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蒙古中小企業發展因素之研究

A Research on Factors of SME Development in Mongolia



孟登

Munkhdemberel Enkhtur

指導教授：張子揚 博士

Advisor: Tzu-Yang Chang, Ph.D.

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## 國際事務與企業學系公共政策研究碩士班 碩士學位論文

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研究生：孟登 Munhdeemberel Entutur.

經考試合格特此證明

口試委員：\_\_\_\_\_

胡瑋平

李佩琳

張子揚

指導教授：張子揚

系主任(所長)：張心怡

口試日期：中華民國

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## 摘要

中小企業的成功取決於兩個關鍵的內部因素。本文採訪了蒙古中小型企業的不同關鍵人物，以研究影響中小型企業發展的關鍵國內因素。如果我們對蒙古的中小企業實施適當的政策並降低腐敗率，該行業的發展將會更快。由於沒有好的政策，特別是針對政府專業學者和研究人員的政策，該行業的發展正在緩慢發展。我的研究將表明，政治穩定，腐敗減少將提高蒙古的中小企業績效。由於原始數據量少，因此本文的證據主要是通過定性的訪談和調查方法收集的。

關鍵字：蒙古的中小企業發展、政治動盪、蒙古的腐敗



## ABSTRACT

The success of the SME depends on two key domestic factors. As mentioned above are the main forces influence the development of the SME in Mongolia. We have had an interview with different key people from the SME in Mongolia to study, which are key domestic factors affected SME sector development. If we properly implement well-suited policies for SME in Mongolia and reduce the corruption rate, the sector development will be progressed faster. The development of the sector is moving slowly because there are no delicate policies, especially policies directed to professional scholars and researchers from the government.

My study will suggest that political stability and less corruption rate and practices will increase SME performance in Mongolia. Due to the small amount of primary data, most of the data is collected through a qualitative method of interviews and surveys.

**Keywords:** SME Development in Mongolia, Political Instability, Corruption in Mongolia



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# CHAPTER 1. INTRODUCTION

## 1.1 Introduction and Background to the Problem

Throughout developing countries and developed countries, the part played by small and medium-sized enterprises (SMEs) is extremely important. The growth of SMEs is seen as speeding up the achievement of wider socioeconomic goals, including reducing poverty. The SME Resource Center reports that Mongolia has SMEs in most countries, representing 95% of all businesses and recruiting about 50% of the population.

The engines of innovation and competition are the SMEs in many industries. SMEs represent 99 percent of enterprises worldwide and 40 to 50% of GDP. Mongolia strongly believes that SMEs in Mongolia has the ability, by increased production and employment, to contribute significantly to economic growth and poverty alleviation. No single definition of a small company is uniformly accepted (Storey, 1994). Companies vary in capitalization, sales, and jobs. Definitions also include metrics of scale (employee amounts, retention, productivity, net value, etc.).

In Mongolia, a business is regarded as an SME if its annual turnover varies from TUG 5 million to TUG 100-150 million; its employee count is 80-100 million, and its funding needs do not exceed approximately TUG 50 million, respectively. Politicians and business and economic experts agree that small and medium-sized businesses are the main drivers of the economy. A thriving SME market adds to the economic basket by creating jobs, producing broad sizes and quantities of demand, improving sales and leveraging creativity and entrepreneurial skills.

Agency for Registration of Businesses in Ulaanbaatar reported that there are more than 98 percent of all industrial companies are in the SME market, which makes up the bulk of the labor force in 2011. Profits in a competitive business climate are long-standing necessary to survive, but SME management should embrace choices that are that or not. Previous studies looked at complex analysis, including SME demographics, company size, number of employees, the annual value of assets and internal and external influences, obstacles to the growth of SMEs in Mongolia at present. The Central Bank of Mongolia studied the current situation of SMEs in Mongolia in recent years.

The results of this survey revealed the internal factors affecting SMEs and their data analysis were carried out in the World Bank CAPI code. In The Central Bank of Mongolia's report, the domestic factors affecting SMEs ' success, labor skills, labor supply, organizational competitiveness, product sales, availability of construction equipment, quality of raw materials, human resources strategy, and new products ' ability to implement.

The road to the successful operation of small and medium-sized businesses confronting numerous obstacles.

## **1.2 Measuring the Growth and Development of SMEs**

To measure the development and growth of SMEs use different indicators. Usually are used indicators such as sales or turnover growth and increase of employment over a period of time. Also for measuring the development of SMEs are used as additional indicators such as asset value, market share, profits and output, though they are not very common compared with sales and employment indicators. Indicators such as the level of production and market share vary widely depending on the industry and as a result, it is very difficult to use them for comparisons, while profit is not relevant unless measured for a period of time. For this reason both sales and employment remain very important indicators for measuring the growth and development of enterprises. Data on the number of employees is usually easier to collect as they are much more important for the government. On the other hand, sales may be affected by inflation and it is very 5 important to use several indicators together to study the growth and development of enterprises (Davidsson et al., 2006).

## **1.3 Domestic factors affecting the development of SMEs**

Enterprises are affected by an external macroeconomic environment that cannot be controlled such as political, economic, social, technological, environmental and legal factors (Morrison (2006). As already mentioned above, these factors can rarely be affected by management decisions because they are external factors beyond the control of SMEs.

Access to finance- The first challenge is the financial constraints. Lack of capital or financial resources was a major barrier for SMEs and entrepreneurs who usually have to mobilize their own capital or their own resources to establish or expand their business (Harvie, 2005). In addition, SMEs in developing countries has difficulties in accessing bank loans as a consequence to the high risk for failing loans, low profitability and lack of collateral required by banks (Harvie, 2005). For many SMEs from countries in the region access to finance and capital appear to be difficult. This comes as a consequence of weak banking institutions, lack of capital market and inefficient legal framework regarding credit and collateral assessment. Financing of SMEs and access to finance plays a crucial role in the growth process and development of the enterprises (WB, 2011).

Competition- By entering the competition, the company tries to find competitive advantages that greatly affect the success of the enterprise (Walley, 1998). SMEs are usually not very competitive in terms of market knowledge, innovation, prudent investment, business operations and

good management, which are important factors in improving the quality (OSMEP, 2007). Developing countries compete with other countries as a result of globalization and increased trade, however barriers and other restrictions generally favor these countries (Lind, 2009). Competition is increasing by international companies as a result of the Free Trade Agreements (OSMEP, 2007). A survey of SMEs in developing countries was carried out by the World Bank. According to the findings of research competition represents a risk for survival for individual enterprises. Although competition represents high risk, it is the one who pushes companies towards higher productivity, which actually results in their growth and development. During the last decade, many researches have been carried out regarding the barriers faced by SMEs in Kosovo. The main barriers have been "Unfair competition" that includes tax system, the informal economy and public services, barriers which continued with the same intensity throughout the postwar period (WB, 2010).

Government policies- The importance of SMEs to the economy of a country indicates how important it is to have government policies that support SMEs, including regulations that enable them to operate efficiently and regulations that reduce their administrative costs (Harvie and Lee, 2005). Although there have been initiatives by governments to promote and support SMEs in order to enhance their development and reduce poverty, there is still a lack of laws and genuine administrative procedures such as accessibility to assistance from the government agencies (Harvie, 2005). According to World Bank research, complex tax systems, low level of trust in the judicial system, and the need to pay bribes to access public services, represent major barriers, especially in South East Europe (WB, 2000).

#### **1.4 SME in Mongolia**

World Bank studied in 2011 that every day the production of Mongolian SMEs is strengthened. For example, the production of small and medium-sized companies, therefore, requires a full supply of local lime, musty, glue, foam and refinement. According to Ministry of Finance survey in 2015 there are 126,560 companies in Mongolia register, 64,301 of which are active, and 84.3% are small and medium-sized companies are currently registered.

According to Ministry of Finance survey in 2015, there are 54,237 small and medium-sized enterprises and 766,911 which constitute 69.3% of the total workforce of this industry. Finance Minister Ch. Khurelbaatar recently said, "The production of SMB is approximately 200 billion MNT." Most of all, a huge amount of foreign funds such as offers and concessions is coming from Mongolia and SMEs are making money in their own countries. Investing in SMEs in any country is, however risky.

Business people who do business ideas are not good in particular. In our country, there is no distinction. The government should, therefore, change its position towards SMEs. Today, we have a lending burden for small and medium-sized companies. For example, interest is earned at least 18 percent annually. The reduction in interest rates and not the obligation to dial in a single digit is therefore essential. Rates of interest range from 4% to 5% per year. But for us, it's a lot higher. It does not help the Mongolian agency itself. 18 percent of annual profit is tremendous. The bank rents it to interest rates, but it is not lucrative for the businessman.

Thinking and talking about it is relevant. Providing SME assistance to SMEs by small and medium-sized enterprises, improving small and medium-sized development, encouraging sustainable growth, soft loans, providing incentives, exporting their goods and marketing help.

