MAJOR FACTORS AFFECTING FOREIGN INVESTMENT POLICY IMPLEMENTATION EFFECTIVENESS: THE CASE OF MONGOLIA

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A Dissertation Submitted in Partial
Fulfillment of the Requirements for the Degree of
Doctor of Philosophy (Development Administration)
School of Public Administration
National Institute of Development Administration
2015

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September 2015

ABSTRACT

Title of Dissertation	Major Factors Affecting Foreign Investment Policy Implementation Effectiveness: The Case of Mongolia
Author	Miss Gunjidmaa Batsuuri
Degree	Doctor of Philosophy (Development Administration)
Year	2015

Developing countries would like to attract foreign investment for the many benefits it provides, such as the adoption of high technology, increased employment, and expanded exports. Without effective usage of foreign investment inflows, however, foreign investment also brings side effects (e.g., environmental damage). Good foreign investment policy and its effective implementation could increase the benefits and decrease the side effects of foreign investment in the host country.

In Mongolia, foreign investment inflow has been increased a lot fast, especially in the last decades. As a result of the promotion policy implemented from 1993 to resent years, the percentage of foreign investment in the GDP has rapidly increased. According to the statistics, foreign direct investment in the country covers almost 40% of the GDP and 65% of total investment in the country after two decades. However, compared with other countries in the region, Mongolia remains the lowest recipient of foreign investment inflow. Also, the majority of foreign investment is invested only in the mining sector, which does not promote long-term sustainability of economic development. Moreover, foreign investment inflow has been dramatically decreased in the last two years because of frequent changes that have occurred with foreign investment laws and standards; it dropped respectively by 22% and 51% in the years 2012 and 2013 compared with previous years.

This research aims to analyse the factors affecting foreign investment policy implementation effectiveness in Mongolia based on foreign investors' perceptions.

The study is important given the practical benefits that the Mongolian government can realise by improving the country's foreign investment policy.

Data were collected through mail surveys and telephone interviews and analysed using a variety of methods, including descriptive, correlation, and regression analysis. Three sets of 13 independent factors that determine foreign investment policy implementation effectiveness were considered in this study. The findings of this study suggest that foreign investment policy would be implemented effectively and foreign investors would be satisfied with foreign investment policy implementation if clearer policy objectives and standards were defined, implementing agency capacities were improved, higher quality public services were provided, compliance with implementation regulations by foreign investors was ensured, and a more stable political environment was offered. Also, the study shows that foreign-invested companies will be re-invested in more if they have bigger amounts of foreign investment, fewer years of experience, and if a more stable political and legal environment is provided.

The most important factor for increasing foreign investors' satisfaction regarding foreign investment policy implementation is the capacity of the implementing agency, followed by the clarity of policy objectives and standards and political stability. The clarity of policy objectives and standards and political stability also increases foreign investors' compliance with implementation regulations and the capacity of the implementing agency. Also, a crucial factor for promoting re-investment in foreign-invested companies is political stability.

This study recommends developing strategic plans for promoting foreign investment in sectors which need to be developed or where local investors perform weakly, such as infrastructure and industry sectors. Aside from promoting foreign investment, the study also recommends that the government has more clear policies on the regulation of foreign investment in strategically important sectors or sectors where local investors perform well. Examples of these sectors are the mining and banking sectors. Strategic plans should be developed for the improvement of infrastructure and the stabilization of the political and legal foreign investment environment. In addition, this study recommends modification of policy objectives and standards and increasing the capacity of implementing agencies.

ACKNOWLEDGEMENTS

I appreciate all the people and organizations that helped me to complete this doctoral work. First of all, I would like to express my deepest gratitude to my academic advisor, Prof. Sombat Thamrongthanyawong, former President of the National Institute of Development Administration (NIDA), for accepting me as his supervisee. His high professional competencies in research and academic excellence in knowledge, and his continuous encouragement, really helped me to succeed with this doctoral dissertation.

The professional guidance and valuable advice from Dr. Chaiya Yimwilai, the chair of the defense committee, and Dr. Nuttakrit Powintara, member of the defense committee, and Dr. Pradit Wanarat, President of the National Institute of Development Administration (NIDA), have been invaluable for this research.

It is noteworthy to stress that without the multiple support and full scholarship that was given to me from the National Institute of Development Administration (NIDA), I would not have entered or completed this doctoral program, and my sincere thanks go to all professors, especially to Prof. Ponlapat Buracom, Director of the Doctoral Program in the Development Administration in the Graduate School of Public Administration, NIDA. I also would like to acknowledge Dr. Bruce Leeds, NIDA certified English Language Specialist, for his help in editing the language in this dissertation.

Thank you Mr. Javkhlanbaatar Sereeter, the Director General of the Foreign Investment Regulation and Registration Department, the Ministry of Economic Development of Mongolia and his colleagues for your invaluable support during my data collection in the field. I also thank representatives of the foreign-invested companies in Mongolia that replied to the survey and participated in the interviews, and provided the necessary data for my research.

"Very Special Thanks" go to my family and Prof. Tserendorj Dagvadorj for their encouragement, understanding, and for all of their support of my work. I am very grateful to the National Academy of Governance (former Academy of Management) for providing me with a study leave to pursue this degree.

Last but not least, I also thank my all friends at the NIDA, and elsewhere for their support and encouragement throughout.

Gunjidmaa Batsuuri

September 2015

ABBREVIATIONS AND SYMBOLS

Abbreviations	Equivalence
FDI	Foreign Direct Investment
FIFTA	Foreign Investment And Foreign Trade Agency
FIRRD	Foreign Investment Registrations And Regulations Department
NSO	National Statistic Office
UNCTAD	United Nations Conference On Trade And Development
WB	World Bank

TABLE OF CONTENTS

LIST OF TABLES

Tables **Page**

LIST OF FIGURES

Figures **Page**

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Foreign investment is one of the most striking features of modern economic globalization. In recent economic practice, it has been considered as a type of international capital movement that creates employment, increases exports, transfers new technologies, and brings business experience worldwide. However, it also brings side effects, such as environmental damage to the host countries with rich natural resources. For example, some countries, especially many African countries, have received a great deal of foreign investment, but eventually their resources are depleted without workplace creation, export extension, new technology transfer, or other economic and social advantages.

Many countries have formulated good foreign investment policy for attracting the most appropriate foreign investment inflow and regulating it in more effective ways. However, having good policies does not always mean having positive outcomes or impacts for the society. The positive outcome or impact of any policy often depends on effective implementation. Effective foreign investment policy implementation could increase the benefits and decrease the side effects of foreign investment in the host country.

In the case of Mongolia, since the very beginning of the transition process, the government took a series of initiatives to promote foreign investment in the early 1990s: they developed a new act of foreign investment and made important amendments to support foreign investment in concerned laws, such as customs laws, taxation and minerals laws, and others. As output of the government's open policy for foreign investment, the foreign investment inflow has covered almost 40% of the GDP and 65% of total investment in the country within the last two decades (NSO, 2011). Also, more than 12,000 foreign-invested companies have been registered.

However, those foreign-invested companies have often come under criticism for their negative consequences, such as environmental damage and unfair competition for small and medium enterprises rather than being admired for their good performance results, including increasing exports, building new work places, and raising government income through tax payments. These and other key issues related to foreign investment policy and the major factors affecting its implementation effectiveness in Mongolia require not only fundamental study, but also further elaboration of its accumulated experiences during the last decades in this field.

1.2 The Problem Statement

There are several important reasons for conducting this research. First, there is a critical need to study this issue because it is comparatively new in the field of implementation and foreign investment policy studies. In terms of empirical research, several scholars have conducted studies about foreign investment policy and its inflow. For example, studies on the effects of foreign investment promotion or restriction policies on foreign investment inflow (Hoekman, 1995; Hardin & Holmes, 1997, 2002; Golub, 2003; Nicoletti et al., 2003; Kobrin, 2005; Koyama & Golub, 2006; Pandya, 2008), the impacts of political regimes on foreign investment promotion policies, particularly tax incentives (Janeba, 2002; Li, 2006), and the consequences of the establishment of foreign investment promotion agency on foreign investment inflow (Morisset & Johnson, 2003).

In terms of policy process, there has been a limited number of studies about foreign investment policy formulation, implementation, and evaluation, such as the factors affecting foreign investment policy formulation (Fayerweather, 1975; Globerman, 1988, Linda & Chyau, 2001; Lee & Wang, 2006), foreign investment policy implementation in the case of Nepal, China, and Mexico (Rana & Pradhan, 2005), and foreign investment policy evaluation (Stoever, 1985; Jeffery, James, & Richard, 1990; Fung, Iizaka & Tong, 2004; Sumner, 2008; Huang, 2009; Haslam, 2010; Wanqiang, 2011).

In the case of Mongolia, little research has been conducted study on foreign investment. Some of this research has investigated the impacts of foreign investment

on economic growth, reviews of foreign investment policy, and the patterns and structures of foreign direct investment in the country (Nachin, 2004; Demirbag et al., 2005; Ganzorig, 2008). However, most of the above-mentioned empirical studies were more focused on the aspects of foreign investment rather than the policy process or policy study. These studies indicate that the study of foreign investment policy implementation, especially the factors affecting foreign investment policy implementation effectiveness, has not received significant attention by scholars.

Another important reason for conducting this research is the practical benefits that the Mongolian government can receive for the improvement of the country's foreign investment policies. Regarding the practical benefits, 1) the amount of foreign investment inflow in Mongolia remains at a lowest level compared to other countries, including China, Hong Kong, South Korea, Macao, and Taiwan, except North Korea, in the region according to UNCTAD research in 2010 (Table A. 1). In order to attract more investment inflow into Mongolia, not only appropriate foreign investment policy need to be formulated, but also this policy should be implemented effectively.

Also, 2) promoting foreign investment inflow in Mongolia can lead to considerable long-term benefits that the country wishes to achieve:

1) accelerate economic growth;
2) increase employment;
3) subsequent state revenue;
4) extend exports;
5) adopt foreign modern technology, best management, know-how, knowledge and innovation; and
6) improve national productivity in Mongolia (GoM, 2007).

Achievement of these positive results could accelerate Mongolia's economy. However, in the past, these economic indicators have shown that they have not been strongly affected by foreign investment inflow.

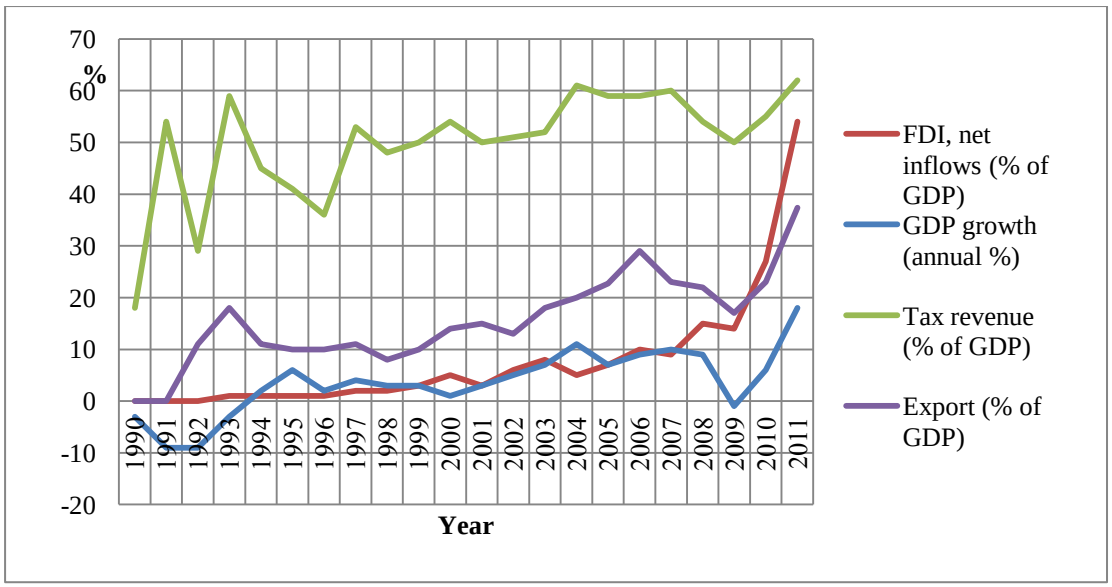

Figure 1.1 The Impact of Foreign Investment Inflow on Some Economic Indicators
Source: World Bank, 2012.

