel to protect themselves through “more inspections and more documentation.” The Opinions on Strictly Regulating Administrative Inspections Involving Enterprises call for both accountability and exemption for due performance. In economic terms, these measures recalibrate the relevant cost-benefit structure and encourage a shift from quantity-based performance to performance measured by risk outcomes [2].

Channels for corporate feedback and legal remedies should likewise extend from formal ex post relief to rapid correction during the inspection process. Questions that are relatively easy to determine—such as the inspector's authority, the scope of inspection items, repetitive documentary demands, or multiple visits within a short period—can be coordinated promptly by administrative law-enforcement supervisory bodies through a unified platform, rather than requiring firms to communicate separately with several departments. Supervisory authorities may also establish an abnormal-burden identification mechanism that records the number of departments inspecting the same firm over a given period, the duration of inspections, materials submitted, and the frequency of rectification reviews, and that proactively examines cases deviating markedly from industry and risk norms. Such a mechanism is not a rigid frequency ceiling that can never be exceeded. Its purpose is to bring firms' cumulative long-term burdens within the field of supervisory review. Administrative-burden theory indicates that low-cost, accessible corrective channels that provide clear feedback can reduce learning, compliance, and psychological costs in interactions with government [12-13]. The Regulation on Administrative Law-Enforcement Supervision brings arbitrary inspections and profit-driven enforcement within the scope of supervision and establishes mechanisms for assessing problem leads, conducting focused supervision, and ordering correction, thereby providing a stronger institutional basis for process-oriented oversight of administrative inspections of enterprises.

5 CONCLUSION

Administrative inspections of enterprises may reduce social transaction costs by mitigating information asymmetry and preventing public risks, but they may also create additional institutional friction through fragmented rules, departmental segmentation, and distorted incentives. Reform should therefore seek not the simple minimization of inspection frequency, but the relative minimization of the combined costs of corporate compliance, public enforcement, interagency coordination, and regulatory failure. Integrating rule provision, conducting cost assessment, matching inspection methods to risk attributes, promoting interagency coordination and mutual recognition of results, and recalibrating incentives through performance assessment, due-performance safe harbors, and law-enforcement supervision can jointly reduce unnecessary corporate burdens while improving regulatory effectiveness.

COMPETING INTERESTS

The author has no relevant financial or non-financial interests to disclose.

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