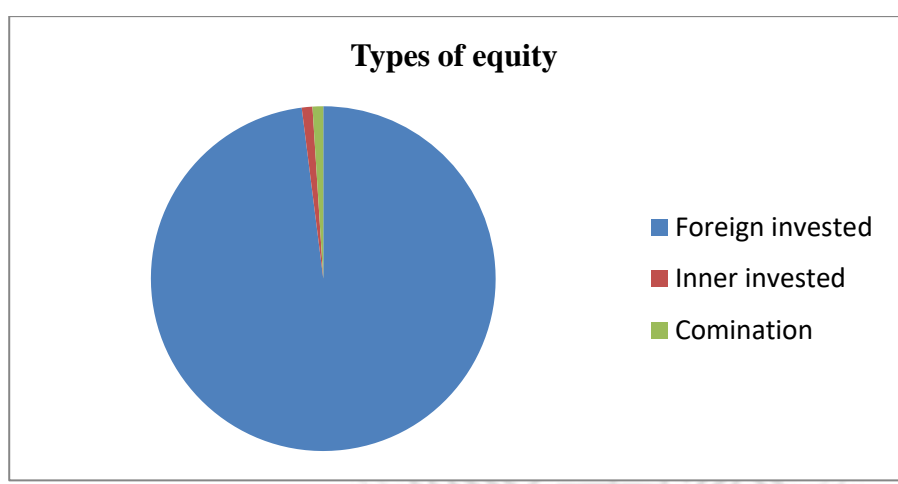


Figure 1.1 Types of Equity and Age of SME in Mongolia

Source: Agency for Registration of Businesses in Ulaanbaatar, 2011

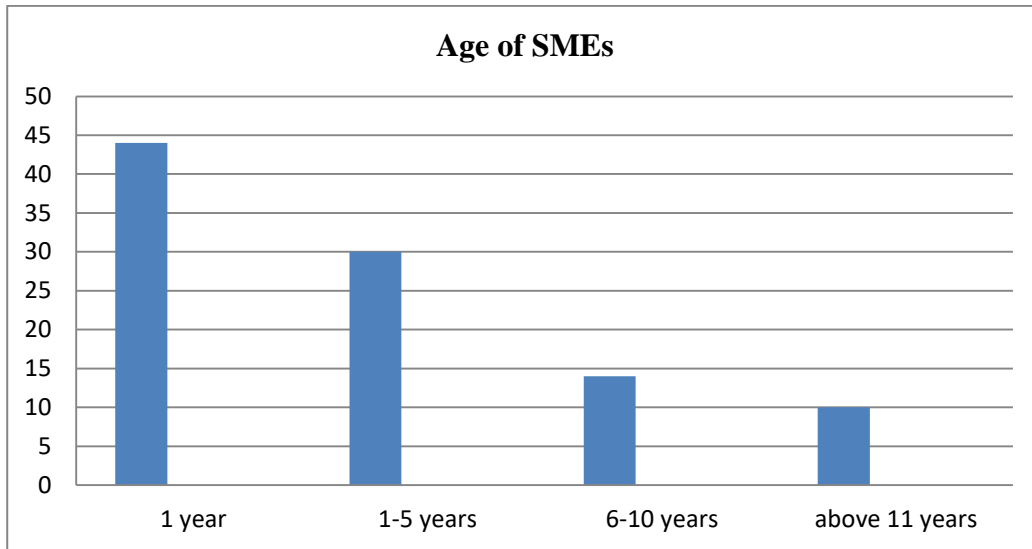


Figure 1.2 Characteristics of SME's and Employee's Amount

Source: Agency for Registration of Businesses in Ulaanbaatar, 2011

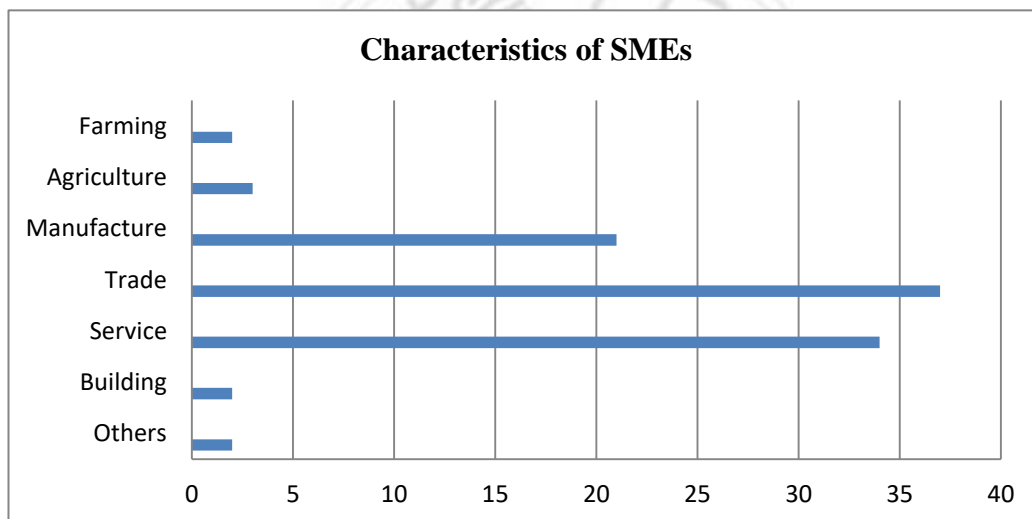


Figure 1.3 Characteristics of SMEs in Mongolia

Source: Agency for Registration of Businesses in Ulaanbaatar, 2011

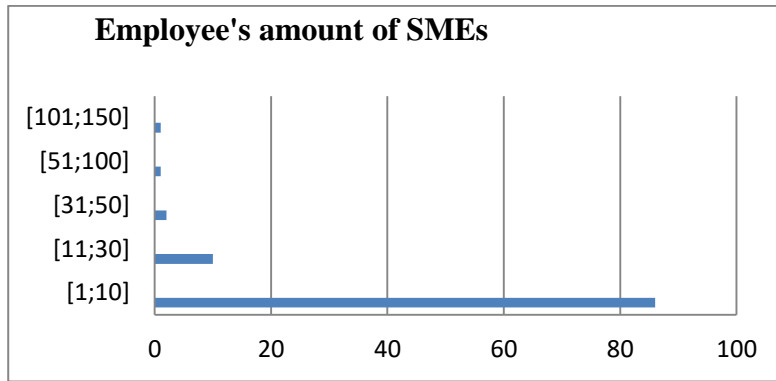


Figure 1.4 Employee`s amount of SMEs in Mongolia

Source: Agency for Registration of Businesses in Ulaanbaatar, 2011

### 1.5 Purpose of the research

How to develop Small and medium enterprises in Mongolia? Conversely, what are the key domestic factors which will affect the success of the SME in Mongolia? The answer to this question is the main purpose of this research. The purpose of the research is to present key external factors that affect the development of SME in Mongolia. Moreover, to study the current Mongolian SME sector also, and in particular, to identify the development to find the correlation between political instability and corruption in SME development in Mongolia. In other words, the purpose of that study means to investigate SME development in Mongolia. Furthermore, this study focuses on political instability and corruption of SME in Mongolia and study how these factors are affecting SME development in Mongolia.

In this context, sample interviews have taken from successful SME`s four directors and one university professor and made a conclusion according to the interviews.

### 1.6 Research Questions

Research questions have developed and purposed after reviewing the research background, motivation those are the relationships between political instability and corruption of SME in Mongolia as follows:

- (1) What are the key domestic factors which are influencing the SME development in Mongolia?

### 1.6.1 Research Objectives

- (1) To investigate and verify the relationship between political instability of SME development in Mongolia.
- (2) To examine and test the relationship between corruption and SME development in Mongolia.

### 1.7 Research Flowchart

The research flow chart is shown in Figure 1.5:

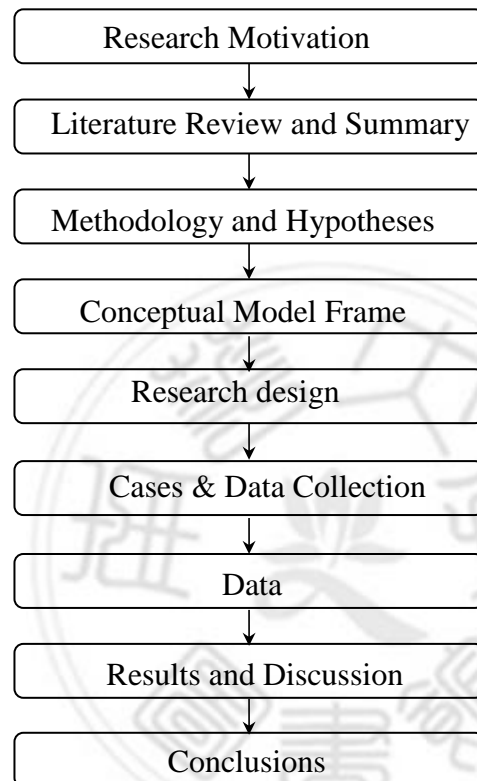


Figure 1.5 Research Flowchart

Source: Flow Prevention Survey (Achmat Salie 2008)

### 1.8 The structure of the Thesis

This research includes five chapters and the summary of each is as below:

Chapter 1 includes the research background, motivation, questions, objectives, and structure of research.

Chapter 2 introduces the previous literature about the definition and historical development of political instability and corruption and SME development, the developments of research hypotheses their relationships



Chapter 3 describes the development of the conceptual model, measurement of variables and research method.

Chapter 4 presents the research results from the interview, including the correlations relationship between the political instability and corruption are positively strength development of SME in Mongolia.

Chapter 5 contains the research conclusions defined according to the previous results and findings. The limitations of the also future research described at the end of the paper.



## **CHAPTER 2. LITERATURE REVIEW**

### **2.1 Literature Review**

In this section, research was conducted and linked to these research issues from previous studies. Part One of this section has been listed, addressed briefly and added to literature one by one, which deals with the meaning and history of political turmoil and corruption. The second part discusses the findings of all these publications which pose a global problem for small and medium-sized market trends in developing countries and Mongolia in particular.

#### **2.1.1 Previous Studies about SME Development in Mongolia by Ankhbayar. A**

According to the research done Ankhbayar. A University of Central Asia on the SME development in Afghanistan and Trade. He indicates certain recommendation regarding the SME development in Mongolia. The research and study done on this paper is made by the interview from some SMEs in Mongolia and doing case study on them. Basically the paper is focused on the trade possibilities and development for SMEs in Mongolia. The writer has briefly mentioned the role of women in the business. The paper focuses on the challenges which SMEs face in trade, which can be used in my paper as a factor which should be researched on. The paper recommends certain policies to be implemented in order to develop SMEs further. It has also mentioned the need of the linking business needs to education system so the students have the awareness of the ongoing changes in the market. Moreover the awareness of the businesses to use the government support and also women empowerment in the business sector. Corruption and bureaucracy are also mentioned as a problem which needs to be solved for the sake of SME development for trade.

#### **2.1.2 Master's thesis on SMEs in Thailand by Elin Grimsholm and Leon Poblete:**

In this paper the author has tried to find the problems which SMEs are facing in Thailand he has divided the problems into two perspectives, external and internal, and have tried to recommend some solutions to avoid these problems. As he mentioned, like Thailand, in Afghanistan also the economy is mainly on the SME and also the employment. He has mentioned the problems to be poor management competencies, lack of new technology and low awareness concerning CSR. He has chosen 4 enterprises and have done interviews with them. He has chosen companies in the Bangkok so the paper has the limitation of being only researched on the Bangkok companies. Through his research, he has found the following factors which are hampering the SME development in Thailand and some of them are somehow similar as in Mongolia according to the literatures about Mongolia. He has divided these factors into two parts and they are as follow:

Table 2.1. The factors affecting SME development in Thailand

Business factors	Domestic factors
Market	Access to finance
Lack of skilled labor	Competition
Management competence/ Leadership	Consumer behavior
R&D- Innovation	Governmental regulation
Technology	Corruption
CSR	Political Instability
Language barriers	Geographical location
Culture	Macroeconomic instability

Source: Master's thesis on SMEs in Thailand by Elin Grimsholm and Leon Poblete

### **2.1.3 Challenges and Prospects faced by SMEs accessing Credit Facility by Sarah Ernest**

This paper is written by Sarah Ernest Lyimo. She has researched about the problems of the acquiring credit from the banks. She has studied the case of Agricultural Inputs Sellers and Distributions in Arusha City of Tanzania. She has conducted interview from some certain enterprises and the bank which provide credit to the SMEs in Tanzania. Based on her studies she has recommended some policies like better collaboration between Banks and SMEs, Teaching SMEs about the terms for credit and also government role in making the Credit acquiring easier. Through this literature I can use a similar research on certain part of Credit acquiring in Mongolia.

### **2.1.4 Significance and Development Problems of SMEs in the Contemporary Market**

#### **Economy:**

This article reflects on the problems facing small and medium businesses in the market economy. The paper deals with the importance of the economies of Serbia and the EU. It discusses the challenges that SMEs face in July 2014 and how to cope with them. Mongolia has recently changed in the market economy to address these problems definitely. Such problems, are potential issues that should be discussed in Mongolia as well.

## **2.2 Political instability**

### **2.2.1 Definitions of Political instability**

The development of small and medium-sized businesses is linked to economic growth, economic and policy stability. In an unsettled policy environment, on the one hand, investments and the speed of economic development can be reduced. In comparison, poor economic results will contribute to the breakdown of government and political instability. Alesina and Tabellini (1990), Tabellini and Alesina (1990), Cukierman, Edwards, and Tabellini (2009) are several examples in which a country is not sure how it will succeed and thus participate in a sub-optimal policy to "aggravate" the state of the world inherited by its successor. Alesina and Tabellini (1989) analyze the impact of global instability on expenditure and capital flows, the most obvious use of this theory to economic growth.

This means substituting productive domestic expenditures for demand and capital flows and thus increasing domestic production the risk of a government collapse leading to a new policy vulnerable to raise assets and economic practices. Grossman's (1991) analysis of revolutions suggests another argument that leads to a similar relationship between political instability and growth. The likelihood of protests is higher in countries where governments are relatively weak, i.e. More possible to topple, and four people have greater opportunities for their involvement in disruptive and not successful economic practices. On the contrary, a strong ruler who would unlikely succeed in a revolution would discourage revolutionary activity in market activity. A similar line of research stressed the negative effects of earnings on economic growth by the practices of Murphy, Shleifer, and Vishny (1991) and Terrones (1990).

The constant threat of losing offices of a weak government may be particularly sensitive to the need for friendly lobbyists and lobby groups, contributing to more direct effects on policy decisions through rent-seeking practices. It is worth mentioning two reactions to these claims. The first is that the present government is incompetent and/or dishonest and its potential predecessors are perceived as an upgrade, which can support a high propensity of government changes. For a large sample like ours, the estimated quality of the competence of future governments is reasonably expected to be no greater than the competence of the present government. Second, if the government's tendency to reform is high, it may also minimize political instability, as the current government is more certain that it will fall.