Figure 1.2 shows the association between foreign investment inflow and some economic indicators, including the percentage of tax revenue and exports in the GDP. The figure indicates that the growth of foreign investment inflow did not lead to better economic indicators in the case of Mongolia. Only GDP growth had weak relation with foreign investment inflow. These redults confirm that it is crucial to managing foreign investment inflow in an effective way for extending exports, increasing employment and adopting new technology rather than receiving more foreign investment inflow. For this reason, foreign investment policy must be formulated well, and the government should take deliberate actions in implementing it.

Another problem that can be dealt with through this research is 3) as the main economic driver, the foreign investment inflow covered a very high percentage of the GDP by 2011. Figure 1.1 shows that foreign investment inflow was around 8% of the country's GDP before 2009, and it increased up to almost 40% by 2011. Moreover, the percentage of foreign investment of the total investment increased from 30.7% in 2005 to 57.5% and 64.9% in 2010 and 2011 respectively.

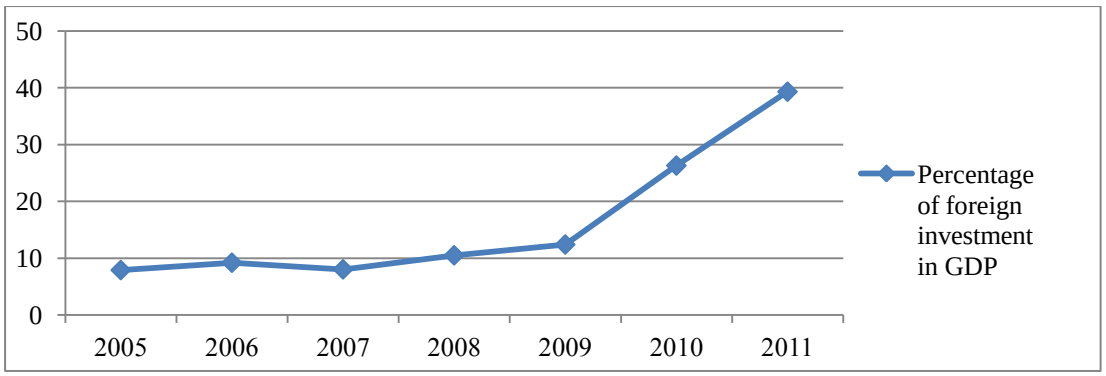

Figure 1.2 Percentage of Foreign Investment Inflow in GDP

Source: Statistic Bulletin of Foreign Trade and Foreign Investment Agency, 2011.

Also, statistical data support the notion that economic growth in Mongolia is becoming more dependent on foreign investment growth. Table 1.1 shows that GDP growth decreases when foreign investment growth is low, especially in 2009, 2012 and 2013. Moreover, when foreign investment growth increases, economic growth also follows, particularly in 2010 and 2011. The result implies that the country's economy has been highly dependent on foreign investment since 2008. Therefore, the implementation of foreign investment policy in the country should be undertaken very carefully, and various factors and their interrelations should be considered.

Table 1.1 Foreign Investment Growth and Economic Growth

Indicators	2005	2006	2007	2008	2009	2010	2011	2012	2013
Foreign investment growth	33.68	15.69	36.4	41.8	13.1	26.26	393	-21	-48
GDP growth	7.3	8.6	10.2	8.5	-1.3	6.4	17.5	12.4	11.7

Source: World Bank, 2014 and FIRRD

Lastly, 4) at the sectorial level, foreign investment inflow has tended to go to only the mining sector in the last decade. Figure 1.3 shows that that the amount of mining foreign investment grew faster than other types of investment and accounted

for 80% of total foreign investment in 2012 compared with 40% in 2001. The focus of foreign investment in the mining sector is not only an issue about rational and effective use of limited natural resources; it is related to the promotion of the long-term sustainable economic development of the country. Compared with other sectors, the mining sector does not increase national productivity if the country has a weak industrial sector. In order to attract more investments in other sectors aside from the mining sector, the government needs to promote special foreign investment policy, and control implementation and evaluate it often.

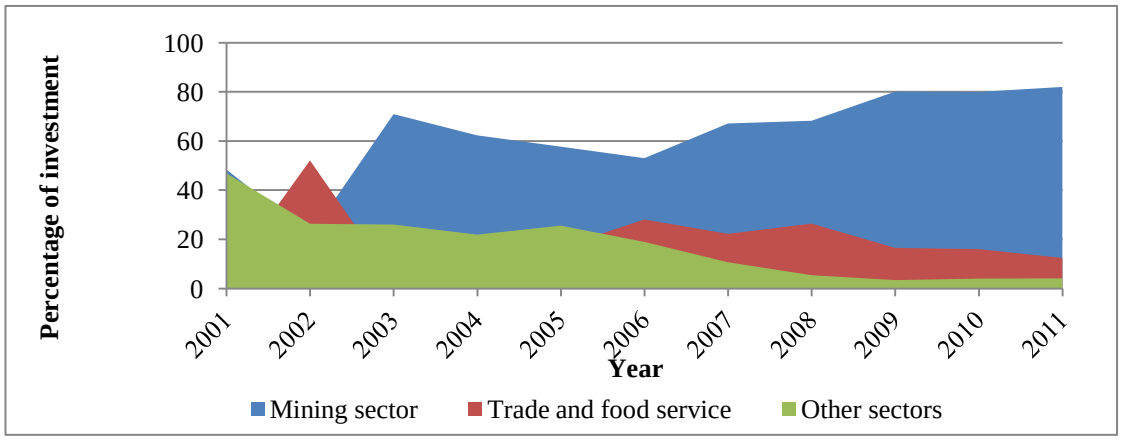

Figure 1.3 Foreign Direct Investment Inflow by Sector

Source: Statistical Bulletin of Foreign Trade and Foreign Investment Agency, 2012.

The abovementioned practical reasons show that the study of the factors affecting foreign investment policy implementation effectiveness is becoming very critical, especially in the case of Mongolia. It means that foreign investment policy should be implemented well, and the factors of effective implementation should be determined and managed by policy makers and implementers for increasing the positive effects and reducing the damage of foreign investment. The study also can assist policy makers and implementers in reviewing and modifying current foreign investment policy and improving the implementation process where necessary.

1.3 Significance of the Study

It is hoped that the study of the factors affecting foreign investment policy implementation effectiveness will be significant not only for extending the knowledge of policy implementation and foreign investment policy, but also for evaluating current policy for foreign investment in Mongolia. A limited amount of literature is available in this field and most previous policy implementation studies have focused mainly on the factors affecting common policy implementation, such as education, health, drug, clean air and housing policy (Van Meter & Van Horn, 1975; Mazmanian, Daniel & Sabatier, Paul, 1983; Edwards, 1980). Consequently, it is important to note that the current study modifies previous policy implementation models for foreign investment policy, which is relatively new. Additionally, only a few studies about foreign investment policy implementation have been conducted and most of these studies are policy papers, not research papers. It indicates that the present research extends existing knowledge about study of foreign investment policy implementation.

In terms of the research methodology used in the present paper, mixed methodology for the data collection and analysis was used, which is not common in policy implementation study. Most studies on foreign investment policy implementation conducted previously utilized the qualitative method (Rana & Pradhan, 2005). Moreover, the data collection sample includes a target group of the relevant policy, which means the present study incorporated foreign investors' perceptions for analyzing the determinant factors affecting policy implementation effectiveness and for evaluating implementation effectiveness.

Finally, this study aims to evaluate current foreign investment policy effectiveness and improve the implementation process in the case of Mongolia via an analysis of foreign investors' perceptions and the opinions of policy makers and implementers in this field.

1.4 Research Objectives

Against the above backdrop, the research study has been undertaken to fulfill the following research objectives for analysing foreign investment policy implementation effectiveness in Mongolia. The main objective of the study is to analyze the factors affecting foreign investment policy implementation effectiveness. More specifically, the current research aims to achieve the following:

1) To explore the nature of foreign investment policy as a new social and economic trend in modern Mongolia

2) To describe foreign investment policy implementation in Mongolia

3) To measure the foreign investment policy implementation effectiveness in Mongolia based on the target group's satisfaction level and investment growth rate

4) To examine the effects of socio-demographic, external, and policy factors on foreign investment policy implementation effectiveness

5) To recommend the appropriate policy intervention necessary for effective implementation of foreign investment policy based on this study.

1.5 Scope of the Study

The study focuses on the following two main issues. First is the dependent variable, which is foreign investment policy implementation effectiveness. The dependent varuable involves two indicators: the level of the target group's satisfaction regarding the implementation and growth rate of foreign investment. Second, in dealing with the independent variables, there are three sets of 13 variables studied on the factors affecting foreign investment policy implementation effectiveness. These three sets of variables include socio-demographic, external, and policy factors. The policy factors involve the clarity of policy objective and standards, the capacity of the implementing agency, quality of service, and foreign investors' compliance with implementation regulations. The external factors include market size, the quality of the infrastructure, the quality of labor, and political stability. And finally, the socio-

demographic factors are firm size, length of experience, investment size, ownership type, and operating sector.

As mentioned earlier, this research differs from other similar studies by employing both quantitative and qualitative methods for collecting and analyzing the data. For the data collection, a mail survey, a structured telephone interview, a semi-structured in-depth interview, and documentary resources were used. All in all, the study reviews the major models and empirical studies about policy implementation effectiveness and foreign investment policy.

1.6 Limitations

There are some limitations related to this study. First, limitations on the quality of the statistical data exist due to the use of different sources. Statistical data are published differently through the Foreign Investment Agency, the National Statistical Office, and the Central Bank of Mongolia. For example, the Foreign Investment Agency prepares foreign investment statistical data based on only foreign-invested companies' submitted information for registering their foreign investment. With this resource, foreign investment data can be classified according to operating sectors and locations. However, many foreign investors reinvest without registration with the Foreign Investment Agency. The National Statistical Office and the Central Bank of Mongolia prepare foreign investment statistical data based on investment money flow. However, these data do not indicate which sectors received what amount of investment. Moreover, the method of calculating the investment data by the Central Bank of Mongolia is different from the National Statistical Office.

Second, only methodologies of implementation analyses and the policies towards foreign investment are diverse and complex, and therefore are not easily quantified even when they are known. Also, only descriptions of foreign investment policies are not readily available and must be sought from a variety of sources, which sometimes provide conflicting or incomplete information. In addition, policies are not static because governments frequently alter policies.

Lastly, few empirical studies have been conducted on foreign investment policy implementation, and evaluation and many of the studies related to foreign

investment policy have been conducted at the cross-national level but not the national level. Those few cross-national studies reflect a relationship between foreign investment promotion or restriction policy as the independent variable and foreign investment inflow as the dependent variable. Also, the literature reviews on foreign investment show that it is difficult to find relevant research in line with this study.

1.7 Definition of Key Terms

Capacity of Implementing Agency: This is considered as sufficient resources—financial, human, power, time, and information—for effective policy implementation and achieving the desired outcome.

Clarity of Foreign Investment Policy Objectives and Standards: This is the level of clarity of foreign investment policy objectives and standards that measure intended policy implementation outcomes and consist of solutions to existing problems.

Foreign Direct Investment: This is the movement of tangible or intangible assets from one country to another in the form of establishing wholly foreign-owned business entities or branches or jointly operating with local business entities of the host country for the purpose of future profit within partial or total control of the management under the treatment of the host countries' government.

Foreign Investment Policy: This is the government's purposive actions or inactions regarding matters related to foreign investment. Foreign investment policy is classified into two types: promotion and restriction policies.

Foreign Investors' Compliance with Implementation Regulations: Foreign investment policy implementation regulation is the implementing agencies' sustained and focused control of foreign investors' valued activities.

Implementation Effectiveness: This is the degree of policy goal attainment and adaptation.

Policy Implementation: It is the policy goal-oriented activities or actions which are performed by cooperating and coordinated public and private organizations under conscious conditions within intended period.

Quality of Public Service: This is defined as the difference between what a service provider should offer and what it actually offers, or the difference between the service receivers' expectation and performance.

