Corporate Governance and Entrepreneurship Development in Mongolia: An Empirical Assessment

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Abstract— Abstract — Following the transition of Mongolia from state controlled and state directed economic leaning to free market economy, government past and present have focused on measures to stimulate entrepreneurship and boost economic development. Furthermore, to enhance investor confidence in listed firms and ensure capital inflow from both local and foreign prospective investors, the need for improved corporate governance mechanisms have become imperative in Mongolia's transitioned firms as well as in newly created establishments.

This paper focuses on the investigation of the vital relationship between Corporate Governance and entrepreneurship development in Mongolia. Data for the research were researcher – generated and collated through a survey of practicing professionals.

Statistical analysis of collected research data using Spearman's Rank Correlation Coefficient, provide ample evidence that corporate governance mechanisms do significantly impact entrepreneurial development in Mongolian firms.

Keywords— Entrepreneurship, corporate governance, development, Mongolia.

I. Introduction

Subsequent to Mongolia's successful but evolving transition from centrally planned to free market economy, most hitherto state owned and state controlled firms have been privatized. Profit motive has become the primary guidance of the form and direction of investment. Rothbard (1962) rightly observed that in a free market economy "hired managers may successfully direct production or choose production processes but the ultimate responsibility and control of production rests inevitably with the owner..." [1]. Hence, it is the owners who make the vital decision concerning the amount of capital to invest and in what particular processes and also select the managers. It could therefore be rightly said that the ultimate decisions concerning the use of invested capital and the choice of the men to manage rests with the owners and no one else in a free market economy. It is therefore not surprising that modern corporate governance has not been founded on the basis of how best to create the most entrepreneurial firm or how best to create the most competitive firm. Instead, the key guiding principle has been how best to protect the owners. Consequently, this mindset has led to corporate governance recommendations and practices embodied in corporate governance codes and investor voting policies that are sub-optimal for firms that place a high priority on entrepreneurship. This paper examines the implications of this scenario on entrepreneurship development in Mongolia; how corporate governance systems may in reality be obstructive or conducive to entrepreneurship and hence economic development.

It is pertinent at this point to explain what entrepreneurship is. Entrepreneurship "is the practice of starting new organizations or revitalizing mature organizations, particularly new businesses generally in response to identified opportunities" [2]. In whatever shape or form, this process involves enormous risk because production takes time; economic resources must be invested first before the returns are realized on the investment. Entrepreneurship therefore represents the bearing of uncertainty. It is in fact the act of bearing uncertainty as "the entrepreneur must purchase factors of production in the present (paying today's prices, which are known), in anticipation of revenues from the future sale of the product (at tomorrow's prices, which are uncertain" [3].

On the other hand, corporate governance has been defined as "the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions in corporate affairs. In so doing, it also provides the structure through which company objectives are set and the means of attaining those objectives and monitoring performance" [4]. A good corporate governance environment is, thus, one in which the interests of the managers are aligned very closely with those of the owners of the firm, or, the shareholders. The four values of good corporate governance; transparency, accountability, responsibility and fairness, in addition to ethical conduct in the management of the privately or publicly owned companies characterize the main pillars of good corporate governance practices. In this mechanism, "disclosure" plays a major role. For Shleifer and Vishny (1997), corporate governance is "the way in which suppliers of finance to corporations assure

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themselves of getting are turn on their investment" [5]. Good corporate governance provides proper incentives for the boards of companies and management to pursue objectives that are in the best interests of the company and its shareholders and should facilitate effective monitoring. The International Finance Corporation (IFC), an arm of the World Bank agrees with these views; "….good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital" [6] The organization for economic cooperation and development (OECD) enunciated the linkage between good corporate practices and economic development in the following statement; "the presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy. As a result, the cost of capital is lower and firms are encouraged to use resources more efficiently, thereby underpinning growth" [7]. It is therefore clear that the degree to which companies adhere to fundamental principles of good corporate governance is an increasingly important element for investment decisions and has implications for economic growth. If countries are to reap the full benefits of the global capital market, and if they are to attract long-term capital, corporate governance mechanisms must be credible and well understood across borders with strict adherence to internationally accepted principles.