Nevertheless, if it is not known with certainty the characteristics or even personality of the current government's replacement, an increasing propensity to change politics could lead to greater

political uncertainty. In addition, the threat of replacing a well-known (although perhaps inefficient) state with a lesser-known is enhanced. An analysis of the economic growth impact of political instability has to contend with the joint endogenous problem, although it is true that the higher tendency for regular changes in government will decrease development, low growth could also increase the likelihood of changes in government. In both democracy and dictatorships, the impact of development on government changes is likely to be seen.

In democracies, the broad statistical literature's confirmed strong pre-election development increased the likelihood of the government's reelection: voters did not reelect incumbents if they saw economic maladministration for the latter. In particular, voters appear immediately before the elections to be paying particular attention to income growth.

Low growth will increase public unhappiness and create incentives for political action against the state. These are the findings presented in their analysis of the social determinants of illegal transitions of authority in Londonregan and Poole (1990).

### **2.2.2 Political instability in SME development**

In the hybrid political systems of Mongolia, power was shared among an elect president and a government, designed by Parliament and headed by a prime minister. Mongolia had also been re-established to strengthen the Prime Minister's powers, with the aim of putting an end to years of costly political instability and economic stagnation. The President, normally from the opposition political group, may override the law and impose his own. The process has placed policymakers in difficulty to follow their goals and has also taken responsibility for long delays on major mining projects such as the coal mine Tavan Tolgoi and the Rio Tinto copper deposit Oyu Tolgoi.

Experts say that the reforms that were authorized by Parliament on Thursday, grant the Prime Minister full authority to select and remove the cabinet and reduce the Presidency's position. "Since 2010 changes in constitutional law have been debated and passed by two of three Governments. The primary goal was to improve parliamentary democracy," says Nomingereel Khuyag, an Opposition Democratic Party attorney and activist who claims prime ministers have historically not had adequate budgetary power or option to work with their own government. We had to reverse this and we have to have a large minority to control or oversee the prime minister if we give the prime minister more power,' she said. "We have not been able to say precisely who the corporate chief was in the last twenty years. It is now evident with the changes.

That further powers have been given to the prime minister. "Potential seats, while directly elected, will be limited to a maximum of six years, and contrasted to two-four years earlier, starting with 2025. Since it became a constitutional legislature in 1990, Mongolia has sixteen different governments. Current President Battulga Khaltamaa said earlier this year to Reuters that the system had prevented and had to be reorganized from addressing serious issues such as corruption and poverty. Battulga, elected in 2017 as a nationalist and a populist for political reform to boost his own influence, was elected against odds. Parliamentarians on both sides of the policy divide approved amendments that weakened his role. S. Luvsandendev, Political Analyst and Head for the Sant Maral Foundation polling party, said "If the governing Mongolian People's Party would like to steal the President's teeth, the (opposition) Democratic Party also wants to remove its word.

The biggest factor in competition in the market for small and medium-sized enterprises are the government policies in each region. Regulations can help them grow and compete effectively in the market. As already stated after Mongolia has turned into a market economy, a few limited efforts have been made in Mongolia for SME growth and it began recently, but the owners of the businesses are still dissatisfied since these supports could not include all the firms. It is a great factor because it's all about and affects that country. There is very little foreign investment in Mongolia because of its unstable political environment, and businesses in Mongolia have little chance of learning from foreign companies.

In Mongolia, companies tend to be small and spend profits internationally to prevent loss in the event of state decline. Many entrepreneurs were unable to venture into business in Mongolia.

## **2.3 Corruption**

### **2.3.1 Definition of Corruption**

What is corruption? This query has several responses. Analytically speaking, Vito Tanzi's more positive approach is that "corruption is intentional non-compliance with the 'arms-length' rule which is intended to benefit himself and related persons from this behavior." The first element concerns the principle of arms-length because it requires that personal and/or other relations do not play a role in economic decisions involving more than one party. For a well-working market economy, equal treatment of all economic agents is essential bias against specific economic actors explicitly violates the principle of arm's length and satisfies the necessary requirements of bribery.

There's no corruption if there's no bias. The World Bank frequently employs an alternative definition of corruption that stipulates "abuse of public offices for private gain." This definition addresses and links corruption in the State, its activities, its state interventions on the market and the existence of the public sector, and considers the cause of corruption in the public authority. In other terms, this concept excludes the possibility of private-sector bribery and focuses exclusively on public-sector corruption.

The Nobel Prize winner Gary Becker claimed that "if we dismantle the state we are abolishing bribery." The problem with the alternate concept is that bribery is not all abuses in public office. Some are simple robbery, fraud, misuse or similar activities, but no corruption. It is no bribery—it is a felony, just another kind of fraud if a senior government official actually unlawfully appropriates the sum of money from his budget without providing service or benefit to anyone. It is socially unacceptable, yet bribery is not yet acceptable, and corruption is not the only socially unacceptable or illegal issue.

Therefore, extortion is something that provides an explicit infringement of the rule of law, but since no benefit occurs in the person who has suffered extortions (such as a judge or a prosecutor), such a breach is not bribery. It is important to distinguish between bribery and other illicit acts since corruption reasons and corruption practices are usually or may be very distinct from other forms of illegal activity. The period of economic recession following the period of high growth in the country calls for the explanations for low production levels of SMEs.

While SMEs make a major contribution in many countries of the world in GDP and jobs, the Mongolian economy has not attained the same level despite Mongolia being 35th in the World Bank's Doing Business 2017 rating, increasing its rating by 16 points as compared to "Doing Business 2016." Mongolia has entered the top ten countries with a large number of business climate reforms. For the fourth time in the past 12 years, the World Bank has identified the country as the best reformer. The nation was the sixth in the "Doing Business 2017" metric for the safety of minority shareholders.

Systematic research on the role of "Doing Business" by the government of the Republic of Mongolia was followed by progress. There were also unparalleled steps taken to improve the business environment and to alleviate the bureaucratic burden on industry by updating existing legislation, strengthening the regulatory approval process, simplifying business establishment

processes and maximizing State regulation and oversight structures. Simultaneously, the World Economic Forum estimates that graft was fifth among Mongolia's most important business issues (Schwab 2017: 220). The ranking of the country in the Transparency International Corruption Perceptions Report was not entirely adequate. In 175 countries, Mongolia holds the 131<sup>st</sup> position (CPI 2016).

### **2.3.2 Corruption and SME development in Mongolia**

The threat of corruption raised by political corruption and systematic judicial bribery of companies operating in Mongolia. The Criminal Code and the Anti-Corruption Act, which prohibits active and passive bribery and abuse of office, are important anti-corruption laws. The statute does not clearly define and is not consistently enforced in anti-corruption offenses. The fee of assistance shall be a grey area and contributions would generally be treated as bribes, not specifically mentioned in the legislation. Up to 10 years in prison and fines are the total penalty. Mongolia has signed the UN Convention on Abuse.

### **2.3.3 Corruption and Political instability of the judicial sector in Mongolia**

In the judicial system, there is a high risk of corruption. The judiciary in Mongolia was due to corruption, nepotism, and violations of human rights (BTI 2016). The constitution guarantees the independence of the judiciary, but outside pressures remain (HRR 2014). A failure to provide guidance, staff and resources makes the judiciary corruptible, especially when large sums of money are involved (e.g. Cases against a domestic government agency of large foreign corporations or a well-connected Mongolian private citizen) (ICS 2015). Irregular fees or bribery is often traded for favorable court decisions. (GCR 2015-2016). Companies consider that existing legislation is not effective for transparency and corruption-free business environment and that the legal framework is ineffective in regulatory challenges or settlement of disputes (Asia Foundation, 2015; GCR 2015-2016). Two-thirds of respondents to the Mongolian study thought their judicial conduct was unfair (Asia Foundation, Jun. 2015). The conviction and imprisonment of three employees in the mining industry in 2015 suggest that Mongolian tribunals do not fully comply with due process principles. Foreign shareholders are in danger of being coerced and refused their exit visas to resolve legal issues in disadvantageous terms (ICS 2015; Forbes, Nov. 2014).



### **2.3.4 Corruption and Political instability of Government organizations and Public Servants in Mongolia**

Corrupts records are not accessible to the police. The police force provides inadequate procedures for the prosecution and deterrence for violence (HRR 2014). Companies find that police can only report few losses due to crime and abuse can be relied on always (GCR 2015-2016). Corruption in the acquisition of public licenses or services constitutes a high risk for companies in Mongolia. Most companies are affected by corruption in the public sector (Asia Foundation, Sep. 2015). Rarely are illegal fees for public services and fewer people claim direct involvement in smallholders ' bribery (GCR 2015-2016; Asia Foundation, Jun. 2015). Six percent of the Mongolians surveyed reported paying bribes in the last three months, usually facilitation payments (around MNT 277.000 each averaging). (Asia Foundation, Jun. 2015). One company in three expects to provide donations or exchange informal payments to be granted an operating license on average (ES 2013). Half of the companies surveyed expect protection from corruption (ES 2013).

Mongolia ranks as one of the least populated countries in the world (Telegraph, July 2015). Mongolia is big. It affects the delivery of public services, many of which are inadequate for many regions of the country still do not have a daily electricity connection (BTI 2016). For businesses, it takes on average 79 days to receive energy in a newly built warehouse (DB 2016). It takes only 6 days to start a business and costs significantly less than elsewhere in the area (DB 2016).

### **2.3.5 Corruption and Political instability in Legislative sector in Mongolia**

The Anti-corruption Legislation (ACL) and the Criminal Code dealing with corruption, but there is no clear definition of crimes in law (OECD, Oct. 2015). The implementation is also inconsistent (ICS 2015). The Criminal Code forbids corruption and money laundering by agents and contractors, as well as active and passive bribery. The sentence includes up to 10 years ' detention and/or fees. There is no discernment between public and private officials in the Criminal Code so that corruption is criminalized in the public sector by generic bribery laws (OECD, Oct. 2015). As the largest investigative body, the ACL establishes the Independent Anti-Corruption Agency (IAAC). The ISA. Gifts are primarily protected by prohibitions against bribery, but facilitation fees tend to be a gray area. In the Public Services and Conflict of Interest Regulation and Private Interest Act, officeholders and parliamentarians will disclose their property quarterly to the IAAC (BTI 2016). Every year. Despite a number of high-level prosecutions, effective enforcement barriers exist.