In conclusion, this chapter explains the significance of the research topic. It also emphasizes the research objectives, limitations, and benefits in conducting this study.

CHAPTER 2

FOREIGN INVESTMENT POLICY AND ITS IMPLEMENTATION IN MONGOLIA

2.1 Country Background

Mongolia is a landlocked country located in northeast Asia in between two big nations, Russia and China. The country has a total area of 1,565,600 square km with a population of only 2.9 million, giving it one of the lowest population densities of any country in the world (NSO, 2012). Around 40% of the population lives in the countryside, primarily as nomadic livestock herders, while the rest live in the capital city, Ulaanbaatar, and other major cities or small towns spread throughout the country. As a unitary state, Mongolia is divided into 21 administrative units called "aimags."

In January 1992, the Mongolian legislature adopted a new constitution, which came into effect on 12 February 1992. The constitution establishes Mongolia as a democratic republic. As with other democratic market economies, the Mongolian political structure consists of legislative, executive, and judicial branches of government with a president as the head of state (NSO, 2011).

Mongolia is extremely rich in mineral resources. In 2009, Mongolia was responsible for 0.8 and 0.2 percent of the world total production of copper and coal, respectively (British Geological Survey, 2011). These shares are expected to increase significantly in the near future. Two large mining projects backed by foreign investment, the Oyu Tolgoi and the Tavan Tolgoi, are among the largest copper/gold and coal deposits in the world, respectively (UNCTAD, 2012).

2.2 Overview of Foreign Investment Inflow in Mongolia

Mongolia has opened its market to the international community and has become familiar with foreign investment since the early 1990s. According to UNCTAD's (2011) report, Mongolia was one of the five largest recipients of foreign investment among countries with a less developed infrastructure and costly transportation, such as Kazakhstan, Turkmenistan, Zambia, and Chad (Figure A. 1). However, compared with regional countries, Mongolia is one of the lowest recipients of foreign investment (Table A. 1).

2.2.1 Foreign Investment Size and Growth

Overall, Mongolia used to attract a large amount of foreign investment, especially from 2000 to 2011, with an open policy and less intervention regarding foreign investment. Figure 2.1 shows that the amount of foreign investment increased every year, especially in 2010 and 2011, where it reached up 5$ billion.

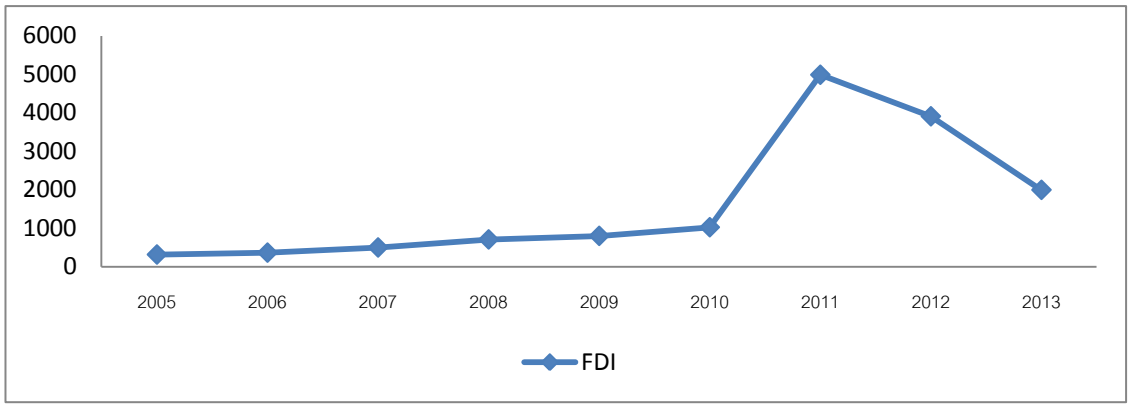

Figure 2.1 Growth of Foreign Investment Inflow
Source: FIRRD Statistical Information, 2013.

Additionally, Figure 2.1 shows that foreign investment inflow dramatically decreased in 2012 and 2013. This deduction happened after the passage of the Sector Importance Foreign Investment Law (SIFIL) in May 2012. According to this new law, foreign companies in order to invest in strategically-important sectors in Mongolia, in

particular all kinds of state-owned foreign companies, needed to obtain initial approval from the cabinet and/or parliament before beginning any activities in the field of foreign investment or foreign transactions. This new legal barrier made the investment environment instable, and in addition foreign investors were waiting to see what further government actions would be undertaken and what standards would be issued for implementing this policy. Due to legal and political instability, foreign investors reduced and delayed their investments, and foreign investment inflow dropped by 22% in 2012 compared with 2011, and 51% in 2013 compared with 2012.

The reason behind the tremendous increase of the foreign investment rate in 2011 was the Oyu Tolgoi mining projects. Oyu Tolgoi mining resources was founded in 2001 and was approved as one of the largest copper-gold resources in the world. Oyu Tolgoi is owned by foreign investors with 66% shares in Turquoise Hill Resources and 34% shares in the Government of Mongolia. It officially started its operation in 2010. By 2020, $7 billion was expected to be invested in the Oyu Tolgoi project. In 2012, Oyu Tolgoi had already invested more than $4 billion (FIRRD, 2012). Table 2.1 presents a comparison between Oyu Tolgoi investment and other foreign investments. The table shows that Olyu Tolgoi had always accounted for about half of the total foreign investments from 2010 to 2012.

Table 2.1 Amount of Foreign Investment Inflow by Oyu Tolgoi Project

(thousands)

	2010 year		2011 year		2012	
	Amount /thousands/	%	Amount /thousands/	%	Amount /thousands/	%
Oyu Tolgoi investment	537.64	52.4%	1746.78	35.0%	1913.65	48.9%
Other investments	488.36	47.6%	3239.25	65.0%	1993.35	51.1%
Total foreign direct investment	1026.00	100%	4986.03	100%	3907.00	100%

Source: Statistical Information of FIRRD, 2013.

2.2.2 Forms of FDI

In Mongolia, two types of foreign-invested companies exist; these are wholly foreign-owned companies and joint-ventured companies. At the end of 2012, an estimated total of 12500 foreign-invested companies had been registered at the Foreign Investment Agency since 1990 (Figure 2.2). However, only 4030 of the total foreign-invested companies held an official investment certificate and the rest of them were officially closed down, transferred into domestic entities, or did not renew their foreign investment certificates by the end of 2012.

Figure 2.2 shows that the number of newly-registered foreign-invested companies sharply decreased each year since new amendments were enacted regarding Foreign Investment Laws in 2009. The new amendment registration requirements stated that foreign investors should not hold less than 25% of the equity, and the company should have a minimum of $100,000 in cash or equivalent value of capital material.

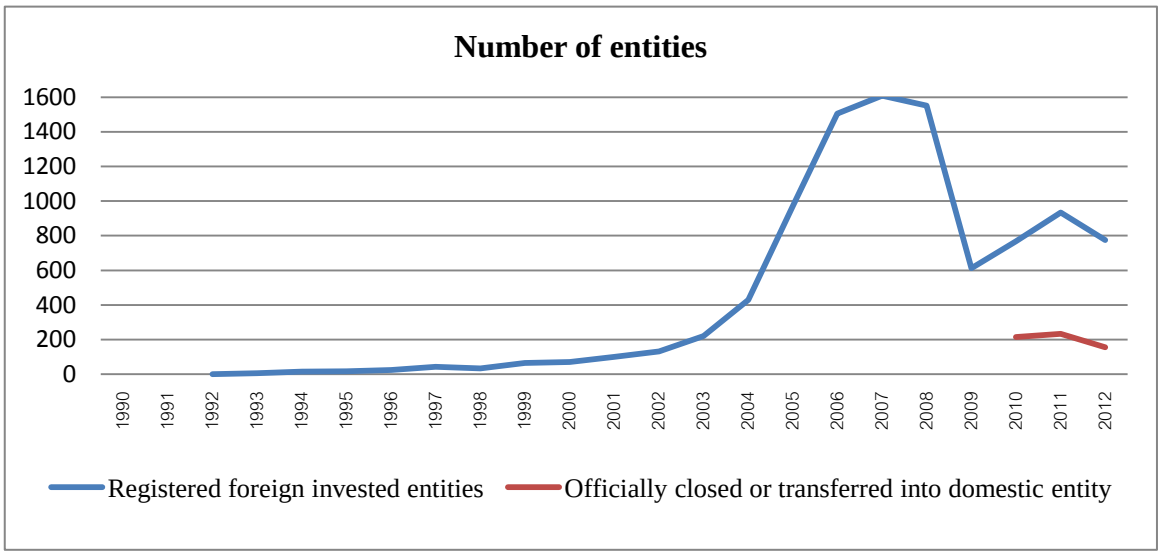

Figure 2.2 Number of Registered Entities with Foreign Equity in 2005-2012

Source: Foreign Trade and Foreign Investment Agency, 2012.

2.2.3 Distribution by Sector, Origin, and Geographical Location

Based on the origin of foreign investment inflow, China is by far the largest source of foreign investment inflows, with a 49% share in 1990-2012, followed by the Netherlands, Luxemburg, the British Virgin Islands, Singapore, Canada, and the Republic of Korea (Table 2.2).

Table 2.2 Top 10 Countries Which had Invested in Mongolia by 2012

Origin of Investors	Percentage of Investment Amount	Number of Companies	Amount of Investment
China	31.71	5951	3,650,996
Netherlands	23.16	53	2,667,036
Luxemburg	9.01	24	1,037,196
UK Virgin islands	7.48	243	861,441
Singapore	5.45	176	627,075
Canada	4.23	120	487,595
South Korea	2.93	2159	337,736
USA	2.54	288	292,657
Hong Kong	1.80	161	207,007
Japan	1.60	508	184,752

Source: FIRRD, 2013.

Table 2.2 shows that 31.71% of the total foreign investment was made by almost 6000 Chinese companies, while 23.16% and 9.01% were invested by only 53 Netherland and 24 Luxemburg companies respectively. This confirms that Chinese investors are relatively smaller in number than Dutch investors.

Table 2.3 Foreign Investment Inflow by Sector

Sectors	Percentage of Investment Amount	Number of Companies	Amount of Investment	Average Amount Per company Investment
Mining	65.3	1504	3,158,716	2,100
Service and trade	18.9	8232	913,702	110
Bank and finance	2.7	60	131,390	2,189
Light industry	2.2	190	107,908	567
Engineering	1.5	388	74,307	191
Other	9.4	1774	454,290	163

Source: FIFTA, 2010.

In terms of investment by sector, the mining sector received 65.3% of total foreign investment inflows in 1990-2010, and it is expected to be the biggest recipient sector in the long run. The second largest recipient sector is trade and services, which accounts for 18.9% of total foreign investment. However, in reality, the trade and service sectors may not be the second largest recipients. This is because every foreign-invested company that has registered at the Foreign Investment Agency for the first time has most likely registered its company under service and trade, which does not require special licenses or complicated processes.

Moreover, Table 2.3 shows that the mining and banking and finance sectors have the largest average amount per company investment. This is significantly different from the service and trade sector, which accounted the smallest average among all sectors.

Regarding the geographical distribution of entities with foreign equity, according to The National Statistical Office (2010), 70% of wholly foreign investment entities and 92% of joint ventures with foreign investment entities are operating their business in the capital city, Ulaanbaatar (NSO, 2010).

2.3 Content and Specifics of Foreign Investment Policy in Mongolia

The main objective of this study is to analyze the factors affecting foreign investment policy implementation effectiveness in Mongolia. In addition to this, the study likewise developed a specific objective, which was "to explore the nature foreign investment policy in modern Mongolia.**"** Since the approval of the first Foreign Investment Law in 1993, the Government of Mongolia (GoM) not only promotes and protects foreign investment, it also regulates it through specific and general laws and regulations. The specific laws on foreign investment are regulating matters that are only related to foreign investment activities, whereas general laws cover all business, including foreign direct investment (but not designed explicitly for foreign investors).