Generally, there are significant differences across the world regarding how corporate governance institutions are designed, and there is no consensus as to what is the best governance system. In some countries, corporate ownership and control is dispersed, and management is at arms—length from the owners, e.g., the US, whereas some governance systems display strong links between the management and one or a few controlling owners. These institutional differences are also reflected in differences in how the capital markets are organized and how they work. In some countries, banks, for example, play a more prominent role (e.g., Germany and Japan), whereas other countries rely more on equity markets (e.g., the US). Nonetheless, the key issue in all jurisdictions bothers on how corporate governance institutions interact with and influence entrepreneurship and how this ultimately affects economic development. Such institutions set the framework conditions within which corporations and their owners act. However, the framework conditions also have significant implications for how Capital is (re)allocated. This will in turn influence the conditions for new firms. If resources are locked up in incumbent firms and the financial system fails to enhance reallocation of resources, this may hamper entrepreneurial activities and thus contribute to slower economic development.

II. Theoretical Framework

Agency theory, Principal-principal theory and stakeholder-agency theory are three theories that provide an explanation of the place of corporate governance in firms.

Agency theorists posit that an agency relationship subsists between shareholders and directors in their respective roles as principals and agents. According to Jensen and Meckling (1976) agency relationship is "a contract under which one or more persons (the principal[s]) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent" [8]. This is the scenario in private enterprises where managers (single agent) are the agents of the shareholders (single principal).

Principal – principal conflicts refer to the conflicts between two classes of principals; controlling shareholders and minority shareholders [9]. While principal – agent conflicts are especially relevant in firms characterized by simple separation of ownership and control, Principal-principal conflicts are relevant in firms with concentrated ownership and control with a controlling shareholder [9]. This is the scenario in big firms in Mongolia characterized by dominant or major shareholder and minority shareholders. Principal-principal theorists argue that different types of owners may or may not have aligned incentives regarding corporate strategy when the strategy does not uniformly impact the benefits and costs of different owners. Principal-principal conflicts have firm-level consequences that directly impact on firm performance.

The agency theory explains the corporate governance-entrepreneurship connection thus; a typical agency model could be likened to a scenario whereby a principal assigns some task to an agent but has only very limited information regarding the agent's performance. Firm owners could use a variety of control or governance mechanisms to limit the managerial discretion and in bid to ensure that performance stays in line with expectations. Owners could deploy both "internal and external governance mechanisms" [10]. Internally, owners usually establish a board of directors to that have oversight role over managerial actions. Owners may possibly use performance-based compensation plans to incentivize managers to act in the owners' best interest. This may come in the form of equity share options as opposed to cash bonuses. In addition, owners may adopt a particular firm structure like the "M-form structure, in which managerial discretion is easily kept in check" [11]. In addition, owners could rely on competition within the firm for top-level management positions; "the internal market for managers" [12] to check and control discretionary actions of top managers.

Several external governance mechanisms are quite effective in aligning managers' interests with those of owners. Ever increasing competition in the product market, for instance ensures, the failure of companies whose managers engage in excessive discretionary behavior possibly costing the managers their jobs. More so, significant stockholders such like banks can exercise significant influence over managerial behavior in countries that approve universal banking. Nevertheless, the market for corporate ownership; market for corporate control itself is external governance mechanism that has received the most attention. According to Henry Manne's (1965), "managerial discretion will be limited if there is an active market for control of corporations. When managers engage in discretionary behavior, the share price of the firm falls, and this invites takeover and subsequent replacement of incumbent management. Therefore, while managers may hold considerable autonomy over the day-to-day operations of the firm, the stock market places strict limits on their behavior” [13].

Furthermore, stakeholder-agency theory suggests that the firm could be seen as a nexus of contracts among resources holders; shareholders, managers, other employees and finance companies that provide supplementary finance. Its paradigm encompasses all explicit and implicit stakeholders unlike mainstream agency theory. In this scenario, co-ordination provided by corporate governance mechanisms is required to minimize opportunistic tendencies that jeopardize firm’s commitment to innovative activities that improve financial performance and foster economic development.