Mongolia has signed the United Nations Convention against Corruption but is no Party to the OECD Convention to Fight Bribery.2.4 Introduction of the respondents

For this research, the sample of the population, which is reaching out to get information from, is trying to be as random as possible so the respondents to the interview is selected from different businesses and different cities in Mongolia. Even the business scholars is reaching out to get information from different parts of the country. We have had interviews with different key people from the successful SME and university professors in Mongolia to study, which are key domestic factors affected SME sector development. To decrease the risk of misunderstanding and misinterpretation the interviews were taken with local language and then the translation was sent back to respondents to get confirmation to post them as data. The respondents were chosen by the characteristics of being the closest person to the business and the institutions, the one who is working closely on this issue. The respondents were as follows:

Table 2.2 Introduction of the respondents

NO.	Company name	Company sector	Name of the interviewee	Position of the interviewee
1	Ministry of Agriculture and Trade	Ministry	Mr. Hasherdene	A former employee of Ministry of Agriculture and Trade
2	Mongol Uv shaazan	Manufacture	Mr. Jigmed Turbadrakh	CEO
3	Hunnu Concrete company	Manufacture	Mr. Batzegzen Chuluunkhuu	CEO
4	Mongolia University of Science and Technology	Scholars from University	Ms. Duuriimaa Olzvoi Mr. Ulzii-orshig Batbayar	Professors at department of trade and management at Mongolia University of Science and technology
5	National University of Mongolia	Scholars from University	Ms. Ganbolor Sukhhuyag Mr.Khatanbuuvei Chuluunkhuu	Professors at department of Business Administration at National University of Mongolia
6	Urlal brand	Manufacturing bags	Mr. Batdorj.T	CEO

7	Ulaanbaatar Guril	Manufacture	Ms. Tselmeg Oyunnaran	CEO
8	Meru LLC	Service industry	Mr. Enkhjargal Batavian	CEO

Source: The author

### **2.3.6 Introduction of Mongol Uv Shaazan LLC, CEO of the company has participated in our interview**

Porcelain objects were invented around 5000 BC, and Chinese products were propagated in China in the last 3000 BCE. The first Chinese products began to spread in areas near Russia and Moscow in 1724 and were sold throughout Germany, Egypt, Greece, and Italy. Approximately 30 years ago in Mongolia, the production of porcelain was well developed and the home porcelain bowls and meals were provided in full. In the past, Mongolia has also created souvenirs, vases of homes, presents and porcelain decorations. In 2004 a company "Mongol Uv Shaazan" was opened in the Nalaikh district of Ulaanbaatar by a group of fellow workers, who worked for a Mongolian porcelain vase plant. The firm was founded by Jigmed Turbadrakh and now employs 97 people. It creates 7 to 8 different kinds of Chinaware items from horse sets, sirs and Madame, the King Enkh-Amgalan, etc. The goal is to modernize their development by diversifying the product categories and further renovating the product designs. They source the raw materials from the manufacturer, but they have now developed all the substances and products for themselves based on the experience and information they have been through. Shortly 100% of Mongolia goods will be available for sale with high quality and lovely appearances. Introduction Hunnu Concrete LLC, CEO of the company has participated in our interview.

In 2011, it was set up for the manufacturing of building raw materials, major building materials, as concrete mortar and other items. It has two factories, with 90m<sup>3</sup> and 180m<sup>3</sup> concrete, mortars an hour of production capacity, 90 workers and 100% nationwide committed. It is a member of the National Concrete Manufacturers Association. Our laboratory tests on cement, sand, gravel and supplier products are carried out regularly by our experts. Hunnu Concrete is also a part of The Korean concrete organization (KCI) which is a body devoted to concrete science & study, education and business, concrete products, building & renovation, concrete reinforcement theory and practice, concrete manufacturing and all other sector specialties. The founder of the company is Batregzen Chuluunkhuu. M100-M600-type concrete, mortars and high-grade concrete, mortars are

manufactured by the HUNNU concrete batch mill, which provides rapid delivery & distribution services at the building sites in order to fully satisfy the ever-increasing demand for concrete for construction materials.

### **2.3.7 Introduction of Business Administration Department at National University of Mongolia,**

The research professors have participated in our interview as scholars NUM or MUIS and the oldest University in Mongolia, established in 1942 and originally named after the Marshal Khorloogiin Choibalsan, is the National University in Mongolia. Throughout Ulaanbaatar, there are 12 colleges and faculty and in Zavkhan and Orkhon provinces are running branches. Around one-quarter of the Mongolians trained in school have been reported to be NUM associated with the founding of Mongolia's first modern high school in 1921, an academy at a higher level had to come into being. In 1942 Mongolia's first college, the Mongolian National College, was founded by the government and its first students graduated in 1946. The University was the center of learning for the party elite under communism. The government compensated for training and narrowly tested it. This slowly became a more liberal institution following democratization. In 1995, it began offering bachelor, associate, and doctoral degrees. As of 2018, over 18,000 students are enrolled in different programs, mainly in Mongolian. We selected two professors from the business and economic divisions of the college, Mr. Khatanbuuvei Magsar, and Ms. Ganbolor Sukh-khuyag.

### **2.3.8 Introduction of Mongolia University of Science and Technology,**

An assistance professor Ms. Duuriimaa Olzvoi and a professor Mr. Ulzii-orshih Batbayar at trade and management department have participated in our interview as scholars The Science and Technology University of Mongolia is often known as MUST. MUST was established by 5 faculties and 13 departments in 1969 and called the Polytechnic Institute, a part of the National University of Mongolia. On the extensive campuses in Ulaanbaatar Town, Darkhan, Erdenet, Uvurkhanai and Sukhbaatar provinces, the Mongolian University of Science and Technology is one of the leading state universities in the country.

In 2002, it ranked seventh among Asian universities for technology and science. It is also one of Mongolia's largest research and cultural centers. Around two-thirds of all Mongolians with a degree of academic education have studied MUST. MUST include seventeen technical schools, universities, and 3 research institutes and 36 tests and innovation centers, whose faculty provides students from the first year through to (Ph.D.) candidates in architecture, science and other fields of study. Currently, nearly 22000 students and international students study in colleges, 120 professors and over 1000 personnel are involved in student preparation, education, and research, college

administration and leadership. The quality of both teaching and research is very high in universities for undergraduate or postgraduate studies. Essentially, participants are able to choose any number of courses in a wide variety of study areas to participate thoroughly and interdisciplinary.

The University organizes two types of undergraduate training, regular in-service training and full-time training to meet the needs of the community and society. The main focus of the Mongolian Science and Technology University is on country-relevant goal-oriented research and development (R&D). In order to encourage contract study, the University establishes partnerships between the university and business in both the public and private sectors. The University has educational ties and exchange programs to over 120 universities in Europe, Asia, and Australia, Canada and America from more than 20 countries. We picked two Professors from the University, Mr. Duuriimaa Olzvoi and Mr. Ulzii-orshigbat, for an interview.

### **2.3.9 Ural Brand of Mongolia CEO of the company has participated in our interview**

Ural Brand of Mongolia is a maker of handcraft products and has 2300 employees since 2005. Does the company really require a lot of money? Clearly, not. This is illustrated by many stories and experiences. Mr. T. Batdorj's name is the one you see here. This narrative he's living. His first business began in his pocket was with only 500,000 MNT. In other terms, he made 150 pairs of felt slippers with that money in the whole business, with the sum of money to be spent on by the wealthy young T. Batdorj in a day. For a total income of 1,800,000 MNT, each slipper pair had been sold to 12,000 MNT. He made a net profit of 320,000 MN after his elimination of labor costs, product wastes and raw material acquisitions. It doesn't sound very much, but for his business, it was a good beginning. Now the company produces everything, including typical Mongolese clothing and accessories.

### **2.3.10 Ulaanbaatar Guril LLC, CEO of the company has participated in our interview.**

The company has been founded in 2008 and extended in total to automatically supply 100 tons of wheat grinder per day for Darkhan, Mongolia and Turkish, renamed Alapala, Turkey, the largest global wheat supplier with 108 employees and one of the largest producers in Mongolian flour. Their products are a system that consumes less than 12-fold clean water and 25 percent less oil than other flowering plants. Its use is friendly for the environment. The company has produced 12 sustainable cleanup products since its creation and addresses customer needs. "Ulaanbaatar Guril" brand is a major brand name manufacturer with a market share of more than 30 percent in Mongolia for meals.

### **2.3.11 Meru LLC, CEO of the company has participated in our interview**

After our inception in the sector, our business has supplied Mongolia elevators and escalators and has 83 workers. The name of the company is Mr. Enkhjargal Batdavaa and since 2007 it has been a special agent of the Chinese National leading Canny Elevator group and its services have been produced in compliance with international standards and after-service installation and activity. Canny is known for manufacturing and supplying major elements such as a tractor, control panel, VVVF door system, onto the world market through elevators and escalators.

Canny Elevator was one of the world's leading TOP 10 firms in 2017. This has culminated in the world record for the 288 high lift trial tower with a dual lift frequency of 21 m / s and a 50 meter-long escalator. This highly skilled firm in Mongolia supplied the productive material and operated particularly for the consumers and the safety of passengers. Each year the ISO QC100 and QMix were grouped under the Business Development Manager (BID) International Company and by 2015 our group was awarded the International Performance Crown by the type of Management and service certification.



## CHAPTER 3. METHODOLOGY

The study shows that the instance community is known as entrepreneurs and businessmen in Mongolia who have a prosperous SME company. This chapter provides the research paper's conceptual model, offers background, literature and conceptual models and describes the methodology of the research, the measurement and the definition of variables.

### 3.1 The Conceptual Model

The study defines the relationship between service quality, reputation, uniqueness, and start-up success. We have developed the concept model frame based on the literature review as shown in Figure 3.1:

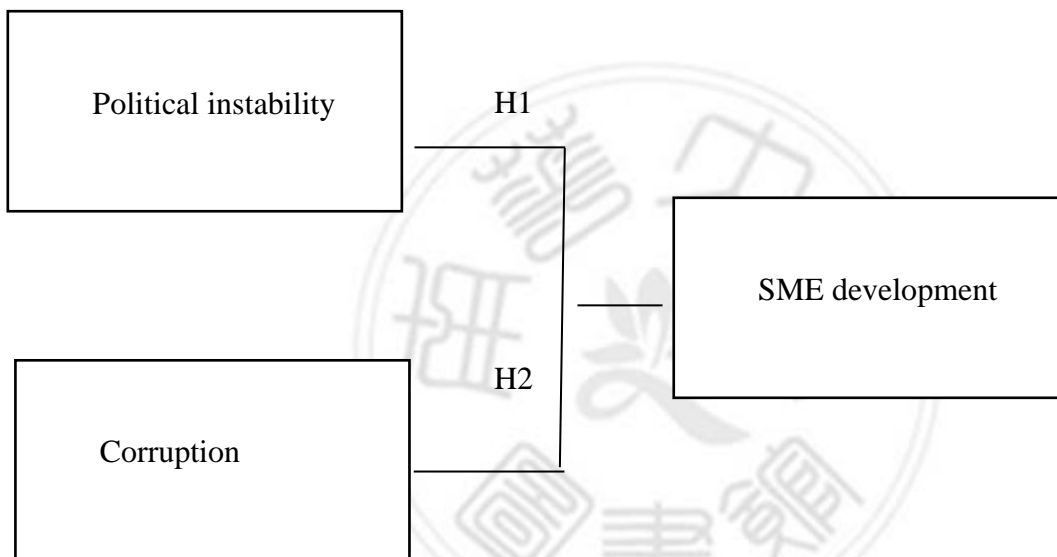


Figure 3.1 the Conceptual Model Frame

Source: The author

### 3.2 Research Hypotheses

According to the research objectives and literature review, the following research hypotheses are defined below:

**H1:** Political instability is significantly related to SME development.

This means a replacement of efficient domestic assets in favor of export and the fleet of equities that will lead to a new policy vulnerable to raise resources and economic development, thereby increasing domestic production. Grossman's (1991) study of revolutions suggests another claim which leads to a similar link between political instability and development. For nations that are relatively weak, harder to overturn, the odds of protests are higher and 4 people have more

opportunities for disruptive rather than successful market activity. By comparison, a powerful leader who is unlikely to succeed in a revolt will deter disruptive behavior for the good of markets. The related research lines emphasizing the negative impact on the economic growth of rent-seeking activities, particularly the work by Murphys, Shleifers and Vishnis (1991) and Terrones (1990). A weak government under constant threat of losing office can be especially susceptible to the requirement of pleasant lobbyists and pressure groups which can have a more direct effect on policies.

## **H2: Corruption is significantly related to SME development**

After the era of strong economic growth in the region, the period of economic recession calls for the explanations behind the low rates of production for SMEs. For the fourth time in the last 12 years, the World Bank has listed the nation as the top reformer. The country was third in the "Doing Business 2017" indicator (Protecting Minority Investors). In order to promote the improvement of the doing ratings, systematic work of the government of China. There have been significant steps to change the business environment and eliminate red tape through changes of existing laws, enhancement of the regulatory authorization process, simplification of company development processes and improvement of state control and supervisory means. The World Economic Forum Report also notes that corruption is one of Mongolia's third most important business problems. (Schwab 2017: 220). Transparency International estimates that the country is not completely satisfactory in its ranking in the Corruption Perceptions Index. Mongolia is ranked 131st in 175 countries (CPI 2016).