2.3.1 Specific Standards of Entry, Treatment, and Protection of Foreign Investment

In Mongolia, three laws have been enacted that focus on foreign investment during the last decades. The first law was the "Foreign Investment Law" which was approved in 1993. The second law was the "Sector Importance Foreign Investment Law," also referred to as the "Regulation of foreign investment in business entities operating in sectors of strategic importance," which approved by the Parliament of Mongolia in May 2012. Both of these laws were terminated in October, 2013. The third law is the "Investment Law," which became effective on 1 November 2013. This new law covers both foreign and local investors' issues. However, the current study will only focus on the first and second laws.

2.3.1.1 Foreign Investment Law (1993-2013)

In 1991, the first version of the Foreign Investment Law was enacted. The full version of the law was finally approved in 1993. Since then, it was amended in 1998, 2002, and 2008. Finally, the law was terminated in October, 2013. The purposes of the Foreign Investment Law included the following:

1) To encourage foreign investment
2) To protect the rights and property of foreign investors and
3) To regulate matters related to foreign investment

According to this law, “foreign investment” means every kind of tangible and intangible property which is invested in Mongolia by a foreign investor for the purpose of establishing a business entity in a form of either a wholly foreign-owned company or joint venture. “Foreign investor” in this sense means a foreign legal person or individual that invests in Mongolia. “Foreign-invested entity” means an entity which is established in accordance with the legislation of Mongolia, foreign shareholders should not hold less than 25% of the equity, and the company should have a minimum of $100,000 in cash or equivalent value of capital material (FIL, 2008).

The initial version of the Foreign Investment Law stated the basic terms and types of foreign investment, rights and obligations of foreign investors, rules of liquidation and registration of foreign-invested entities, and how other general laws such as tax, land, labor, finance, and insurance issues related to foreign investment. Additionally, important amendments to the Foreign Investment Law were made in 1998, 2002, and 2008.

In 1998, the law was amended and created an implementing agency for foreign investment policy. In 2002, the law added a stability agreement, an investment agreement, one-stop service, and rights and obligations of the Foreign Investment Agency. In 2008, it elaborated on the operations of the Foreign Investment Agency, especially the required documents and conditions for foreign investment permission under this law (FIL, 2008).

1) Entry and Establishment: According to the Foreign Investment Law, Foreign Investors can Invest and Reinvest by:

(1) freely convertible currencies

(2) movable and immovable property and property rights

(3) intellectual and industrial property rights, and

(4) all areas of production, all services, all parts of the territory that are not prohibited by the laws of Mongolia

Also, foreign investment can be made in the form of the following:

(1) establishing a wholly foreign-owned entity or representative

(2) establishing business entities jointly with Mongolian investors

(3) buying stocks, shares, and other securities of the Mongolian business entities under the legislation of Mongolia

(4) acquiring rights by law, concession and product sharing contract to exploit and process natural resources

(5) concluding a contract for marketing and management

(6) making an investment through financial leasing and franchise (FIL, 2008)

Also with this law, foreign investors receive the legal right to freely invest everywhere and in any type of business in various kinds of properties using different forms of investment which are not prohibited by the laws of Mongolia. It means that the law was very open and promoted foreign investment in Mongolia. However, in terms of implementation practice, the implementing agency has defined the following number of required documents and evaluating investment projects for providing investment certification or permission:

(1) compliance with national laws and regulations

(2) impact on the environment

(3) compliance with standards and hygiene requirements

(4) evaluation of the technical and technological level of the investment (MICS, 2010)

2) Treatment and protection of foreign investors: The Foreign Investment Law provided the main legal guarantee that foreign investment should not be unlawfully expropriated or if foreign investment needs to be expropriated, it must be on payment of full compensation. In addition, the law provided a Stability Agreement for large foreign investors. The purpose of this agreement was to stabilize the business environment for only foreign investor that intend to undertake an investment project of not less than $20.0 million for ten years and $50.0 million for 15 years. Stabilizing the business environment should be implemented through providing stable tax' rates or amounts during a specified period—corporate income tax, import customs duty, value-added tax, excise tax, gasoline and diesel fuel tax—for those that signed the agreement.

In terms of protecting foreign investors' intellectual or intangible property, evaluation of intellectual property in the registration process, authorization of legal guarantees, and calculation of payment of compensation are problems due to the less developed assessment system. This evaluation can be done by either Mongolian or foreign specialized companies licensed to conduct asset evaluation.

2.3.1.2 Sector importance Foreign Investment Law

The "Sector Importance Foreign Investment Law" or the "Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance" was approved in May 2012 and was terminated in October, 2013. The purpose of this law was to regulate foreign investment in strategic sectors and with strategic investors for ensuring national security. In this law, various new terms were defined, such as strategic sectors, strategic entities, and transactions that were targeted by the law to be effective.

The "Strategic importance sector" means the sector that is strategically important for meeting the basic needs of the population, maintaining independence and normal functioning of the economy, generating national revenue, and ensuring the national security of Mongolia. It involves the mineral, food, agriculture, energy, transportation, information and communication sectors. "Strategic transactions" means transactions of foreign-invested companies in strategic sectors and those transactions are required to obtain permission from either the Government or Parliament of Mongolia. Lastly, "strategic entities" mean foreign investment entities that have value of more than 100,000 billion in Mongolian currency.

1) Entry and establishment: Based on the "Sector Importance Foreign Investment Law," a variety of entry and establishment regulations were applied for foreign investors. For example, if foreign investors that wish to invest in Mongolia are fully- or partly-owned by a foreign government, they should obtain a permit from the Government of Mongolia through an entity registered in Mongolia. Also, a foreign investment company that operates its business in a strategically-importance sector should obtain permission for their investment registration and transaction from the Government of Mongolia through an entity operating in a strategic sector and registered in Mongolia. Moreover, in case the foreign investor's share in an entity operating in the strategic sector exceeds 49% and the amount of

investment at that time is more than 100 billion tugriks, the Parliament of Mongolia shall decide upon the submission by the government. In all other cases, the government shall make a decision regarding permission.

2) Treatment and protection of foreign investors: An entity operating in the strategic sector shall give priority treatment to national entities of Mongolia in procuring goods, works, and services. The government shall adopt the rules for the priority rights.

2.3.2 General Standards and Policies Which Influence Foreign Investment

In addition to these main acts, the general business laws involve tax, land and labor laws, and other sectoral or international laws and regulations which are related to foreign investment issues.

2.3.2.1 Fiscal Policy Area

A main policy affecting foreign investment environment is the Tax Law. Foreign investors pay more attention to taxation when they make investment decisions for the selecting host countries. The Foreign Investment Law promoted foreign investment by taxation in the infrastructure, manufacturing and industrial sectors until 2007. In this way, foreign investors were enjoying exemption from and credit with corporate income tax and value-added tax and import tax during certain years. For instance, if foreign investors invested in certain types of infrastructure projects, they were be granted ten years of income tax exemption and 50% tax relief in the consecutive five years. Also, if the investor invested in certain manufacturing projects, they were granted five years of income tax exemption and 50% tax relief in the subsequent five year period. In addition, according to the free zone law, there was no excise, added-value tax, or import custom duty when investors imported into or exported from the free zone (Law of Mongolia on the Free Zone, 2002).

The Parliament of Mongolia approved a new taxation law in 2007. It provides equally favorable conditions for both foreign and local investors, and it aimed at further streamlining tax administration and payments. Also, it has reduced the tax burden on business and expanded the tax base by reducing the number of incentive schemes available. Several tax incentives for foreign investment were terminated by this law.

2.3.2.2 Land and Labor Policy Areas

Labor and land regulations also affect the foreign investment environment. Labor law requires companies to employ Mongolian workers in certain labor categories whenever a Mongolian can perform the task of a foreigner. This law applies to unskilled labor categories but does not include areas where a high degree of technical expertise is unavailable in Mongolia. If a foreign employer seeks to hire a non-Mongolian laborer, the employer needs to pay a fee of around $140 per employee per month (IPR, 2012). Depending on the importance of a project, the Ministry of Labor may grant an employer 50% exemption of the waiver fees as an incentive.

Foreign investors cannot own land. However, they can use land under lease arrangements for 15 to 60 years (with extensions of 40 years) with rights to manage the land. Also, they may own immovable properties and physical structures such as apartments and buildings. If the land is to be used for undertaking production and services, an environmental assessment is required within 90 days after receiving the right, further to which a license and a contract on land possession are issued, and the right is recorded in the national registry (Land Law, 2006).

2.3.2.3 Sectorial Regulation Area

Most affecting sectorial regulations on foreign investment are mining sector regulations. This is because the majority or 70% of foreign investment is invested in the mining sector. The Minerals Law was introduced in 1997, and the primary concern of this law was to attract investment in the sector. However, this law has made several amendments, and many other new laws were passed to increase public gains from mining activities since rich natural recourses were discovered. These law amendments mostly negatively affected foreign investors' activities since 2006.

The Windfall Profits Tax Law was passed in 2006 and terminated on December 31, 2010. The windfall profits tax imposed a 68% tax on the profits from gold and copper mining. For gold, the tax kicked in when the price hit $850 per ounce. For copper, the threshold was $2,600 per ton (Tax Law, 2006). However, this law drew criticism regarding the stable and transparency legal environment for foreign investment (Tax Law, 2006).

In 2009, state participation was required for uranium exploration and mining by the Nuclear Energy Law. It means that the law declared that state participation would range from 34 to 51 percent of uranium exploration and mining. However, uranium rights holders did not offer compensation after this law was passes, and the reason explained by the Court was that all minerals are the property of the state (USEM, 2011).

Moreover, the Parliament of Mongolia passed the Law on the Prohibition of Minerals Exploration in Water Basins and Forested Areas in 2009. The purpose of this law was to limit environmental damage from gold mining around forests and watersheds. This law negatively affected foreign investors because it declared that mineable resources must be located no less than 200 meters from the water or forest resource. Consequently, license holders that have mineable resources that are located less than 200 meters from a water or forest resource should have their licenses revoked or modified to explore or mine. With this law, more than 240 exploration and mining licenses had to be suspended and canceled, and around 1,600 licenses had to be modified or revoked with compensation in 2010. However, what licenses and how these licenses should be suspended, canceled, modified and revoked were was not specified by this regulation (USEM, 2011).

2.3.2.4 International Treaties

The Government of Mongolia has signed several international agreements which positively affect foreign investment environment. First, the government signed the Convention on the Settlement of Investment Disputes between States and Nationals of Other States, Washington in 1965.

Mongolia also signed a Bilateral Investment Treaty with the European Economic Community in 1992 and with United States in 2004. The purpose of this treaty was to monitor investment relations, to identify opportunities for expanding investment, and to improve their investment climate. Moreover, Mongolia joined the WTO in 1997, which also affected the foreign investment environment a lot. Furthermore, Mongolia signed the Exemptions on Double Taxation Agreement with 35 countries, which helped to reduce foreign investors' costs.

2.4 Foreign Investment Policy Implementation in Mongolia

According to second objective of this study, which is "to describe foreign investment policy implementation in Mongolia," the research has conducted a documentary review and semi-structured face-to-face interview. Since the approval of the first Foreign Investment Law in 1993, the Government of Mongolia has been using several approaches for implementing this policy.

2.4.1 Documentary-Review for Describing Foreign Investment Policy Implementation in Mongolia

In order to answer how foreign investment policy has been implemented, documentary review was used in this study. Payne and Payne (2004) describe documentary review as a technique used to categorize, investigate, interpret and identify most commonly-written private or public documents. Yin (1994) claims that documentary review can be used for confirming the evidence from other sources because documents are stable, rich, readily available, and accessible. It would be better if multiple analyzers and triangulation were used to confirm findings when carrying out a documentary review. Weimer and Vining (1999) describe the utility of a documentary review in policy study, saying that it is one of the most effective ways of gathering evidence for policy analysis, evaluation, and reform.

In this study, a list of public documentary sources, including laws, regulations, policy statements, census reports, statistical bulletins, reports of commissions of inquiry, ministerial or departmental annual reports, consultancy reports, and all others, was used for collecting the data. Also, some private documents from international organizations and conferences such as minutes of meetings, board resolutions, advertisements, invoices, personnel presentations, and training manuals were involved in the data collection.

2.4.1.1 Data Collection

The documentary review method was used in this research for categorizing, investigating and interpreting documents related to foreign investment policy implementation in Mongolia. Table 2.4 presents the public and private documentary sources related to foreign investment issues from 1993 to 2013 that were reviewed in this research.