III. Research Objectives

The key objectives of this study are;

i) To highlight the implications of corporate governance mechanisms on entrepreneurship development in Mongolian firms.
ii) To assess the extent of the impact of corporate governance practices on entrepreneurship development in Mongolian firms.
iii) To find out which of dispersed ownership or concentrated ownership is obstructive or conducive to entrepreneurship development in Mongolia

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IV. Research Questions

Bearing in mind the above situation, the key questions are;

i) Do corporate governance mechanisms have implications for entrepreneurship development Mongolian firms?
ii) To what extent has corporate governance practices impacted entrepreneurship development in Mongolian firms?
iii) Which of dispersed ownership and concentrated ownership is obstructive or conducive to entrepreneurship development in Mongolia?

V. Research Hypotheses

With the objectives in mind, the following hypotheses have been formulated;

Ho1: Corporate governance mechanisms have no negative implications for entrepreneurship development in Mongolian firms.

Ho2: Corporate governance practices do not impact entrepreneurship development in Mongolian firms significantly.

Ho3: Neither of dispersed ownership and concentrated ownership is obstructive or conducive to entrepreneurship development in Mongolia

VI. Methodology

This study has an empirical perspective and derives data from both reliable secondary and primary sources. It begins with an introduction explaining the key concepts, highlights the theoretical underpinnings of entrepreneurship – corporate governance connection, states in clear terms the objectives of the paper, the research questions, the methodology explaining the sources and data collection methods, presents and analyses research data using tables and charts, tests the research hypotheses using Spearman’s Rank Correlation Coefficient and finally makes some conclusions based on the research findings.

A. *Collection and Analysis of secondary data*

Informative and authoritative websites, online research libraries and research gateways were consulted for secondary data. Secondary data for the study was analyzed using charts, bars and percentages.

B. *Primary Data Collection, Analysis and hypotheses testing*

Primary data were collected through Interviews and Delphi survey. Primary data was in respect of current corporate governance practices implications for entrepreneurial development in Mongolian firms and was collected using questionnaire.

The questionnaire is structured in such a way that it focuses on three important objectives and research questions bothering on implications, extent of impact and nature of influence of corporate governance on entrepreneur There were a total of twenty-four (21) questions on the questionnaire; seven (7) each pertaining to each area. Responses to the questions were using Likert five point-scale; strongly agree to strongly disagree and hypotheses tested with Spearman’s Rank Correlation Coefficient.

The Spearman’s coefficient of rank correlation is given by the formula below;

$$r_s = 1 - \frac{6\sum_{i=1}^{n} D_i^2}{n(n^2-1)}$$

To test the strength of the relationships between the pairs (rank 1 and 2), the Spearman’s rank correlation is converted to t – statistics using the formula provided below:

$$t = \frac{r_{xy}\sqrt{n-2}}{\sqrt{1-r_{xy}^2}}$$

VII. Demographics of respondents

A total of one hundred randomly selected professional were sampled and their years of experience and ages are presented below.

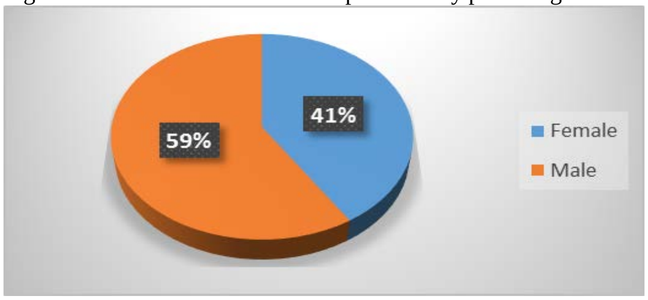
Table 1: Respondents gender distribution

Gender	No of respondents	Respondents by %
Female	41	41
Male	59	59
Total	100	100

Source: Research data 2017

The table above shows that 59 out of 100 respondents were male while 49 were female.

Figure 1: Gender distribution of respondents by percentage



Source: Research data 2017

The chart above shows that 59% of respondents were male while 49% were female.