### **3.3 Research Methods**

During this analysis, the connection between political instability and corruption and SME creation was described using qualitative research methods. Political instability and bribery are separate in this context; the growth of SMEs is factor-based. The study explores the subject and has used analytical approaches to classify the results. The bulk of the information was gathered by way of descriptive interview and questionnaire methods due to small volumes of primary data. As in other literature, interviews and field studies are performed on the same issue. Qualitative methods focus on comprehension, observation in a natural environment, and interpretation and data proximity with an insider's view. It is considered the best approach to business and management. The best method for serving the aim of this paper in this situation.

There are two types of research methods that are usually the most commonly used in collecting data: quantitative and qualitative methods. The quantitative methods are systematic empirical



studies, which involve the mathematical and statistical quantification. The results are gathered and converted into statistical statistics to see whether a correlation can be identified so that conclusions can be drawn from the results obtained. In other terms, statistical representations contribute to quantitative methods.

Qualitative research is not based on numbers or statistics. Qualitative approaches are often applied to case studies in which data collection from some study subjects can be obtained. By contrast, qualitative methods prioritize comprehension, perception, analysis in natural environments and the access of evidence from a certain form of an insider view. Qualitative analysis is an appropriate solution to business and management studies.

The method of choice study depends on the type of experiments that are carried out. The advantage of using a qualitative method in research is, however, that the method takes the overall picture into account in a way that cannot be quantified. A qualitative methodology will be better adapted to achieve this experiment since the dissertation examined which factors affect the performance of startups in Mongolia because of the difficulties of quantifying theories, values, ideas and opinions.

Through extensively examining the inner actions of individual companies and their external aspects, the attitudes and expectations about the key factors in Mongolian company startups can be clarified using analytical approaches. In this study, though, even analytical approaches are used to assess whether or not businesses are increasing. Data is collected from each organization concerning the output of added value and the number of employees who are the two metrics of development selected for the study. Such data were gathered through a survey that was submitted on July 2019 by CEOs and academics.

### **3.4 Data collection:**

Because of the small amounts of secondary data, the bulk of the data collected for this paper is primary. The secondary details were collected in the existing literature offering general information on the progress of SMEs in Mongolia. The results were linked to the plan goals and actual data.

Apart from secondary information, the interviews often obtain primary data and open questions with a successful launch in Ulaanbaatar, Mongolia, market scholars and SME research in Mongolia. A qualitative interview is produced for this article, but qualitative interviews also include two styles, unstructured and semi-structured interviews.

The researchers will make a question in the unstructured interview and the respondent, who should be listening, will give answers and explanations. During a semi-structured interview, the

interviewer shall pose a checklist of questions, and the interviewee shall meet the demands of the interview.

### **3.4.1 Interviews:**

Due to the extent of the research, the chosen directors, CEOs of 5 firms and 4 educators and one ex-worker at the Ministry of Commerce and Agriculture of Mongolia have to collect as much data as possible in order to achieve a deeper understanding of the progress of SMEs in Mongolia.

In order to collect primary data, it was agreed to use qualitative interviews. In many ways, qualitative interviews are subtly different compared to interviews for quantitative research, for example, the qualitative interviews are usually far less organized. In contrast, qualitative interviews are generally regarded as versatile, the interviewer adapts and responds to the particular interviewee, the respondents' points of view are of great interest, comprehensive and thorough responses are obtained, the interviewer can abandon the plan utilized, new questions can emerge because the response is given and questions are updated.

Qualitative interviews are conducted differently; unstructured and semi-structured interviews. The interviewer may start the discussion with a request during a non-structured interview and then listen closely to the participant who communicates honestly, while a six-part interview meets the summary list of issues and concerns the investigator wants to answer during the meeting. In this study, semi-structured interviews are used as a tool.

The reason why the semicircular technique is chosen is mainly because we want interviewees to talk freely about what is hindering their business ' growth. This open question method allows us to change our queries in line with the individual characteristics of the organization and the sort of problem they face.

The interview is semi-formal and neither unrestricted nor highly structured. Semi-structured interviews provide an incentive to control question order and the interviewees have the opportunity to expand their theories and to discuss various topics in-depth, rather than simply relying on predecessor established principles and queries. This is more versatile than hierarchical approaches, such as organized interviews or questionnaire surveys.

### **3.4.2 Theoretical framework**

An outline of previous studies is given in each chapter. The first part of the study addresses how the importance of start-up success impacts. In the second section of the literature, the impact of reputational literature on performance should be described and addressed. A literature review on the unique impact of the product service in Mongolia on start-up success will feature in the third part of the literature review.

### **3.4.3 Respondents:**

The selection of the population from which data is collected is meant to be random to the greatest extent possible so that participants from different companies and different cities in Mongolia are chosen for that study.

Because of the absence of industry know-how and experience in Mongolia, the officials who take the interview first test whether they are able to answer questions in a right and right manner or, in other terms, whether they have an awareness of the current market trend and market condition. The writer also has funding for the MREDP (Mongolia Rural Enterprise Development Program) from the Ministry of Rural Rehabilitation and Growth in Mongolia. Mr. Amarbayasgalan helped me get in touch with the contact unit director of MREDP, Mr. Hasherdene Nasanbuyan, a former employee at this Ministry of Agriculture. He enabled me to provide a great deal of information on the public sector, which is in particular involved in the development of the small-and-medium-sized enterprises in Mongolia. The president and CEO of Mongol shaazan, Ulaanbaatar Guril group, Urlal Company, also called the Mongolian Chamber of Commerce (the Mongolia Chamber of Commerce), a private institution that deals in private business in Mongolia. This provided me information about the company. In fact, an interview is performed for the city in Erdenet of Mongolia, which is one of Mongolia's most significant industrial cities. Four professors have been surveyed from universities. All the interviews have been recorded. The interviews were performed in the local language to reduce the risk of confusion and misinterpretation, then the transcription was sent back to the respondents to receive a confirmation to report this as information. The respondents were selected based on characteristics that allow them to work closely with the company and the organizations.

### **3.4.4 Reliability and validity:**

There has been an internal and external quality and integrity theory according to Bryman and Bell (2007). The internal factor is whether more than one researcher is involved in this study to depend on the data and research. Internal consistency relates to how far this can be applied to the original study if further work was carried out later.

Nevertheless, objective consistency is not feasible for this study, as this analysis relies on the timeline of the experiment, and can be altered when the time changes afterward. In this situation, Bryman and Bell (2007) suggested a method that adopts the position that the first author assumed so as to produce the same outcome as the first research. In this chapter, we will discuss the complete context of the interviews and surveys in order to achieve high reliability and credibility in this thesis.

In addition, in the section of Appendix 1, all surveys and interviews were conducted. The entire process is so arranged that the researcher who wants to investigate the same case can refer to the information provided and compare the results. The inner validity refers to the level of agreement between the researchers and the result, which is if the observations are matched to the theoretical idea they discussed during the research. External consistency is seen as a strength in qualitative research since the researcher continues for a long time to look at the social environment and experimental setting in which he has found a good correlation between their experience and their definition.

On the other hand, for qualitative research, external validation is considered a problem. External validation is shown to be significant if the outcomes of the experiment, extend to other social environments, however, as, in qualitative research, a community survey is used to test the effects in August. All interviews for this research were conducted in the local language and were recorded to improve the validity of this research.

The questions are interpreted and sent to the participants for content verification. In contrast, the questionnaire survey was carried out to increase the number of respondents and then equate it with the interview in order to increase test reliability and decrease the opportunity for the researchers to collect information themselves.

## **CHAPTER 4. DATA ANALYSIS**

### **4.1 Interview Analysis**

In this chapter the data which is gathered from the interviews are presented. Moreover the findings from the quantitative data which has been researched. The respondents were asked to answer regarding their last 5 years, the problems and obstacles they face in the path of their development. Each responds are further divided into two parts as domestic factors affecting SME development and solutions. In the second part this chapter the result of institutions and associations which were interviewed are presented.

### **4.2 Domestic factors affecting the development of the following companies**

Mr. Jigmed Turbaddrakh, the company's CEO, has begun his reaction with the mention of bribery to the external factors that affect its company growth.

Political instability has to do with entrepreneurs and the companies ' lives and properties. He listed this issue because the organization cannot fix it and this question is a national problem that the government will address. With respect to the beginning and financial aspects of the company, he said that they had no issue since the acquisitions were made by internal owners. Initially, the company only needed a few workers to produce the final product that needed very little investment to start.

Our company wanted to be involved in tenders, but the government did not think they were eligible. As rivalry is a challenge, he has indicated that Mongolia doesn't have, much like this, but internally it isn't a big issue for them, but companies with similar products from neighboring countries are hindering their growth since their products are very low quality in the neighboring countries which depend on quantity and cost.

In addition, since Mongolia is promoted by an open market and free trade with China, production companies are faced with more problems to compete with their neighboring country companies. Keeping that issue in mind, the CEO has proposed the solution of a clear strategic plan for defending small and medium-sized enterprises in that country. He explains that it will be difficult for SMEs to survive if the market takes place in the same condition.

However, the CEO listed government rules and regulations as a challenge for small and medium-sized businesses as they are complex.

Instead of government support of private companies, policy legal procedures often hamper growth for small and medium-sized enterprises. For example, he clarified that you have to take very complicated procedures for fiscal clearance and bribe and bribery in each phase.

With respect to the funding of small and medium-sized organizations, he said that he had no valuable support or help from them. It was usually very basic things like workers' dress, children's first aid and fire capsules. He wished that the funding and assistance of SME organizations would be properly taught about companies and exports to enable small and medium-sized businesses to expand more effectively. Enable SMEs to succeed in the market with more efficient production methods.

Professors of Ms. Ganbolor Sukhbat and of the National University of Mongolia as well as of the Mongolian Universities of Science and Technology Mr. Khatanbuuvei Magsar, Dariimaaa Olzvoi or UlziiOrshih Batbayat pointed out that there were no secure and open activities of governments' institutions and the selection of entities to be active in the examination and foreign expertise.

Therefore, the inspectors evaluate the test only from a personal level. This led to the conclusion that it was very complicated for SMEs to access the support of the government organization. The German Technical Cooperation Association's review of the plan "Addressing SMEs" considers that the governmental bureaucracy addressing SMEs and duplicating rules and procedures developed by the local administration by the governmental organization and having duplications of exams is also an obstacle.

Although the Law on Small and Medium-Sized Companies was approved and adopted respectively in 2007 and 2009 by State Great Khural and the Law on Legal & Regulatory Status for Industry and Technology Park, the state politics against businessmen, self-employed people and households belonging to small and medium-sized companies remain uncertain. This must have been the main reason for the second weakest predictor in the legal environment.

Ambiguity in monitoring and review systems, land procurement and foreign trade rules, taxation systems and legislation and the legal environment, and change as ministers are replaced affects the development of small and medium-sized business production. As reported in their report, as of the first quarter of 2019, there were 75,691 registered firms in Mongolia and 40,317 of them were effective directors, which is the legal definition of 98% as the small and medium-sized businesses. In contrast, 33% of the firms of the successful SMEs, which make up nearly 12,000 organizations, are paying taxes. The statistics show that most of the businesses involved in activities are SMEs, but that about half of these SMEs do not pay their taxes on a regular basis. This shows that the tax system is poorly handled.

In 2012, the level of poverty (poverty coverage) rose to 27.4, a 2.4 unit lower than the previous year, following the "Household Social-Economic Survey" of the National statistical office.