Table 2.4 Resources and Types of Documentary Data

Document Type	Resources
Main Laws	Foreign Investment Law 1993, 2001, 2008
	Regulation of foreign investment in business entities operating in sectors of strategic importance 2012
Related Laws	General Tax Law 2007
	Minerals law 2006
	Nuclear energy law 2009
	Windfall profits Tax Law 2006
	Labor law 1999
	Land law 2003
	Law on the prohibition of minerals exploration in water basins and forested areas 2009
Resolutions	Parliament resolutions 1998-2013
	Government resolution 1993-2013
Statistic	National Statistical Yearbook 2000 - 2011
Information	Database of Foreign Investment Agency
	Bank of Mongolia
Reports	Foreign Investment Agency
	Bank of Mongolia
	Government of Mongolia
	World Bank
	Asian development bank
	UNCTAD
	Economic and commercial section of the United States Embassy
	JICA
Conference	Foreign investors forum 2002, 2006, 2009 and 2010
Materials	Discovery Mongolia 2002 - 2012
	Other international conferences

Source: Field Study

2.4.1.2 Overall Performance of Foreign Investment Policy Implementation

Foreign Investment Law has defined three main objectives for encouraging foreign investment, to protect the rights and property of foreign investors, and to regulate matters related to foreign investment. In addition to these objectives, the impacts of foreign investment policy implementation are also important for discussing performance.

Between 1990 and 1999, 207 foreign investment firms invested an amount of around $300 million from 52 countries in Mongolia. Since 2000, foreign investment inflow has increased dramatically while the government has implemented several policies for promoting foreign investment. Between 2000 and 2009, 7012 foreign-invested companies invested $3.5 billion from 110 countries, especially China /35.4%/, the Netherlands /21.8%/ and Virginia Islands UK /8.48%/. In 2011, foreign investment inflow increased to almost $5 billion; however, it decreased to about $3.9 billion and $2.0 billion in 2012 and 2013 respectively.

In terms of the impact of foreign investment on employment, 35,994 employees were working at foreign-invested companies, and 60% of them were working at wholly foreign-invested companies by 2010. Employees' salaries in foreign-invested companies were higher than the average salary in Mongolia. However, due to a lack of high technology skills on the part of Mongolian employees, foreign-invested companies tend to hire foreign employees; for example, 14,687 foreign employees from 103 countries were working at foreign-invested companies in Mongolia by 2011.

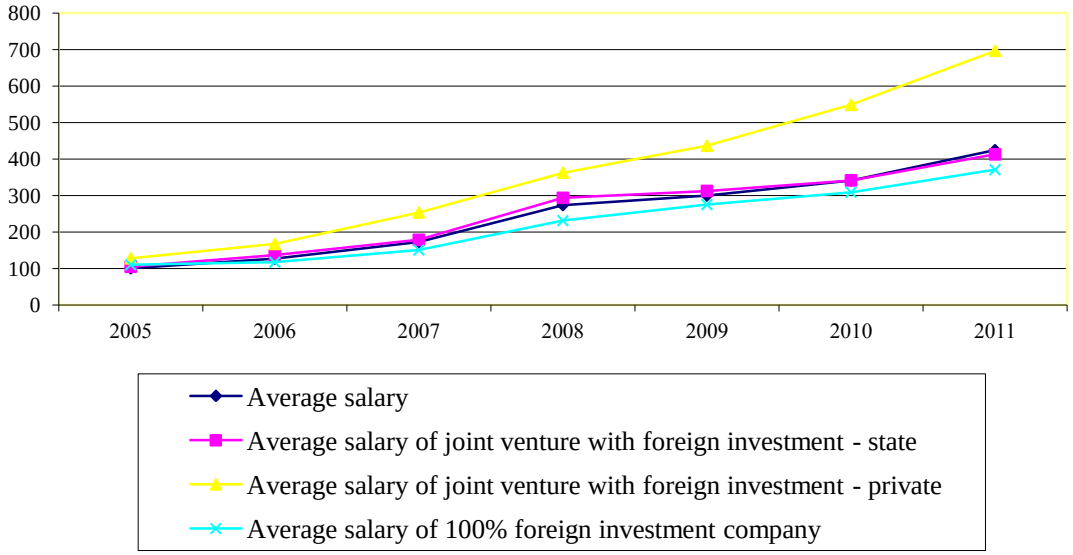

Figure 2.3 Average Salary in Foreign-Invested Companies

Source: Yearbook 2011, National Statistical Office

For technology transfer, only a few sectors, including mining and communication sectors, have acquired advanced technology. However, some sectors, such as transportation and energy, where advanced technology is necessary, did not receive enough foreign investment or acquire high technology. In order to receive advanced technology, the government should promote foreign investment through taxation or other approaches to these sectors.

In terms of government revenue, foreign-invested entities have paid $4.2 billion in tax revenue over the last fifteen years according to FIFTA data (2011). Due to the new edition of the Tax Law in 2007, foreign investment entities paid an average amount of $170.0 million corporate income tax every year. In 2010, their contribution to tax revenue reached $870 million or 40 percent of total tax revenue in that year.

Table 2.5 Payment of Tax by Foreign-Invested Entities

Types of tax	2011.12.31	2012.06.30
Corporate income tax	312,174,752	134,766,384
Value-added tax	244,859,159	140,549,980
Payment for use mineral resources	311,961,651	95,826,262
Capital tax	1,038,575	728,820
Tax for salary	38,614,835	23,825,170
Tax for sell capital	18,483	39,590
Penalty for tax	3,771,646	822,652
Lease land	194,854	81,042

Source: Statistical Information of Office of General Tax

Evaluating foreign-invested companies or foreign investment projects' performance is one of the implementing agency's duties. However, it is a very difficult task for the Foreign Investment Agency since it is not provided enough human resources, power resources, networks with other agencies or financial support. This is because many foreign investors have invested in Mongolia for other purposes, such as living rather than doing business.

2.4.1.3 Events and Steps to Encourage Foreign Investment

Several policy implementation approaches have been used for encouraging foreign investment in Mongolia, such as providing tax incentives for promoting foreign investment in specific sectors and locations or with certain projects, and declaring investment year and organizing activities for foreign investors.

1) Tax incentive policies for promoting foreign investment: Foreign investors were used to getting tax exemptions or deductions on corporate income tax, value-added tax, and import tax. First, tax incentives were provided to foreign investors based on their investment orientation or purpose. When foreign investors invested in infrastructure, manufacturing, and export-oriented investment, they were offered tax incentives beginning in 1993. For example, the first version of the Foreign Investment Law provided ten years of income tax exemption and 50% tax

relief in the subsequent five year period when investors invested in the infrastructure sector. As a result of the tax incentive policy, 496 foreign firms were able to save around $8 million (8.4 billion tugrik in Mongolian currency) by tax exemptions and 41.1 billion tugrik due to tax credits (FIRRD, 2009). However, the tax promotion policy was annihilated in 2007 because it was considered to be discriminatory against local investors.

Second, in order to develop agriculture, heavy industrial, construction, transportation, tourism, communication, light industry, education and health sector, the Government of Mongolia has promoted foreign investment in these sectors by tax incentives. Both foreign and local investors have invested in these sectors, and an investment tax credit equal to 10% was granted for investment in depreciable non-current assets for the purpose of starting new production and services or expanding or renovating existing production and services (Resolution of Government 311, 2006 and Resolution of Government 83, 2008). If the credit exceeded the total tax imposed income tax payment during the tax year, the excess would be credited in three subsequent profitable years. However, this resolution was annulled in November, 2009.

Furthermore, the government approved the "Industrialization Program of Mongolia" in 2009. With to this project, several taxes exemptions were provided, including value-added tax exemptions on raw materials and oil-fuel products, and import tax exemptions on equipment, mechanisms, tools, and spare parts for the oil industry (Resolution of Government 299, 2009). Also, value-added tax exemptions were applied for highly-processed mining products only when they were exported. Both resolutions were annulled in 2011.

The above-mentioned tax incentive policies were more focused on the industrial sector, and light industry, manufacturing, energy, transportation and construction sectors expected to receive more foreign investment inflow. However, Figure 2.4 shows that foreign investment in the targeted sectors was not increased during 2005-2010 (Table A. 2).

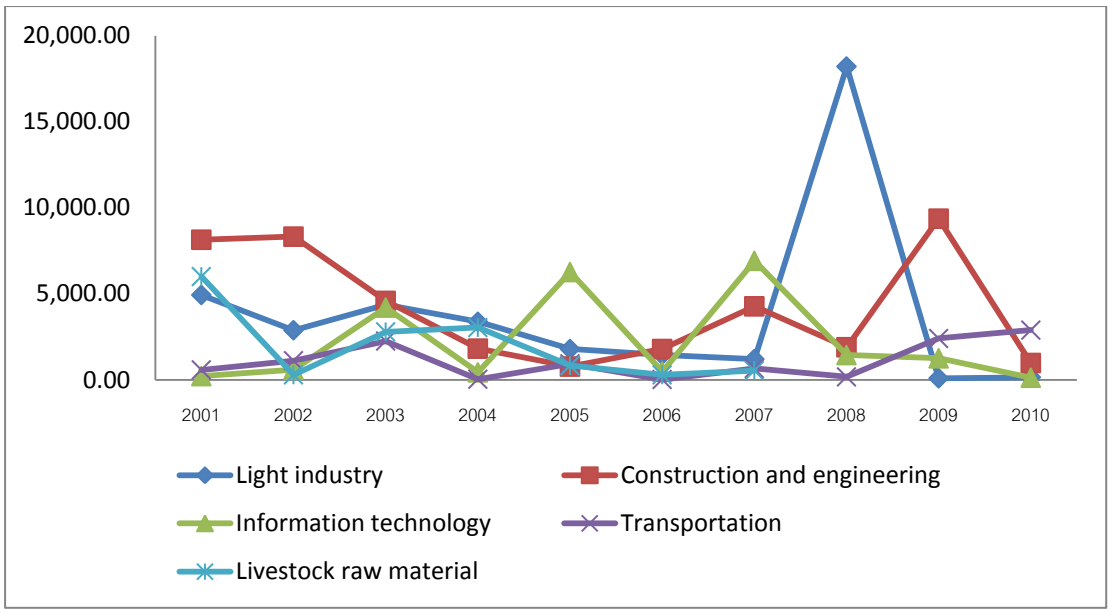

Figure 2.4 Foreign Investment Inflow in Industrial and Infrastructure Sectors
Source: FIFTA Statistical Data, 2010.

2) Declaring investment year: In order to promote investment, the government declared the year 2002 as "Investment Promotion Year" (Resolution of Government 21, 2002). During this year, the government implemented several programs to develop a favorable investment climate, and improve the investment legal environment and incentive market. In the case of the legal environment, some laws were improved or changed, such as the Minerals Law of Mongolia and Law of Security. Also, some articles of the Law on General Taxation were changed to develop the industrial sector in terms of replacing imported goods and increasing export-oriented goods (Government of Mongolia, 2002).

Furthermore, in order to promote investment in the "Investment Promotion Year," the government has developed a law to support private investment, analyze its implementation performance, visit foreign-invested companies, and check their processes. Therefore, there have been many activities to advertise the laws and regulations related to investment, integrate statistical information on investment, and sign agreements between governments to promote and protect foreign investment. Consequently, in order to attract foreign investors, many actions were implemented, such as developing economic and technical feasibility, organizing seminars for the methodology of project plans, involving local and foreign investors' participation in

the privatization of important objects, developing and advertising big projects in the mining and infrastructure sectors for foreign investors, and investing in government projects and programs (Government of Mongolia, 2002).

3) Organizing activities for foreign investors: Organizing foreign investors' forums is one of the approaches for promoting foreign investment inflow in the country. First, the investors' forums held in 1996 by the Government of Mongolia cooperated with the United Nations at Ulaanbaatar Mongolia (Resolution of Government 63, 1996). However, organizing foreign investors' forums was not yearly based until 2002. After that, the government organized foreign investors' forums almost on a yearly basis in 2002, 2006, 2009 and 2010 in cooperation with the Ministry of Foreign Affairs, the National Committee of Regional Development, FIFTA, the World Bank, and other international or local organizations. In these forum, many issues, such as introducing projects to foreign investors, attracting new investors, advertising and introducing the Mongolian investment climate and legal environment, improving the effectiveness of investment in foreign-invested entities or projects, and promoting reinvestment, were discussed and solved. Moreover, the Association of Mining has been organizing the Discovery Mongolia forum for investors in the mining sector annually since 2002. Many other associations and organizations also have been organizing several conference or forums to advertise their sectors' activities, to attract new investors, and many other purposes.