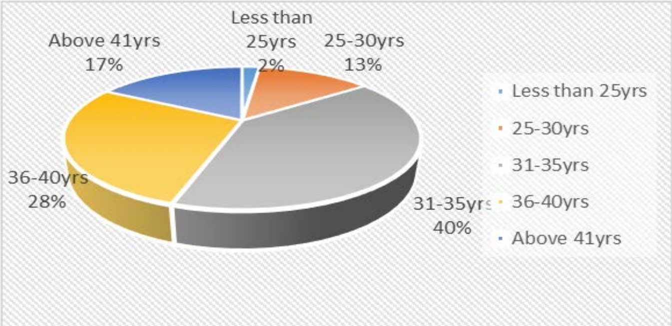
Table 2: Age distribution of the respondents

Respondents' age ranges	No of respondents
Less than 25yrs	2
25-30yrs	13
31-35yrs	40
36-40yrs	28
Above 41yrs	17
Total	100

Source: Research data 2017

The above table shows majority of respondents are within the 31-35 years age bracket and only 2 are less than 25 years.

Figure 2: Age ranges of respondents by percentage



Source: Research data 2017

The above chart shows that 40% of the respondents are in the 31-35 years age range while 2 are in the less than 25 years category. It also shows that 36-40 years age bracket has the second highest frequency.

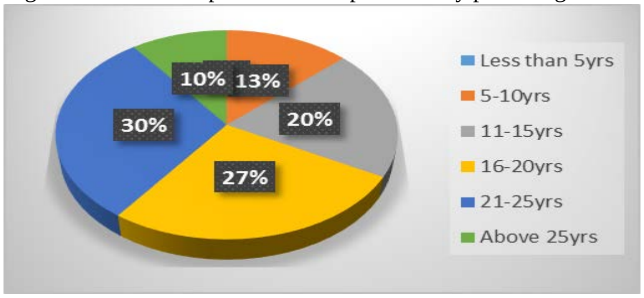
Table 3: Years of experience of respondents

Respondent	No of respondents	% of respondents
Less than 5yrs	0	0
5-10yrs	13	13
11-15yrs	20	20
16-20yrs	27	27
21-25yrs	30	30
Above 25yrs	10	10
Total	100	100

Source: Research data 2017

The above table shows that 30 of the respondents have between 21-25 years' experience; the highest in the experience age brackets.

Figure 3: Years of experience of respondents by percentage



Source: Research data 2017

The above chart shows that 30% of the respondents have between 21-25 years' experience; the highest in the experience age brackets. It also shows that 16-20yrs experience range is the next highest with 27%.

VIII. Analysis, Test of Hypotheses and Results

Table 4: Current concentrated governance situation negatively impacts entrepreneurial devpt.in Mongolia

Respondent	No of respondents	% of
Strongly Agreed	50	50
Agreed	43	43
Undecided	1	1
Strongly Disagreed	2	2
Disagreed	4	4
Total	100	100

Source: Research data 2017

In response to the question in table 4 above, majority of the respondents with a total number of 46 or 46% strongly agreed with the question, 40 or 40% agreed, 3 or 3% undecided 4 or 4% strongly disagreed while 7 or 7% disagreed.

Table 5: There exist a significant relationship between corporate governance & entrepreneurship devpt.

Respondent	No of respondents	% of respondents
Strongly Agreed	38	38
Agreed	49	49
Undecided	4	4
Strongly Disagreed	5	5
Disagreed	4	4
Total	100	100

Source: Research data 2017

With regards to the question in table 5, whether there exists a significance relationship between corporate governance and organizational development or not, 38 or 38% of the respondents strongly agreed, majority with a total of 49 or 49% agreed, 4 or 4% undecided, 5 or 5% strongly disagreed, while 4 or 4% disagreed.

Table 6: Higher managerial discretion enhances entrepreneurial development in Mongolian firms

Respondent	No of respondents	% of respondents
Strongly Agreed	36	36
Agreed	48	48
Undecided	5	5
Strongly Disagreed	6	6
Disagreed	5	5
Total	100	100

Source: Research data 2017

From table 6 above, the analysis shows that 39 or 39% of the respondents 53 or 53% strongly agreed, 48 or 48% agreed, 2 or 2% undecided, 5 or 5% strongly disagreed while 4 or 4% disagreed completely.