Nevertheless, this level appears to be one of the main factors that have a negative impact on SME growth. SME growth, finance, and the study said that the second major factor after deprivation from the point of view of society is unemployment. In 2013, 1198,3 thousand economically active people were working, of whom 1103,6 thousand or 92,1% and 7,7% were unemployed, according to the "Workforce Report" carried out by the National Statistical Office. When they look, they will have many significant impacts on improving the environment of legal regulation and SME's legal environment, such as building up successful SMEs, generating jobs, decreasing poverty and unemployment, and growing domestic production. SMEs, Countries thus focus on improving the optimal legal environment for small and medium-sized businesses and implementing effective policy measures. As per our country, with the approval of State Great Khural's "SME Act" in 2007, the concepts of SMEs are created, State policies in support of small and medium-sized enterprises, State policies and main guidelines on SME development and activities and the structure for supporting SMEs are specified.

The holders of SMEs can also lease financial leasing production equipment and the Financial Renting Act was enacted in 2006. The application of the law allowed SME owners with financial problems to secure loans via mortgages for the machinery which they bought and run. The SME Development Fund was established and authorized in the "Government Specific Funds" Act (2007) to support the development and extension of SMEs. The Legal Status Act of the Park was enacted and implemented by the State of Great Khural (Great Khural) in 2009. The goals of creating the environment for SMEs and household development and services and the creation of jobs have been reflected in the park established in this Act. The Duty-Free Tax Act for SME manufacturing equipment products was approved in July 2009 and was complied with since 2009. Extended to 31 December 2016.

According to that rule, the government's and Bank of Mongolia's research paper ' Booklet 9' 192' accepted' the list of machinery and spare parts for manufacturing of the small and medium-sized enterprises which are excluded from customs and VAT.' Most recently, 594 types of equipment and replacement parts, which will not be taxed and VAT in June 2014, were issued by the government. The Law for Employment Promotion was enacted in 2011 and the law addresses aiding herders, self-employed and civilians who are willing with strategy, consulting, education and financial support to create relationships and cooperation. Approving jobs, creating a legal framework for the loan guarantee fund aimed at ensuring the steady source of public wages, and controlling the partnerships between SMEs to provide loan guarantee services, the loan guarantees

fund legislation, which aims to improve the funding opportunities required for operations of SMEs, was enacted in 2012.

As these researchers have stated, the government must limit uncontrolled budgetary expenses, improve discipline and accountability of tax expenditure. When it does, its policy price would be lowered by the Bank of Mongolia. The rate is becoming stable for Mongolian tugrik. If Mongolia's risk level is reduced, financial entities will slash their prices under competition legislation. In turn, 15% of the markets will be stopped in the context of the government bond and cash will move on to the bank's private companies. In the unstable economy, when the tugrik currency drops by 50-50%, the loan rate has been usually lucky.

Applause from many was given to the legislation which places the highest ceiling on the prices of mortgages, and the lawmakers did a great job. It will bring negative results and unrelated losses to society and the economy in the middle and long term. As a part of this law, most companies are going to cease, the underground market is prospering and poverty is rising. In fact, several people who offer fraudulent loans exist and the financial sector is plagued by corruption and bribery. Throughout Mongolia, there is what is considered "efficiency" apart from generating income and assessing spending for the national budget. In short, this implies how the plan is to be executed and enforced. The system for tracking the operations being carried out is very relevant. I think that's something Great Khural State works for. In the 2013 budget discussion, to mention a sad example, 50 billion tugriks were foreseen for economic reform.

Once questioned exactly what they are going to do with this plan, they said nothing and just explained why not. In other terms, the state budget mindset of officials and leaders is very lax. In terms of budget, budget and expenditure management, Mongolia is clearly demonstrated.

For CEO Tselmeg Naran, creator of Ulaanbaatar Guril flour factory, the launch of this company was not a difficult job, as there were no or very few good companies operating in Mongolia in this field when these companies began. He said she and his brothers had previous experience from Turkish when they began this company, where they have been working with similar companies for 4 years. They said that her parents and her brothers started their company with internal expenditure.

They also had no funding from outside financial resources, including bank loans like many other Mongolian companies. Though she has recently received funding from an NGO known as the SME Development Fund, she said. But she defined it as very difficult to receive loans from the bank or company. There are strong expectations and the collateral is often out of control. She clarified that you should view a property 2 to 3 times higher and interest rates range from 10% to



24% to get a mortgage. With regard to external problems, for instance, she has told us about her recent experience with the government that the biggest problem is corruption and the lack of compliance with rules and rules. She said that the President says the tariff on raw materials of manufacturing companies is 1%, but they create problems with us in every way possible when you buy raw materials. She describes that if you want to import, you should just see our license, which is written or ask us to send you our production document.

She continued that he spent eight days in Ulaanbaatar last week, but did not obtain any reports from the Ministry of Finance and Trade, so they finally asked where your raw goods are, and I said it wasn't purchased yet so they told me to take your raw materials and then come for paperwork.

As regards rivalry, Ms. Tselmeg found out that, as there are not many local companies, but as regards the neighboring country, she listed Russia, in particular. She said that Chinese companies are also making fake products from imported international firms and that merchants in Mongolia are taking them to a much greater gain that is undermining the Mongolian economy.

He said that there are no requirements and guidelines for product quality in Mongolia, and this is a major problem. Businessmen who import called for cheaper products to raise their income and the local company can, not because it will be their company's end when they lose their prestige. She suggested that the government should set a standard for the products and that she was prepared to do so. As far as the SME funding organizations were concerned, she stated that they were initially very supportive and that they even made use of USAID to provide financial help.

Mr. Batzegzen Chuluunkhuu had almost similar encounters with Ulaanbaatar Guril LLC's Ms. Tselmeg, CEO of Hunnu Concrete LLC and said that even USAID had an explanation for why your business imported the raw materials from China and therefore we can't support you. Three years ago, a Hungarian agency and another company called JIZ came to our business.

The Hungarian Company wanted to buy us machinations, but they informed us that you should not buy the raw material in China because China is being regulated so China is the easiest and cheapest means to shipping for us where the goods are good. With regard to external issues that affect the growth of SMEs in Mongolia, he claimed first of all that bribery in governmental entities is a significant obstacle to SMEs ' progress.

He also discussed the non-existence of an incentive program for development in small and medium-sized businesses. He said that the unstable government in Mongolia has removed the business people's incentive to invest in the state in Mongolia. The country does not have an appropriate plan in order to improve the motivation for investment with the company in Mongolia.

Both Mr. Batregzen's document concerning policy rules and regulation for the growth of small businesses in Mongolia notes that government regulations and regulations help mostly the creation of small businesses in Mongolia, but that there is the question of operating according to these regulations and the sectors which have to facilitate them. Each government policy seeks to give the people of that country more livelihood and a better life, but the problem is first and foremost those who submit this to the people.

Mr. Batregzen said that there is some organization that supports the small and medium sector in Mongolia as ICCM, but we observed on several occasions that they have not even the right to vote in matters closely related to the small and medium-sized businesses with respect to bribery and the fact that SMEs in Mongolia are hindered, Batregzen states that corruption is an important issue for SMEs in Mongolia. He continues to mention that the Office of the President noted: “there is persisting number of criticisms towards weak rule of law and justice, and loss of independence of the courts and impartiality of judges, which shows public non-satisfaction in independence and activities of the Judiciary. It was also proven simultaneously by foreign and domestic studies held several times.” (*The Office of the President of Mongolia, Public Relations & Communications Division, News Release, “Concepts of Draft Law on Court and Other Relevant Draft Laws of Mongolia” (1 September 2011)*). Surveys have been conducted since 2001 to seek public perception of court operations in Mongolia, and have shown that the public perceives the courts as one of the most corrupt organizations in the country. The key findings of surveys conducted up to 2008 indicated that: (*Sumati L & Sergelen Ts, “Trend Lines in Public Perception of Judicial Administration in Mongolia (Comparative Study Based on Nationwide Surveys 2001, 2003, 2005, 2007)” (Sant Maral, 2007) in the US, National Centre for State Courts, Mongolia Judicial Reform Program Annual Report 2007 (Cooperative Agreement #492-A-00-01-00001) Attachment G at 2, online: USAID)*

- From 2005 onwards, significant negative changes in public attitudes have emerged;
- In 2007, there was also a dramatic drop of confidence in the Supreme Court and Constitutional Court;
- In 2007 there was a major shift in personal experience with respect to the courts. Although there were still more positive than negative views among the public, there was a threefold increase in “very negative” attitudes in comparison with 2005;
- As in previous years, along with the growing democratization process in the courts, there was a strong public awareness of interference in court decisions;
- There was continuing awareness of increasing bureaucratic inefficiency in the courts;

– “People with highly influential positions” remained most favored by the courts, closely followed by “wealthy people” and by “relatives and friends”; – “Corruption”, “bureaucracy” and “unfair treatment” contributed most to the reasons for the bad performance of the community courts. Negative attitudes towards the judiciary, low levels of trust in the courts and widely perceived corruption of judges and prosecutors have not changed (*“Avilgiin Talaarkh Olon Niitiin Oilgolt Togtookh Sudalgaa [the Survey on the Public Understanding and Knowledge of the Corruption, 2013]*).

Mr. Batregzen also stated that sadly the practice of bribery in Mongolia was changed, which I personally am against, but in many situations, it can be seen that people were forced to pay bribes because they did not have sufficient temps because of the very complicated system of the governmental organization. For instance, he said that you have two days to do something, but when the government tells you it takes a month to pay a bribe to make the job quicker. He said that I am against this mechanism, but perhaps the private sector has been able to develop in some sectors, but it has created problems in some sectors.

Some newly graduated Korean students started the Meru elevator service. These were also Mongolians raised in Korea. The company did not need much funding at the beginning, as the company was founded in Ulaanbaatar, Mongolia in all parts of Korea to supply and perform electrical equipment and engineering services. International ventures at that period were very much, and the business grew very rapidly and had a good profit margin. All in all, the company's creators were very well educated. We had bachelors at the time of their establishment in Mongolia, which was extraordinary.

With respect to external problems affecting Meru Elevator, Enkhjargal Batdavaa listed the main external issues affecting SME growth in Mongolia, security, and corruption and political instability. He added that the function of the organization is now declining due to the fact that foreign companies and foreign aid have decreased because our business relied mostly on foreign ventures and because of the lack of a stable government in Mongolia. A company like us now have the same problems.

He said that in projects we have about 90 workers, but now we only have 10 employees, most of them working in the managers ' zone. He added that there were issues with corruption across projects.

In terms of the government's rules and regulations, Mr. Jargal Batdavaa said that the rules and regulations are not the issues, but that no one is behaving in this manner. He said as we began this company at first, but now it's difficult, and bribery in government offices would drive you back to

start a firm. He also mentioned very dissuasive news about corruption that the SME Support Fund was publicly launched in the first quarter of 2019 by the SME Support Fund with the ISSSES loan transaction value of all withdrawal transactions from 2015-2018.

Through reviewing the income statements, the Anti-Corruption Agency has analyzed whether any association or connections remain between such revenues and the governments. All payments have been publicly reported. He told us of a loan from the SME Development Fund through their own organizations and from the institutions of the citizens with connections to them during 2017-18 from the high government officials currently working / previously on service. In order to report this data, they reviewed the income statements of officials who took credit for their own agencies by reviewing 172,000 organizations listed in the General Registry Authority and funded loans provided by comparison to individuals. The SME Fund Company released the document. As of today, SME Development Fund B. Batzorig and Minister of Road and Transport Ya. Sodbaatar has resigned from the ministry decree. The Ministers of Food, Agriculture and Light Industry have resigned the Ministerial Order. However, the Government suspended Deputy Minister of Public Works, Sh. Lkhamsuren, who borrowed from the SME Development Fund for his private company. The House further decided that the National Audit Bureau and the State would be excluded or removed from service:

- "Construction Development Center" SOE Director
- Executive Director of UBEDNP
- Head of State Property Policy and Coordination Department

As of 3 December 2018, a loan has been taken out of the SME Development Fund by 14 parliamentarians, including 2 dual governments. In January 2019, the State Attorney General's Office has recommended the suspension by SME development fund of all four MPs, including B. Undarmaa, G. Noltan, L. Enkhbold, and D. Davaa-Ochir, from their role. In this sense, a recommendation was made. The examination tool Ikon.mn was used for the cases B.Undarmaa and G.Soltan. The Attorney General L. Enkh-Amgalan addressed how D., Damba-ochir and L. Enkhbold were exposed. The fact that on 4 April 2019, 16 parliamentarians demonstrated how corruption affects Mongolia's small and medium-sized enterprises' development negatively.