2.4.1.4 Actions Undertaken to Protect the Rights and Property of Foreign Investors

In order to support and protect big investors in Mongolia, the Stability Agreement and Investment Agreement were introduced in Mongolia.

1) Stability agreement: The stability agreement is under the regulation of the General Taxation Law, the Foreign Investment Law and the Minerals Law of Mongolia, and it is not only about legal guarantees for stabilizing the business environment and rights and obligations authorized by the law, but also about providing agreement for tax deductions or tax holidays. This agreement sets different taxes, namely corporate income tax, import customs duty, value-added tax, excise tax, gasoline, and diesel fuel tax to be paid by the investor at the same rate and same amount based on what the government and the investor agreed upon, which is effective on the date that the agreement was signed into force by both parties. In the

case of the stability agreement, more than ten foreign investors or foreign-invested entities signed the stability agreement with the Government of Mongolia. However, the government had seen this agreement as an unsuccessful practice. Consequently, the Mongolian government no longer made this agreement available (Mongolian National Audit Office, 2007).

Table 2.6 List of Stability Agreements

Name of Entity / Country	Agreement Duration	Amount of the Investment	Purpose of agreement
Tsairt Mineral / China	1998 - 2013	$21.0 million	Project for mining and owned by facture of Zinc field
Boro Gold / Great Britain	1998 - 2008	$15.0 million	Project for mining and owned by facture gold fields of Boroo in 1560 square hectares
Vostokneftegaz / Russia	2002 - 2017	$50.0 million	Produce gas and service for aerate
Road international / China	2003 - 2018	$48.0 million	Millennium road projects to construct 400 km road
MongoliaMidAsia international / China	2003 - 2018	$70.0 million	Millennium road projects to construct 350 km road and agreement for use of coal field
Bumbat / Canada	2003 - 2013	$2.7 million	Project for mining and owned by facture gold field
Skytel /Korea	2004 - 2014	$19.0 million	Service for cell phone operator and trade cell phone and its equipment
Erin international / Japan	2005 - 2015	$4.0 million	Operations in special zone of custom
Chin-Hua-Mak-Nariin Suhait / China	2005 - 2015	$5.3 million	To mine coal field in Nariin Suhait

Source: Mongolian National Audit Office, 2007.

2) Investment agreement: Besides the stability agreement, another agreement was the "Investment Agreement." This agreement is for both domestic and foreign investors and reflected in the Minerals Law of Mongolia very clearly. The purpose of this agreement was to provide a stable environment for the operations of the mining license holder. At the license holder's request, an investment agreement—whose terms included 10 years if the investment was no less than $50.0 million, 15 years if the investment was no less than $100.0 million, and 30 years if the investment was no less than $300.0 million during the first five years of its mining project—may be signed (The Minerals Law of Mongolia, 2006).

In October 2009, the Government of Mongolia signed an Investment Agreement with Ivanhoe Mines of Canada, and Rio Tinto, for the Oyu Tolgoi copper-gold deposit located in Mongolia's south Gobi desert. The Oyu Tolgoi agreement vested the government of Mongolia with 34% ownership of the project and provided guarantees for local employment and procurement. This agreement describes the rights and responsibilities of all parties for the entire life of the project. For the Government of Mongolia, the agreement guarantees taxes, royalties, fees, shareholding, environmental standards as well as requirements for employment and social investments. For investors, the agreement creates a stable and predictable legal structure to plan the business and invest the trillions of Mongolian currency (billions of dollars) required to develop the mine and then fund the large expansion program up to 2020 (GoM, 2009).

2.4.1.5 Activities Regulating Matters Related to Foreign Investment

In order to regulate matters related to foreign investment, the law created a Foreign Investment Agency in 2000 (Resolution of government 139, 2000). This agency regulates foreign investment issues and communicates foreign investors through services at one-stop services.

1) Foreign Investment Agency: The main duties of this agency are promoting and facilitating foreign investment in Mongolia. In addition, this agency has the duty of implementing policies and legislation with respect to foreign investment; conducting research on foreign investment issues; organizing investment promotional activities; providing investors with relevant information; and preparing information related to foreign investment and foreign investors. As a documentary, the main visions of the agency are the following:

(1) to promote Mongolia as a destination for new investment and business

(2) to maintain steady growth of foreign direct investment

(3) to facilitate foreign investment and foreign trade towards meeting the national goals of industrial development and export growth

(4) to improve investment and business environment through various measures, including upgrading quality of investment registration services and information

(5) to influence the creation of a more favorable environment for small and medium-scale industry development, and

(6) to be a leading agency for foreign investment policy implementation in Mongolia (Foreign Investment and Foreign Trade Agency, 2011)

In terms of personnel, there are around 30 officers and 4 divisions in this agency as follows: the investment promotion and cooperation division; the investment, project, business development division; the administration division; and the investment registration and facilitation division. However, the structure of the implementing agency has been changed with almost every new government. Table 2.7 shows the agency under different ministries, which had various strategies for implementing this policy.

Table 2.7 Changes of Foreign Investment Agency

Year	**Name and Authority**	**Resolution Number**	**Under**
First established in 1996	Department of foreign investment	Parliament resolution 40	Ministry of finance
1998	Foreign investment and trade agency	Parliament resolution 84	Ministry of foreign affairs
2000	Foreign investment and trade agency	Parliament resolution 43	Ministry of industry and trade
2008	Foreign investment and trade agency	Parliament resolution 43	Ministry of foreign affairs

Table 2.7 (Continued)

Year	Name and Authority	Resolution Number	Under
2012	Foreign investment regulations and registrations department	Parliament resolution 2	Ministry of economic development

Source: Developed by Researcher

In the case of implementation performance and the capacity of the Foreign Investment Agency, some evaluations have been carried out by public and international organizations. For example, the JICA (2011) concluded that on the one hand, the main problems of the implementing agency based on investors perceptions were the weak structure of policy discussion among implementers and investors, many obstacles to the registration of foreign investment and regulations and legal changes occurring without announcement, poor implementation of one-stop service, and a very low interexchange of information among public organizations. On the other hand, the main problems in terms of implementation were the lack of control and evaluation of implementation where no mechanism even existed for it, and the fact that although the registration of foreign investment had been successfully implemented, the policies that regulated it remained a huge gap that the government needed to improve (JICA, 2012).

Also, Bank of Mongolia and the Foreign Investment and Foreign Trade Agency (2009) suggested that the effectiveness of foreign investment policy had to be improved, and the implementing agency and other responsible organizations had to maintain good cooperation in the process of implementation, and standards and procedures of implementation needed to be developed, such as the registration process, statistical information and data collection, and implementers needed to force foreign firms to comply with the law (BoM and FIFTA, 2009).

Moreover, the economic and commercial section of the U.S Embassy in Mongolia (2011) concluded their study, which used investors' perception,

by saying that Foreign Investment Agency seemed to lack transparency. Also, it stated that the agency's officials and procedures tended to be underdeveloped due to officials' lack specific expertise in most investment areas and lacked knowledge about the exact standards for foreign investment policy implementation (U.S. Department of State, 2011).

2) Registration procedure: All kinds of foreign investment must be registered at the Foreign Investment Agency. Registration requires all foreign investment companies to show capital equal to a minimum of $100,000 in Mongolia as a precondition for registration. In addition to this particular requirement, all foreign investors must pay an initial processing fee for an investment card or an annual extension or certificate cost and so forth. Examples of these fees include:

(1) Operating a new branch, unit, or representative office: $900

(2) Extending operation of a branch, unit or representative office: $600

(3) Extending a license: $60

(4) Issuing a permit to for a bank with foreign investment: $2,240 (FIRRD, 2012)

In addition to these fees, foreign investors must annually report on their activities for the coming year to the government through the implementing agency. However, foreign investors are always concerned about the security of proprietary information, and the reporting process has not been implemented well.

3) One stop service: In 1999, a one-stop service was established at the Foreign Investment Agency on October 1st for increasing foreign investment inflow and improving services for foreign investors (Resolution of Parliament 155, 1999). The intended structure of the one-stop service was that all related public organizations' representatives such as The Department of Taxation, The General Authority for State Registration, The Immigration Agency, The General Department of Custom, and The Investment Bank should be located at the Foreign Investment Agency and then foreign investors can receive all public services from a one-service window.

However, the Foreign Investment Agency has less authority than other partner organizations, and there were many questions about who would be responsible for these representatives' salary and social responsibilities. Also, these public organizations belong to different authorities. Therefore, it can only be successful if one whole government system organizes the one-stop service. Until today, the Foreign Investment Agency has provided information and registration services under a one-stop service name. In 2013, the JICA implemented a project for establishing a one-stop service and provided all financial support and training for staff. However, the Foreign Investment Agency did not receive authority or support for implementing the one-stop service from the government.

2.4.2 Semi-Structured Face-to-Face Interview on Foreign Investment Policy Implementation

The use of interviews can help to gather valid and reliable data that are relevant to current research questions and objectives. Especially, a semi-structured interview has an advantage over the other two types, namely open and structured interviews. Because semi-structured interview is guided by some potential questions and those questions can be elaborated and more flexible in nature (Fontana & Frey 1994). The face-to-face interview, also called an in-person interview, could be the best form of data collection when one wants to minimize nonresponses and maximize the quality of the data collected. The main advantage of the face-to-face interview is that it allows respondents to elaborate on their answers and to clarify some points in the questionnaire (Lavrakas, 2008). Also, the interviewer and/or the researcher can provide historical information and have control over the line of questioning (Creswell, 2009). However, the disadvantages of the face-to-face interview also include providing indirect information filtered through the views of interviewees and information in a designated place rather than a natural setting (Creswell, 2009).

In order to explore how foreign investment policy has been implemented and to determine what factors could affect foreign investment policy implementation effectiveness in Mongolia, a semi-structured face-to-face interview was used. Interviews were conducted with the implementers at the Foreign Investment Agency in April 2013. In total, 24 staff members were working at the FIIRD, the Ministry of Economic Development, during the interview period.

The interviewees were selected based on their position and work experience in foreign investment policy implementation and represented different departments and positions of the Foreign Investment Agency. Selected participants should be able to explain the implementation process and evaluate implementation outcomes; each participant from different departments may describe implementation problem in different ways. Response rates were lower than expected; out of 12 interviewees only 9 participated in the study (Table A. 3).

The interview participants were invited to take part in the study. Each interview took about one hour. The interviews were tape-recorded (where permitted) in order to capture and retain relevant information that may not have otherwise surfaced. The questionnaires of the semi-structured face-to-face interview were divided into two main sections. The first section provided information about the implementation of foreign investment policy implementation performance in Mongolia. The second section asked for the interviewee's perception of the major factors affecting foreign investment policy implementation (Appendix B.).

The interview was conducted by the researcher herself and had a set of pre-established questions. The researcher asked the questions in the same order for all respondents and also elaborated on some of the items where the interviewees needed clarification. All information discussed was for academic and policy purposes and was kept confidential.

1) Foreign investment policy implementation effectiveness: In the context of foreign investment implementation effectiveness, the interviewees were asked to define foreign investment policy outcome based on their perceptions. Since foreign investment policy output and outcome and their measurements, were not clearly defined, the interviewees were asked what outcomes must be achieved after this policy was implemented. The majority of them specified following:

(1) Foreign investment must be promoted.

(2) Foreign investment must be invested into certain sectors where foreign investment is necessary, and local investors lack the capability to invest.

(3) Foreign-invested companies should create new workplaces and transfer new and advanced technology.

(4) Foreign investors must be satisfied with the public services that are provided by the implementing agency.

(5) Implementing agencies or public organizations should cooperate well, and their data must be integrated.