Table 7: Minority shareholders have mechanisms to nominate members of the Board of Directors

Respondent	No of respondents	% of respondents
Strongly Agreed	40	40
Agreed	43	43
Undecided	3	3
Strongly	5	5
Disagreed	9	9
Total	100	100

Source: Research data 2017

According to the respondents in table 7 above, it was revealed that 40 or 40% of the total population sampled strongly agreed, 43 or 43% which represents the majority agreed, 3 or 3% undecided, 5 or 5% strongly disagreed while 9 or 9% disagreed.

Table 8: Dispersed ownership encourages entrepreneurial development in Mongolian firms.

Respondent	No of respondents	% of respondents
Strongly Agreed	38	38
Agreed	57	57
Undecided	2	2
Strongly Disagreed	1	1
Disagreed	2	2
Total	100	100

Source: Research data 2017

Table 8 above indicates, 38 or 38% of the respondents strongly agreed, 57 or 57% agreed, 2 or 2% undecided, 1 or 1% strongly disagreed, while 2 or 2% disagreed.

Table 9: Concentrated ownership does not encourage entrepreneurial development in Mongolian firms

Respondent	No of	% of
Strongly Agreed	45	45
Agreed	46	46
Undecided	2	2
Strongly Disagreed	3	3
Disagreed	4	4
Total	100	100

Source: Research data 2017

As evident by table 9 above, about 45 or 45% of the total population strong agreed, 46 or 46% agreed, 2 or 2% undecided, 3 or 3% strongly disagreed, while 4 or 4% disagreed.

A. *Test of Hypotheses - Hypothesis 1*

Ho1: Corporate governance mechanisms have no negative implications for entrepreneurship development in Mongolian firms.

Table 4 (Question 9) and table 6 (question 11) are used to test the hypothesis. Therefore, let X represent question 9 and let Y represents question 11.

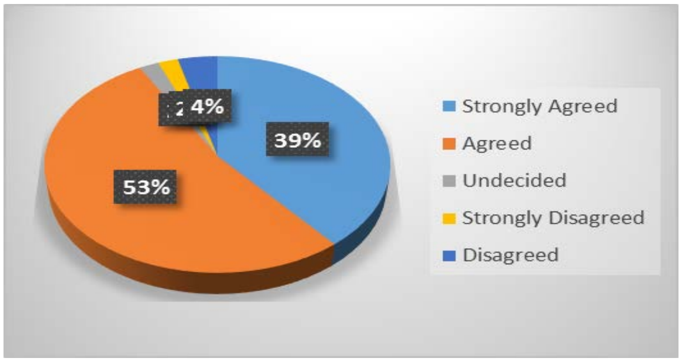
Table 10: Test of hypothesis 1

					d	d2
Respondents	X	Y	R_X	R_Y	$R_X - R_Y$	$(R_X - R_Y)^2$
Strongly Agreed	39	50	4	5	-1	1
Agreed	53	43	5	4	1	1
Undecided	2	1	1.5	1	0.5	0.25
Strongly Disagreed	2	2	1.5	2	- 0.5	0.25
Disagreed	4	4	3	3	0	0
Total	100					2.5

Source: Research data 2017

Decision Rule: Since the computed value of t (3.1303) is greater than the tabular value of t (2.353), null hypothesis shall be rejected while alternative hypothesis shall be accepted.

Figure 4: Test of hypothesis 1



Source: Research data 2017

B. Test of Hypotheses - Hypothesis 2

Ho2: Corporate governance practices do not impact entrepreneurship development in Mongolian firms significantly.

Table 5 (Question 12) and table 7 (question 15) are used to test the hypothesis. Therefore, let X represent question 12 and let Y represents question 15.