### **4.3 Analysis**

In this part the author will analyze the key domestic factors which are affecting the SME development in Mongolia. These analysis is done by the empirical investigation conducted. These

analyses will highlight the most important obstacles which are affecting the SME development in Mongolia.

#### **4.4 Domestic Factors Affecting the SME Development in Mongolia**

Our first hypothesis was supported based on the information we collected from the interviews.

**H1:** Political instability is significantly related to SME development

Political Instability can be divided into three groups including legislative, Judicial and government.

##### **4.4.1 Political instability in judicial side in Mongolia**

On 1 July 2008 a riot broke out in Ulaanbaatar, the Mongolian capital city. The riot was sparked by allegations of fraud surrounding the 2008 legislative election, which occurred three days earlier. While initially a peaceful protest, the riot resulted in Mongolia's first state of emergency which lasted four days, and a military presence (lasting two of those days) was brought into the city to quell the riot. Five people were killed by the police, and the headquarters of the Mongolian People's Revolutionary Party (who had won the election) was set on fire. Additional suggested causes for the riot include a change to the electoral system which was not well understood, and an increased division among Mongolia's rich and poor population. From the interview we found out that the Office of the President noted: "there is persisting number of criticisms towards weak rule of law and justice, and loss of independence of the courts and impartiality of judges, which shows public non-satisfaction in independence and activities of the Judiciary. It was also proven simultaneously by foreign and domestic studies held several times." (*The Office of the President of Mongolia, Public Relations & Communications Division, News Release, "Concepts of Draft Law on Court and Other Relevant Draft Laws of Mongolia" (1 September 2011)*) Surveys have been conducted since 2001 to seek public perception of court operations in Mongolia, and have shown that the public perceives the courts as one of the most corrupt organizations in the country. The key findings of surveys conducted up to 2008 indicated that: (*Sumati L & Sergelen Ts, "Trend Lines in Public Perception of Judicial Administration in Mongolia (Comparative Study Based on Nationwide Surveys 2001, 2003, 2005, 2007)" (Sant Maral, 2007) in the US, National Centre for State Courts, Mongolia Judicial Reform Program Annual Report 2007 (Cooperative Agreement #492-A-00-01-00001) Attachment G at 2, online: USAID)*

- From 2005 onwards, significant negative changes in public attitudes have emerged;
- In 2007, there was also a dramatic drop of confidence in the Supreme Court and Constitutional Court;

– In 2007 there was a major shift in personal experience with respect to the courts. Although there were still more positive than negative views among the public, there was a threefold increase in “very negative” attitudes in comparison with 2005;

– As in previous years, along with the growing democratization process in the courts, there was a strong public awareness of interference in court decisions;

– There was continuing awareness of increasing bureaucratic inefficiency in the courts;

– “People with highly influential positions” remained most favored by the courts, closely followed by “wealthy people” and by “relatives and friends”;

– “Corruption”, “bureaucracy” and “unfair treatment” contributed most to the reasons for the bad performance of the community courts. Negative attitudes towards the judiciary, low levels of trust in the courts and widely perceived corruption of judges and prosecutors have not changed (*“Avilgiin Talaarkh Olon Niitiin Oilgolt Medleg Togtookh Sudalgaa [the Survey on the Public Understanding and Knowledge of the Corruption, 2013].*

#### **4.4.2 Political instability in legislative side in Mongolia**

In 2012, Mongolia ranked at 159 in foreign trade section, doing business index by World Bank Group, however, at 2013, this rank went down to 181. Import and export expense of foreign trade and documents related to these increased, therefore affected foreign trade performance to discuss on easing and collaborating with them on those foreign trade issues.

In Mongolia’s hybrid political system, power has been shared by an elected president and the government, which is appointed by parliament and headed by a prime minister. The president, who usually comes from the political party in opposition, is able to veto legislation and propose his own. The system has made it difficult for governments to implement their agendas, and has also been held responsible for long delays to giant mining projects like the Tavan Tolgoi coal mine and the Oyu Tolgoi copper deposit run by Rio Tinto. Companies in China manufacture products under the name of famous, high quality brands that are an obvious misconception. The Mongolian traders are asking them to get their own profits at as low a cost as possible. The competition in Mongolia has been unfair. Mr. Jargal says that a requirement should be given that businesses and imported products meet the same quality or norm by government. In 2016, Mongolian parliament blocked a proposed deal with an international consortium led by Chinese state-owned mining company Shenhua and Mongolian Mining Corporation and Japan’s Sumitomo. New parliamentary elections are scheduled for June 2020, but critics say the rules will ensure re-election for lawmakers with mining interests in both the ruling and opposition parties.

The global slump in commodity prices has pummeled Mongolia's economy, impoverishing thousands of former herders who'd moved to its few cities looking for jobs. China, which receives almost 90 per cent of Mongolia's exports, also has an economy that is slowing sharply, further eroding demand for copper, coal and other exports. Foreign investment in the country has practically disappeared due to political instability in the legislative side in Mongolia. Economic growth is set to fall below 1 per cent this year, down from 17.5 per cent earlier in the decade.

#### **4.4.3 Political instability in government side in Mongolia**

The increasing political instability in Mongolia has greatly affected small and medium-sized businesses. Recent unstable political conditions are causing FDI in Mongolia to lose interest. Potential investors in Mongolia have needed to invest. Most of the citizens with a certain capital capacity are going from nation to other Asian countries for a better investment. The investment power of other sectors that directly affected the SMEs in Mongolia was taken up by this situation.

Mr. Batregzen particularly mentioned in the event of political instability and unstable governance that many products are imported from the country and there are no standard or standard for products from this border China.

Companies in China manufacture products under the name of famous, high quality brands that are an obvious misconception. The Mongolian traders are asking them to get their own profits at as low a cost as possible. The competition in Mongolia has been unfair. Mr. Jargal says that a requirement should be given that businesses and imported products meet the same quality or norm. The governance of instability also leads to the leaving of foreign firms and investors. More than 50 percent of the mining company in Mongolia suddenly collapsed due to Mongolian made. All respondents agreed that this sudden change had a significant impact on their company. The reform also changed the exchange rates of currencies, which impacted merchants who brought their products from abroad. The Mongolian dollar loses worth relative to other currencies, which renders Mongolia's international products more expensive.

Our second hypothesis was supported based on the information we collected from the interviews.

#### **H2: Corruption is significantly related to SME development**

According to the interviews, unfortunately corruption has become part of daily life of the people in Mongolia. It has turned into a tradition where someone should pay a certain amount of money to the government officer or other authorities to solve their problems. One of the reasons for the increase of corruption which interviewees mentioned is the complicated government procedure which has made the work of the fraud people easier.

CEO of Urlal Brand stated that in many cases there are special people who solve your problems in government offices. Most of the times they finish the procedure in lesser time and also it depends on the money you pay as more you pay faster you will get your problem solved. All the respondents have agreed that there is a big margin of corruption in every sector of government in Mongolia and the company owners has also accepted that in many cases they bribe to get their work done. It has caused a big problem, especially for SMEs in Mongolia as SMEs are very small and does not have the power to compete with big companies in case of bribery and corruption, they will end up with failure. One of the recent corruptions which happened recently in Mongolia was when the Mayor of Ulaanbaatar city sells a government land in the capital city Ulaanbaatar to one of the big companies in Mongolia for 1/100 price of it. Fortunately, this was found and the transaction was cancelled by the parliament of Mongolia. This is one of the examples, there have been many and only one is caught. As you can see corruption is in every sector and every position of the country. Corruption has made the business environment diluted that survival has become very difficult for SMEs in Mongolia.

Moreover CEO from Meru LLC claims that most of the times financial supports for SMEs does not reach to the hands of SMEs.



## **CHAPTER 5. CONCLUSION**

### **5.1 Conclusion and Discussion**

The purpose of the research was to define certain strategies to solve these problems, to examine them and to suggest them. Each section answers the questions posed at the outset of the study and discusses the findings of the previous chapters.

What are the domestic factors which are affecting the SME development in Mongolia?

For better understanding and analysis of these problems, we divided the problems into two prospective.

1. How political instability is affecting the SME development in Mongolia
2. How corruption is affecting the SME development in Mongolia

#### **5.1.2 Domestic factors affecting the SME development in Mongolia**

Via our interview and study with small businesses in Mongolia, we found the reasons that hampered SME growth in Mongolia. The issues we saw were virtually identical to the literature on SMEs.

Political instability was one of the major problems mentioned by each respondent. The owners of the company said that they are having great challenges and that some of them have no plans to grow because of this. In full, foreign investors in Mongolia do not want to participate in their first company owing to political instability. The foreign companies and investors, as mentioned by several respondents, also left Mongolia, which was very hard on the market. The Mongolian market has since been unable to achieve its previous situation. The shift has produced significant macroeconomic uncertainty, which is seen in Mongolia as a major problem for SMEs.

An extensive literature discovers how command type, dichotomized as democracy and autocracy, affects political stability and hence economic growth. Political stability has a vigorous and a noteworthy total effect, but a trivial direct effect on the development of SME in Mongolia. The results recommend that political constancy affects SME development circuitously by its stimulus on particular overruling variables. Though it is not literally impossible, but eradicating political instability from Mongolia is an extremely difficult task. Given that, political instabilities and events like black day which happened 1<sup>st</sup> of July 2008.

On that day, thousands of rock-throwing protestors besieged the Mongolian People's Revolutionary Party (MPRP) headquarters, torching the building and overturning vehicles around the center of the capital. Police used tear gas, rubber bullets and water cannon drives them away, as clashes continued into the night. The situation is now calm but armored vehicles are still stationed

in the heart of the city. The state of emergency, issued early this morning, is the first in Mongolia's history. The four-day order bans protests, halt alcohol sales, allows security forces to use tear gas and rubber bullets to break up demonstrations, and outlaws broadcasts by any channel other than state television. If this day will be happening in Mongolia again, the firms need to take more precautions and take strategies on how to deal with situations like these. Political instability has a significant indirect effect on SME growth through its positive effect on investment rates.

Political instabilities are harmful through its adverse effects on total factor productivity growth by discouraging physical and human capital accumulation. The main channels of transmission from political instability to economic growth by identifying and quantitatively determining, this paper contributes to a better understanding on how politics affects SME performance. If we do the similar analysis using daily or monthly data instead to find out the effect of political instability on SME development might have a more short-term or temporary significance.

In addition, bribery was one of the main factors the respondents listed in corruption are at its height in Mongolia. Mongolia is considered one of the most corrupt countries in that it has become a custom for the people and a part of their everyday life, according to the participants. Some respondents clarify that the reason for the corruption is that government offices have a complicated system. It has given the opportunity to bribe and corruption in the system of government. The line between legal practices and corrupt ones is not always easy to define, and SMEs may not always have the capacity to identify it. There are many gray areas and the different customs and business practices in regions sometimes make it hard for businesses to distinguish between legal and illegal practices. One possible explanation for that attitude could be the fact that in a region where corruption is widespread, SMEs that refuse to provide officials with additional payments, when most of their competitors do pay, will sooner or later encounter difficulties. In general, there is a lack of awareness among SMEs in Mongolia about the long-term hidden costs of corruption, such as decreasing staff loyalty and retention, staff involvement in fraud and damage to reliable supply chain relationships and investor confidence.

SME managers are often unaware of those costs, which in the long term can be quite high, because of the short-term vision that characterizes smaller businesses. In assessing the impact of corruption on SMEs, it is important to distinguish between small, stand-alone companies and those that form part of a larger network or group of companies. The general perception is that the latter can often find it easier to afford the cost of engaging in corruption owing to the financial support provided by the larger company or companies that they are associated with.