In the case of foreign investment policy objectives, all interviewees agreed that they are very ambiguous and too general. Policy objectives and expected outcomes were not clearly defined by this policy. Foreign Investment Law was a good policy during the period of the 1990s because local investors were very weak, and all sectors needed foreign investments. All sectors welcomed every foreign investor, and there were no conditions or requirements for investing in Mongolia. However, today, the problems of foreign investment are no longer the same as the problems during the 1990s, and the laws must be modified to address new problems.

Since the first Foreign Investment Law was approved in 1993, very few regulations or standards for implementing this policy have been approved by the government. For example, in 1993, the Parliament of Mongolia approved implementation rules for organizing some activities, including authorizing licenses, promoting, protecting and regulating foreign investment, and solving the settlement of investment disputes in order to improve implementation (Resolution of Parliament 39, 1993). In the following year, several standards were approved for implementing this law, such as establishing foreign-invested entities, registering foreign investment inflow and outflow, and printing laws and rules related to foreign investment in the English language (Resolution of Government 57, 1994). However, these regulations were ambiguous and not consistent with the main law.

2) Obstacles and setbacks to foreign investment implementation: There are several reasons underlying the unsuccessful implementation as follows:

(1) Ambiguous policy objectives and missing standards and regulations for implementation: Foreign Investment Laws are very broad and not clear. In order to implement this policy, the Foreign Investment Agency developed standards and regulation rules. However, those standards and regulations were not clearly defined and were different from what the main law stated. For example, the conditions for rejecting or approving foreign investment registration, and the conditions for extending or denying foreign investment certificates and investors cards, were not clearly issued. Also, foreign investment policy should clearly define what kinds of foreign investment should be promoted, which sector needs foreign

investment, who can invest in Mongolia, and how foreign investment can be protected. Foreign Investment Law should target attracting foreign investment in specific sectors, from qualified investors, and in certain kinds of investment.

(2) Foreign investors' compliance with implementation regulation: Foreign investors tend to not comply with implementation regulations because of too broad policy objectives, ambiguous standards, and lack of resources for implementing regulations. Implementation regulations require foreign investors to register their reinvestment, to make known their changes in the percentage of foreign ownership, and to update their new business activities. However, these regulations have not been implemented successfully due to underdeveloped penalty standards and the regulations available to penalize them if foreign investors violate the Foreign Investment Law.

(3) Lack of resources of the implementing agency: The majority of interviewees felt that the Foreign Investment Agency lacked authority. For example, one reason for the unsuccessful implementation of the one-stop service was the lack of power of the implementing agency. The Foreign Investment Agency holds less power than others related agencies that involved in one-stop service and did not receive government support on this issue. Also, the lack of authority leads to problems of information sharing among other implementing agencies. Information from other public organizations is very important in many cases; however, integrating foreign investment firms' data into one system remains a huge failure due to lack of coordination and cooperation among public organizations.

Interviewees specified that the Foreign Investment Agency should not be an implementing agency but should be a regulatory agency. If it were a regulatory agency, the staff could issue a fine if foreign investors violated the Foreign Investment Law. In order to evaluate and control the performance of foreign investment projects, the size of the staff at the implementing agency is not large enough. Performance can be evaluated through tax statements, but the tax department and Foreign Investment Agency's database have not been integrated. Moreover, implementers are not well trained for providing information about the investment climate or in evaluating new investors' business plans.

CHAPTER 3

LITERATURE REVIEW

The literature review allows researchers to develop their framework of the study and to compare their results with other findings (Creswell, 2009). Also, it presents the researchers' point of view by identifying previous works and by explaining the logical connections between previous research and the present work (Lester, 1993).

The literature review in this study mostly focuses on studies and theories of public policy implementation and also it covers concepts of foreign investment policy. The purpose of this chapter is to explore foreign investment policy implementation effectiveness and the factors determining foreign investment policy implementation effectiveness. Based on a large body of literature on the nature of policy implementation and foreign investment policy, the study developed a foreign investment policy implementation model in the case of Mongolia.

3.1 Foreign Investment Policy as a Government Policy

In order to discuss policy implementation, the concepts of public policy, especially foreign investment policies, are important to be addressed first. A policy can be formulated and implemented in many forms, such as laws, regulations, statements, or government spending and other administrative decisions. Policy implementation defined as follows: Dye (1987) "Policy implementation is whatever government choose to do or not to do" and Peters (1999) "Policy implementation is the sum of government activities, whether acting directly or through agents, as it has an influence on the life of citizens". These definitions prove that the policy is a government action to govern a particular issue or problem. Based on the above definitions, the concepts of foreign investment policy could be modified as the sum of the government's purposive actions or inactions regarding matters related to foreign investment issues.

It is crucial to address what foreign investment is and why it should be regulated because the majority of foreign investment policies have tried to regulate or promote foreign direct investment inflow rather than portfolio investment or foreign investment outflow. The concept of foreign investment has been modified in this study as the movement of tangible or intangible assets from one country to another in the form of establishing business entities and branches or jointly operating with the local business entities of the host country for the purpose of future profit within partial or total control on management of that invested company under receiving treatment (Dunning, 1988; UNCTAD, 2003; OECD, 2008; Sornarajah, 2010). This definition was conceptualized based on the following common characteristics of several scholars' perspectives on foreign investment.

First, foreign investment is the transferring of assets from one country to another. It must be the investors' purposive action for investing resources abroad. Second, it is the individuals or companies or countries' profit-oriented movement of assets. Foreign investors can be a single person, a company, a multinational corporation or even government. Mostly, their purpose of transferring assets to foreign countries is for generating wealth. There are many other types of non-profit-oriented asset movements from one country to another country, such as foreign grant aid and foreign loans, but these are not classified as foreign investment. The third characteristic is the type of assets and investments. Foreign investment involves all tangible or intangible assets. It can be cash, technology, management skills, know-how and so on. Fourth, usually, foreign investors have an interest in total or partial control on management of the invested company. International organizations such as UNCTAD (2003) and OECD (2008) have determined that the minimum percentage of ownership for their invested company's voting power or management control is 10%. However, this numerical threshold of ownership of the voting power is determined differently in each country. Fifth, foreign investment is often internationally treated by law. This is because foreign investors bring their home countries resources into the host country, which could be used to advance the economy of their home country. In other words, the home country justifies that its resources must be protected. Also, the host countries protect their foreign investment well in order to compete with other candidate countries for attracting more foreign investment inflow (Sornarajah, 2010).

Based on the last two characteristics, portfolio investment will not be studied in this paper. The reason for this is that first portfolio investment is not protected by any treatment; it can be made on a stock exchange everywhere in the world and the host country could not know to whom they have responsibility. This means that investors cannot sue the domestic stock exchange or a public entity which runs it if they were to suffer a loss (Sornarajah, 2010). Second, foreign portfolio investors could gain ownership without control of domestic firms and must delegate decisions to managers, but their freedom in making decisions is limited because the managers' agenda may not always be consistent with that of the owners (OECD, 2008). Based on these arguments, the current research is only focused on foreign direct investment.

Good foreign investment policy is important for both foreign investors and host countries. First, host countries wish to attract foreign investment through better promotion policies. Good foreign investment policy not only makes investors confident in protecting their property and providing a better legal and business environment, but it also increases more opportunities for the host society such as creating new work places, extending exports, supporting economic and social development, increasing government revenues, improving productivity, transferring new technology, and so on (Roger & Han 1998; Long, 2005; Ram & Susan 2005). At the same time, host countries want to regulate foreign investment in order to control environmental damage and provide national security (Kayalica & Lahiri, 2004; Yu & Wong, 2011). Second, foreign investors are also demanding good policy from host country for the security of their investment, because foreign investors bring their home countries' resources into the host country, which could be used in advancing the economy of the home country (Sornarajah, 2010). Based on these reasons, many countries wish to have an appropriate good policy for foreign investment in their countries.

Foreign investment policy is classified into two types: promotion and restriction policies. Many countries formulate and mix these two types of policies based on their conditions.

The first category of foreign investment policies is promotion. Foreign investment promotion policy aims to attract foreign investment inflow in one's country and to increase the rate of return of foreign-invested companies or reduce its

costs or risks. The classifications of foreign investment promotion policies consist of five components. First, it could be a type of non-financial and rule incentive. This means that the host government provides incentives such as providing low-cost land or property in kind, especially at the initial stage, to make a particular location more attractive to the investors than others. Second, promotion policy is a rule-based incentive as the foreign enterprises can be exempted from existing regulations, including labor regulations or environmental restrictions. Third, the government could provide financial incentive policy for foreign investors. For example, some developed countries offer financial supports to specific sectors such as infrastructure. Fourth, the country provides tax incentives. The tax rate could be deduced or exempted for foreign investors. Lastly, the establishment of the foreign investment agency is one of the promotion policies. The main responsibility of the agency is to provide information to foreign investors and to organize activities for improving foreign investment environment in the host country (Morisset & Jonhson, 2003).

The second category of policies is restriction policies. They usually regulate the entry of the foreign-invested company into the host countries' market, such not allowing some sectors, activities, or geographic locations to receive foreign investment. Hardin and Holmes in 1997 and 2002, as well as Golub in 2003, classified restriction policies into two groups; namely, (1) restrictions on entry and (2) input and operational restrictions. (1) Restrictions on entry cover screening and approval procedures such as restrictions on foreign ownership, restrictions on foreign participation in privatization, and restrictions on foreign ownership of land; on the other hand, (2) input and operational restrictions include performance requirements and repatriation of funds. Similarly, Panday (2008) identified twelve common restriction policies to limit foreign investment, which include "bans on foreign ownership, majority local ownership requirements, government monopoly, mandatory joint ventures, compulsory investment pre-screening, local content requirements, minimum export quotas, discriminatory tax policy, caps on capital and profit repatriation, limits on access to foreign exchange, local employment minimums, and mandatory local representation on boards of directors."

3.2 Defining Policy Implementation

There are several concepts of policy implementation, and it is impossible to have only one definition of policy implementation. In this study, the concept of policy implementation was modified as policy goal-oriented activities or actions which performed by cooperating and coordinated public and private organizations under conscious conditions for a specific period. This definition involves many features or variants of implementation concepts.

First of all, implementation concepts involve policy goal-oriented activities and actions. Several scholars have defined it simply as policy goal-oriented activities such as Pressman and Wildavsky (1973), Van Meter and Van Horn (1975), Thompson (1984), O'Toole (2003), and Anderson (2011). In the case of the activities involved in implementation process, Shafrits et al. (2005) stated that "it is the total process of translating a legal mandate, whether an executive order or an enacted statute, into appropriate program directives and structures that provide service or create goods" and Edwards (1980) and Sharkansky (1978) argued that "it is a wide variety of actions including issuing directives, enforcing directives, disbursing funds, making loans, awarding grants, making contracts, collecting information, disseminating information, assigning personnel, hiring personnel, and creating organization units."

Second, many scholars argue that no single public organization may implement public policy alone, but it should be implemented by coordinated and cooperating public and private organizations. However, some scholars have argued that the policy should be implemented by only public organizations. For instance, Mazmanian and Sabatier (1983), Calista (1994), Hill (1997), and Simon (2007) stated that policy should be implemented by only public individuals' bureaucracies, and public administrators and public servants. In contrast, some others have suggested that public policy should not only be implemented by public organizations, but also by private organizations, civil society, and non-profit organizations (Van Meter & Van Horn, 1975).

Moreover, the policy implementation process not only includes long-term or short-term actions for achieving policy goals, but also daily activities for carrying out authoritative decisions. For instance, some scholars have defined policy implementation

as carrying out policy decisions or directives (Nakamura & Smallwood, 1980; Calista, 1994; Nutt, 2002), especially Nakamura and Smallwood's (1980) definition, which states that "implementation is the process of carrying out authoritative public policy directives."

Finally, public policy is usually implemented under certain conditions such as when there are sufficient resources, environmental influences, administrative arrangements, and so on. However, some other scholars have defined policy implementation from different perspectives. Many policy implementation concepts are defined based on different theories of the stages of policy implementation. For example, Lasswell (1971) and Brewer (1974) defined implementation as one of the stages of the policy-making process. Also, Edwards (1980) and O'Toole (2003) emphasized implementation as the stage of policymaking between the establishment of a policy and the consequences of the policy for the people whom it affects.