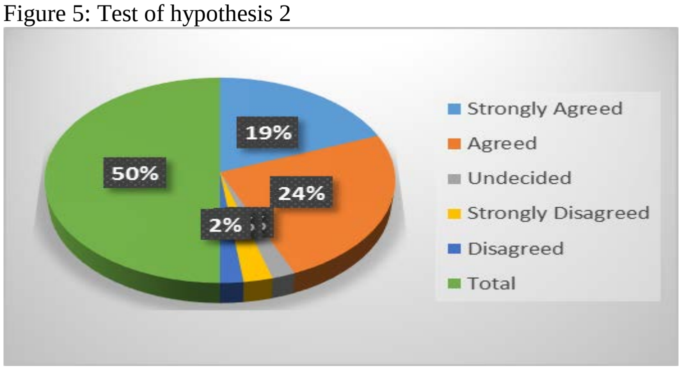
Table 11: Test of hypothesis 2 d d^2

Respondents	X	Y	R_X	R_Y	$R_X - R_Y$	$(R_X - R_Y)^2$
Strongly Agreed	38	40	4	4	0	0
Agreed	49	43	5	5	0	0
Undecided	4	3	1.5	1	0.5	0.25
Strongly Disagreed	5	5	3	2	1	1
Disagreed	4	9	1.5	3	-1.5	2.25
Total	100	16				3.5

Source: Research data 2017

Decision Rule: Since the computed value of t (2.529) is greater than the tabulated value of t (2.353), H0 (null) hypothesis shall be rejected while alternative hypothesis (H2) shall be accepted.

Figure 5: Test of hypothesis 2



Source: Research data 2017

C. Test of Hypotheses - Hypothesis 3

Ho3: Neither of dispersed ownership and concentrated ownership is obstructive or conducive to Entrepreneurial development

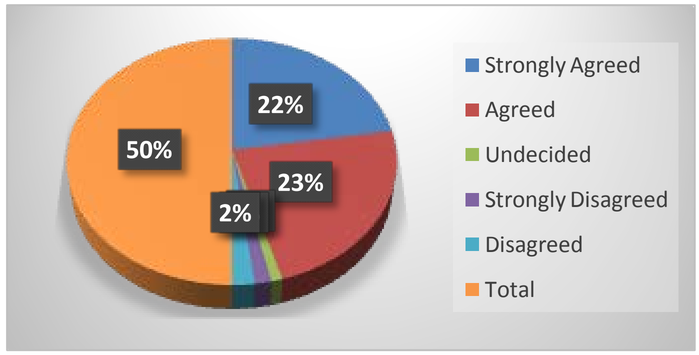
Table 8 (question 17) and table 9 (question 19) are used to test the hypothesis. Therefore, let X represent question 17 and Y represent question 19.

Table 12: Test of hypothesis d d^2

Respondent	X	Y	R_X	R_Y	$R_X - R_Y$	$(R_X - R_Y)^2$
Strongly Agreed	45	38	4	4	0	0
Agreed	46	52	5	5	0	0
Undecided	2	3	1	2.5	-1.5	2.25
Strongly Disagreed	3	2	2	1	1	1
Disagreed	4	3	3	2.5	0.5	0.25
Total	10	10				3.5

Source: Research data 2017

Figure 6: Test of hypothesis 3



Source: Research data 2017

Decision Rule: Since the computed value of t (2.529) is greater than the tabular, value of t (2.353), null hypothesis (H03) shall be rejected while alternative hypothesis (H3) shall be accepted.

IX. SUMMARY AND CONCLUSION

This paper focuses on the link between corporate governance and entrepreneurial development in Mongolian firms. Collected and analyzed research data that provide evidence that there is a significant relationship between corporate governance and entrepreneurship development. The test of hypotheses provide evidence of significant relationship between the variables. Thus, the three null hypotheses formulated to guide the conduct of this study were rejected and their alternatives accepted. Specifically, the study provides evidence that support the view that weak protection of property rights and investors, and high concentration of ownership negatively impact resource allocation and new firm formation. Ownership concentration and weak institutions reduce new firm formation and hence entrepreneurship development. A good corporate governance framework and sound corporate practices are key prerequisites for companies as well as countries that wish to attract and retain the capital they need for investment and economic growth.

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