## **5.2 Solutions for Domestic factors of SME in Mongolia**

It is more difficult to solve domestic problems for SMEs in Mongolia since this is primarily related to the state, in which SMEs can do very little about this. Mongolian government would set the rules or requirements for goods entering Mongolia so that foreign companies avoid utilizing Mongolian people's poor value expertise. Corruption needs a strong and general movement to work with the government to end corruption in the country.

Therefore, governments can attempt to quickly follow procedures in government institutions that the main problem of bribery in offices, according to many respondents, is the complicated governmental procedures that have made people vacationing in the wrong way for bribing.

### **5.2.1 Solutions for Political instability**

Government should set a number of specific measures targeted at reducing corruption and making the judiciary more independent and impartial, many of which were incorporated into the judicial reform laws. For example, judges should be subject to periodic performance evaluations designed to assess each judge's integrity, fairness, temperament, legal knowledge, legal reasoning, diligence and professionalism. SMEs should do these actions:

- **Identifying the Risk:** In this first stage, risk managers identify the main political risks by geography. The key question at this stage is: "How can political actors or conditions directly affect our objectives?" Risk managers can develop an inventory of political risk types, ranging from capital controls to increased taxation to strikes and protests to war and terrorism, to scan the horizon for potential risks.

- **Avoiding Political Risk with Control Procedures:** Companies need to be practical and avoid states with overtly party-political risk. Larger companies use urbane scoring systems to appraise political risk in areas.

- **Dealing with Risk as Ongoing Procedure:** Sometimes it's tough to avoid partisan risk, so politicians need to come to terms with the fact that they won't be able to recognize every political danger.

- **Understanding Political Risk Movement:** Firms need to accept the macro and a micro political jeopardy environment. Micro level risks affect industries or missions; macro level jeopardies affect the whole economy.

- **Diversify Political risks:** Politicians need to expand their partisan risks: companies that have premeditated business units in numerous topographies need to recognize their cost base.

### **5.2.2 Solutions for Corruption**

The Mongolian government and all the companies in Mongolia can do its part to help fight corruption and bribery in Mongolia:

- By being conspicuously transparent, operating with integrity and accountability in all operations.
- By publicly disclosing and regularly monitoring strong anti-bribery and anti-corruption systems throughout all operations and those of subsidiaries.
- By publishing, financial accounts for each country of operations and publishing clearly what is paid to each government in taxes, concession fees and other contributions. This not only builds trust in the SME but is also a deterrent to extortion and people can see if the money paid by business to governments is accounted for.
- By listing who the real beneficial owners of their company and their subsidiaries are, and by promoting with governments the establishment of public registers of beneficial owners.
- By supporting and promoting governance reforms in all state institutions at all levels, including at the local level to ensure that they perform well and for the betterment of society.
- By initiating and supporting collective action with civil society organizations, labor, academic institutions and governments, business can multiply the capacity for action.

### **5.3 Recommendation for future researchers:**

Future research and studies should focus on the relationship between political instability, corruption, SME growth and financial development in a panel of different developing countries. Obviously, the data requirements are very essential, with most developing countries lacking historical data even on key figures, such as per capita GDP.

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## **APPENDIX I. INTERVIEW QUESTIONS**

My name is Enkhtur Munkhdemberel pursuing Masters of Public Relations department at Nanhua University in Taiwan. It's my humble request to take you few minutes to answer this survey. This will be a great help for my Thesis research. My Thesis research topic is, "A research on the domestic factors affecting, SME development in Mongolia." I will be looking at the internal factors and external factors, in particular and will try to propose certain policies to overcome these problems.

All information provided here will be confidential and will be used for academic purposes only.

Munkhdemberel Enkhtur

2019



## General information about your company

(Only for the people who are working in Small and Medium Enterprises in Mongolia)

### 1. Type of Business

- i. Private limited company
- ii. Public limited
- iii. Partnership
- iv. Sole Proprietor
- v. Family owned business

### 2. Kind of Business:

- i. Retail trade
- ii. Manufacturing
- iii. Import Export
- iv. Real State
- v. Farming
- vi. Wholesale
- vii. Other (specify)

### 3. How old is your Company?

- i. Less than 1year
- ii. 1 to 5 years
- iii. 6 to 10 years
- iv. 11 to 15 years
- v. Over 15 years\

### 4. Number of employees in your company

- i. Less than 20 employees
- ii. 21 to 40 employees
- iii. 41 to 60 employees
- iv. 61 to 80 employees
- v. 81 to 100 employees
- vi. Above 100 employees



5. Sales revenue of the company

- i. Up to 10 million MNT
- ii. 10-50 million MNT
- iii. 50-100 million MNT
- iv. 100-500 million MNT

6. Do you have existing plans for your company?

- i. Yes
- ii. No

7. Job

- i. Student
- ii. Business alumni
- iii. Teacher
- iv. Professor
- v. Government officer in related office for business development
- vi. Business expert



## General information

(Only for scholars)

### 1. What is your job? General information

- i. Student
- ii. Business alumni
- iii. Teacher
- iv. Professor
- v. Government officer in related office for business development
- vi. Business expert

### 2. Qualification:

- i. Bachelors
- ii. Masters
- iii. PhD

### 3. Year of experience in related field

- i. 1 to 3 years
- ii. 4 to 8 years
- iii. 9 to 15 years
- iv. 16 to 25 years
- v. Above 25 years



# INTERVIEWS

## Interview 1

Name: Mr. Hasherdene

Title: A former employee of agricultural trade ministry

Institution: Agricultural trade ministry

Date: 13 July 2019

Time: 14:00-16:00

1. Which external factor is considered the most prominent one which is affecting the SME Development in Mongolia?
2. In case of competition what kinds of problems does the SMEs in Mongolia face?
3. Do you think corruption is problem for SMEs in Mongolia? Please explain in detail
4. Does the political instability affect SME development in Mongolia How it is affecting? How did it effect to SMEs in Mongolia?
5. Does the government rules affecting the SME development in Mongolia? How did it effect to SMEs in Mongolia?
6. Until now, what kind of developments has been done on the development of SMEs?
7. Which SMEs are signed into your ministry and these programs you mentioned?

## **Interview 2**

Name: Mr. Jigmed Turbadrakh

Title: CEO

Institution: Mongol Uv Shaazan Company

Date: 12 July 2019

Time: 14:00-16:00

1. In which sector does a company is operating?
2. What's the main product or service you are providing?
3. What are your educational qualification and skills?
4. What is your position in the firm and how long have you been in this position?
5. What do you do in the firm as a daily task in the firm?
6. During the last five years what internal factors have you perceived as internal factors affecting the SME development in Mongolia?
7. Do you think corruption is problem for SMEs in Mongolia? Please explain in detail
8. Does the political instability affect SME development in Mongolia How it is affecting? How did it effect to SMEs in Mongolia?
9. For Last five years did you have any growth strategy planned?
10. Are there any government laws which you consider effecting SME development in Mongolia?
11. What is your idea about the crime and corruption as a factor affecting the SME development?

### **Interview 3**

Name: Mr. Batzegzen Chuluunkhuu

Title: CEO

Institution: Hunnu Concrete Company

Date: 14 July 2019

Time: 14:00-16:00

1. In which sector does a company is operating?
2. What's the main product or service you are providing?
3. What are your educational qualification and skills?
4. What is your position in the firm and how long have you been in this position?
5. What do you do in the firm as a daily task in the firm?
6. During the last five years what internal factors have you perceived as internal factors affecting the SME development in Mongolia?
7. For Last five years did you have any growth strategy planned?
8. Do you think corruption is problem for SMEs in Mongolia? Please explain in detail
9. Does the political instability affect SME development in Mongolia how it is affecting? How did it effect to SMEs in Mongolia?
10. Are there any government laws which you consider effecting SME development in Mongolia?
11. What is your idea about the crime and corruption as a factor affecting the SME development?

## **Interview 4**

Name: Ms. Dorm Olzvoi, Mr. Ulzii-orshig Batbayar

Title: Professors at Mongolia University of Science and technology

Institution: MUST

Date: 15 July 2019

Time: 18:00-20:00

1. What's the main product or service Mongolian SMEs are providing?
2. What are your educational qualification and skills?
3. During the last five years what domestic factors have you perceived as key factors affecting the SME development in Mongolia?
4. How about the international companies, are they affecting the development?
5. Are there any government laws which you consider effecting SME development in Mongolia?
6. Do you think corruption is problem for SMEs in Mongolia? Please explain in detail.
7. Does the political instability affect SME development in Mongolia How it is affecting? How did it effect to SMEs in Mongolia?
8. What is your idea about the crime and corruption as a factor affecting the SME development?

## **Interview 5**

Name: Ms. Ganbolor Sukhhuyag, Mr. Khatanbuuvei Chuluunkhuu

Title: Professors at National University of Mongolia

Institution: NUM

Date: 15 July 2019

Time: 12:00-14:00

1. What's the main product or service Mongolian SMEs are providing?
2. What are your educational qualification and skills?
3. During the last five years what domestic factors have you perceived as key factors affecting the SME development in Mongolia?
4. How about the international companies, are they affecting the development?
5. Are there any government laws which you consider effecting SME development in Mongolia?
6. Do you think corruption is problem for SMEs in Mongolia? Please explain in detail.
7. Does the political instability affect SME development in Mongolia How it is affecting? How did it effect to SMEs in Mongolia?
8. What is your idea about the crime and corruption as a factor affecting the SME development?

## **Interview 6**

Name: Mr. Batdorj. T

Title: CEO of Urlal brand

Institution: Urlal brand

Date: 18 July 2019

Time: 12:00-14:00

1. In which sector does a company is operating?
2. What's the main product or service you are providing?
3. What are your educational qualification and skills?
4. What is your position in the firm and how long have you been in this position?
5. What do you do in the firm as a daily task in the firm?
6. During the last five years what internal factors have you perceived as internal factors affecting the SME development in Mongolia?
7. Do you think corruption is problem for SMEs in Mongolia? Please explain in detail
8. Does the political instability affect SME development in Mongolia How it is affecting? How did it effect to SMEs in Mongolia?
9. How about the international companies, are they affecting your development?
10. Are there any government laws which you consider effecting SME development in Mongolia?
11. What is your idea about the crime and corruption as a factor affecting the SME development?



## **Interview 7**

Name: Ms. Tselmeg Oyunnaran

Title: CEO of Ulaanbaatar Guril

Institution: Ulaanbaatar Guril LLC

Date: 20 July 2019

Time: 14:00-16:00

1. In which sector does a company is operating?
2. What's the main product or service you are providing?
3. What are your educational qualification and skills?
4. What is your position in the firm and how long have you been in this position?
5. During the last five years what internal factors have you perceived as internal factors affecting the SME development in Mongolia?
6. For Last five years did you have any growth strategy planned?
7. What is your position in Market and are the competitors affecting your company's development?
8. Are there any government laws which you consider effecting SME development in Mongolia?
9. Do you think corruption is problem for SMEs in Mongolia? Please explain in detail
10. Does the political instability affect SME development in Mongolia How it is affecting? How did it effect to SMEs in Mongolia?

## **Interview 8**

Name: Mr. Enkhjargal Batdavaa

Title: CEO

Institution: Meru LLC

Date: 23 July 2019

Time: 14:00-16:00

1. In which sector does a company is operating?
2. What's the main product or service you are providing?
3. What are your educational qualification and skills?
4. What is your position in the firm and how long have you been in this position?
5. During the last five years what internal factors have you perceived as internal factors affecting the SME development in Mongolia?
6. For Last five years did you have any growth strategy planned?
7. What is your position in Market and are the competitors affecting your company's development?
8. Are there any government laws which you consider effecting SME development in Mongolia?
9. Do you think corruption is problem for SMEs in Mongolia? Please explain in detail
10. Does the political instability affect SME development in Mongolia How it is affecting? How did it effect to SMEs in Mongolia?