Table 3.1 Concepts of Policy Implementation

Author(s)	**Definition**
Howlett and Ramesh, 2003; Gerston, 2004; Shafritz et al., 2005; and Simon, 2007	Policy put into practice or effect
Pressman and Wildavsky, 1973; Van Meter and Van Horn, 1975; Thompson, 1984; O'Toole, 2003; and Anderson, 2011	Goal-oriented actions or activities, and carrying out policy decisions
Edwards 1980 and O'Toole, 2003	One stage of policy-making process
Van Meter and Van Horn, 1975; Nakamura and Smallwood, 1980; Mazmanian and Sabatier, 1983; Calista, 1994; and Nutt, 2002	Carrying out decisions or directives
Hill, 1997; and Shafritz et al., 2005	Partially political process

Source: Developed by the Researcher, 2013.

3.3 Concepts of Implementation Effectiveness

In order to discuss implementation effectiveness, it is important to emphasize the concepts and measurements of effectiveness. Effectiveness can be emphasized not only in the area of organizational perspectives but policy analysis also often stresses public policy effectiveness. The main concepts developed were based on organizational study. In an organizational study, scholars define effectiveness according to either one-dimensional criterion or multi-dimensional criteria in organizational theory (Goodman & Pennings, 1977).

In one view, scholars use the goal-oriented approach for defining and measuring the effectiveness. Effectiveness is defined as the degree to which an organization realizes its goals. Also, it is measured as either multiple goals are achieved or not. However, approach is suitable only when policy has less number of goals to be manageable, and those goals are defined very clear (Campbell, 1977). Goals however are ambiguous and more complex most of the time.

From a multi-dimensional view, effectiveness is defined in a system-oriented view as the degree to which the organization can preserve the integration of its parts (Goodman & Pennings, 1977). If the organization is a system, organizational effectiveness is not only related to its their well-being, but also it should contribute to the goodness of some other entities in society (Yuchtman & Seashore, 2010). Organizational effectiveness is measured by the degree of the integration of systems, which means that it is measured by a combination of organizational productivity, flexibility, stability for surviving, and adapting changes in the environment.

These views of the effectiveness are defined in the context of the organization, but it can be applied to the implementation because definitions of the organization and implementation are similar in some perspectives. For example, organizations are goal-directed social entities that are designed as deliberately-structured and coordinated activity systems, and linked to the external environment (Daft, 2001). On the other hand, Anderson (2011) states that "implementation means administration of the law in which various actors, organizations, procedures, and techniques work together to put adopted policies into effect in an effort to attain policy or program goals." The similarities between the organization and implementation are that they are goal-

oriented coordinated activities and linked to the external environment. Based on this argument, the modified definition of implementation effectiveness is the degree of policy goal attainment and adaptation.

In policy perspectives, the study of policy implementation effectiveness is the part of policy evaluation, which is usually concerned with checking whether ongoing programs are achieving their goals or not. Measuring policy implementation effectiveness depends on the evaluator's perception, values, and criteria. Policy makers can measure an effectiveness from multiple approaches. For instance, Nakamura and Smallwood (1980) argued that public policies can be evaluated in terms of either short-term quantifiable output or long-term outcome evaluation and very long-term impact evaluation. They suggested five general criteria for evaluating implementation effectiveness.

Criterion 1 – Policy goal attainment: this is an attempt to measure the tangible result of what implementers have done for achieving policy goals. It usually uses a quantitative method to evaluate the gap between implementation outputs and policy goals. The initial assumption of this criterion was that policies are designed to produce measureable and tangible results. Also, policy goals should be very clearly defined and quantifiable.

Criterion 2 – Efficiency: this is an attempt to evaluate a quality of performance, usually in relation to cost. This criterion is usually used when policy outputs or results are unclear or complicated, and evaluation will be done based on their cost. In the context of cost, the economic evaluation of policy impact can be measured in two ways: as cost-benefit and cost-effectiveness.

Criterion 3 – Constituency satisfaction: this is an attempt to evaluate policy in terms of the constituency's satisfaction level regarding the policy made by policy-makers. In other words, this criterion measures whether policy-makers able to maintain a broad base of constituency support for the policies they are sponsoring. This criterion focuses more on the modification and compromise of goals, which should provide more comfort to constituency groups rather than focusing on adherence to precise policy objectives.

Criterion 4 – Clientele responsive: this is an attempt to measure policy implementation effectiveness according to the costumer's or target group's satisfaction.

Moreover, this criterion provides a chance for program adaptability, flexibility, and accommodation in order to meet the target group's demands.

Criterion 5 – System maintenance: this is an attempt to measure policy implementation effectiveness by how the system could maintain the implementation of a particular policy. In other words, it focuses on who can threaten the existence of a system or level of survivability of the system in the macro environment.

Additionally, Chandarasorn (1984) has suggested standard criteria and indicators for project evaluation. Four major indicators used to evaluate an effectiveness are the following:

Indicator 1 – The level of goal attainment: this indicates how the program has achieved its goals and how the goals affected the target population.

Indicator 2 – The level of public participation: this indicates the public's involvement in the success of the program.

Indicator 3 – The level of the target group's satisfaction: this is the measurement of the target group's satisfaction with the service provided.

Indicator 4 – The level of risk: this indicates how risky the program is.

Table 3.2 Measurements of Policy Implementation Effectiveness

	Nakamura & Smallwood (1980)	**Voradej (1984)**	**Vedung (1997)**
Policy Goal Attainment	+	+	+
Efficiency	+		
Constituency Satisfaction	+		
Target Group's Satisfaction	+	+	+
System Maintains	+		
Public Participation		+	
Level of Risk/side Effects		+	

Source: Developed by the Researcher, 2013.

In terms of measuring foreign investment policy implementation effectiveness, goal achievement is very important, but also the target group's satisfaction is crucial. There are some specific approaches for evaluating public policy based on the client or target group. Vedung (1997) has suggested that client-oriented evaluation refers to evaluating policy performance based on the client's desires and expectations. This approach is grounded in political ideologies, which suggest that public administration produces goods and services for customers in the marketplace and that the concern for customers' attitudes toward service provision will lead to improvement of service delivery and increased customer satisfaction.

The target group of foreign investment policy refers to foreign-invested companies. In order to attract more foreign investment and to be wary that foreign investors might take back their investment, policy makers need to pay attention to foreign investors' perceptions of foreign investment policy. Based on organizational perspectives, and policy evaluation criteria and indicators, this study assesses foreign investment policy implementation effectiveness according to the growth of foreign investment and the level of the foreign investment policy target group's satisfaction.

3.4 The Study of Implementation

The study of policy implementation in policy analysis has not received as much attention from many scholars or policy-makers as other kinds of policy analysis. Van Meter and Van Horn (1975) mentioned that the study of policy implementation is a new dimension of policy analysis. It provides understanding of how the system succeeds or fails in converting policy objectives into practice.

However, once a policy fails or succeeds, policy makers are likely to evaluate what policy outcomes are supposed to result and how far they are from the intended outcome because many of them are not interested in why it happened. Implementation research concerns the development of systematic knowledge about how policy in put into action, what is happening during implementation, how implementation is affected by other factors, what the behaviors of the implementing actors are, and so on (O'Toole, 2000). In order to answer these questions, some researchers have begun to conduct case studies, for example providing full information about how an

authoritative decision can be fulfilled at either single or multiple locations (Goggi et al., 1987) and giving detailed descriptions about what obstacles are faced for implementing policy effectively (Linder & Peters, 1987).

For instance, Pressman and Wildavsky (1973) conducted a study about the implementation of a federal program on economic development in Oakland, California, during the late 1960s. It focused on the factors that distinguished policy implementation research from the public administration literature (Mazmanian & Sabatier, 1983), and it evaluated the factors between policy objectives and implementation performance with a focus on the multiple implementers involved in implementing a single policy, obstacles in achieving multiple policy objectives, and consistency of policy decisions with policy goals (Pressman & Wildavsky, 1973; Mazmanian & Sabatier, 1983). However, the study was only a case study, and it cannot be considered a universal model in the area of policy implementation. Also, these kinds of case studies tend to study only unsuccessful policy cases. After some case studies on exploring policy implementation, policy analysts put effort into exploring the factors affecting the implementation process and developing complex models for analysis. Based on their efforts, 3 trends of perspectives were developed in studying policy implementation, including the top-down perspective, the bottom-up perspective, and a synthesis of the two.

The top-down perspective assumes that in order to have successful implementation, policy goals can be specified and the problems from the privileged point of policy-makers that wish to see some particular actions occur and to build some regulations that can facilitate and carry out implementation successfully can be resolved (Linder & Peters, 1987). It stresses that the implementer's actions and policy decisions should be objective oriented and that policy impacts, outputs, and outcomes can match policy objective (Lester, Ann, Goggin & O'Toole 1995). Elmore termed the top-down approach as forward mapping. Elmore's implementation perspectives emphasize the factors that are easily manipulated by policy-makers and tend to be controlled by the central government. These factors include funding formulas, authority relationships among administrative units, administrative controls, formal organization structures, and regulations (Elmore, 1979). Many top-down efforts have been studied for effective policy implementation (Van Meter & Van Horn, 1975; Sabatier & Mazmanian, 1980; Edwards, 1980).

Moreover, Van Meter & Van Horn (1975) studied the linkage between policy and performance. Their model identified five factors which may lead to implementation success, including policy standards and objectives, policy resources, inter-organizational communication and enforcement activities, characteristics of the implementing agencies, economic, social and political conditions, and the disposition of implementers. Those factors interact with one another and for clarifying why policies do not achieve their intended goals. Also, Van Meter & Van Horn (1975) have argued that policy implementation performance is not only affected by other factors in the implementation process, but also by the nature of the policy itself. It refers to how organization goals match the policy goals that the organization is going to implement and the extent to which changes required for the implementation of these policy goals. If the policy goals do not match the organization goals and require big changes, they are likely to fail (Van Meter & Van Horn, 1975). Straightness of this model is that it attempted to study not only the determinant factors and the nature of policy itself, but also the feedback loop which allows the capture of longitudinal implementation study rather than a particular period. However, the model is abstract, which makes testing it empirically difficult. Likewise, implementation performance has not been clearly defined as to whether it stresses process, output or outcome, and also has not covered enough factors for the effective implementation of every policy.

Moreover, Edwards (1980) identified four preconditions for implementation success, which are communication, resources, dispositions, and bureaucratic structures (Edwards, 1980). One of the strengths of this model is that it not only focuses on the factors of implementation success, but also mentions the conditions of ineffective implementation and suggests approaches to overcoming those problems. However, the model did not specify which variable is the most important and how it should measure the independent and dependent variables, and it captures only one particular time.

Furthermore, Mazmanian and Sabatier (1983) developed a more complex model which emphasizes how sets of factors affect policy goals through the entire policy implementation process—factors related to the problems being addressed, the ability of converting policy decision into implementation processes, and non-policy factors. Policy implementation measures all of the implementation stages, such as

implementing agencies' decisions or policy output, compliance of target groups with regulations or standards for implementing those decisions, the actual impacts of those decisions and outputs, and the important revisions in the basic statute (Mazmanian & Sabatier, 1983). Compared with Van Meter & Van Horn (1975) model, this model covered a large range of factors and measured the implementation process in detail. However, this model is too contextual and can not be a universal model which suit for analysing any policy implementation.

One of the most serious problems with a top-down perspective is its implicit and under-questioned assumption that policy-makers control the organizational, political, and technological processes affecting implementation. This is in contrast with Elmore (1979), who argued that policy-makers cannot control all of the processes and factors at the implementation stage. He said that policy makers can only indirectly influence the behavior of lower-level administration, the bargaining relationships among political actors at various levels of the implementation process, spending the implementation budget for initial purposes, and incentive structures that operate on the subjects of policy.

The bottom-up perspective argues that the implementation process or achievement of policy objectives can be defined by the importance of the lowest administrative officer or implementer of the organization (Linder & Peters, 1987). This concerns more the behavior of the actors in service delivery, the bargaining between implementers and clients necessary to have a policy implemented, and the resulting changes which may occur within the policy (Linder & Peters, 1987; Lester et al., 1995). Some bottom-up efforts have been studied for effective policy implementation. For example, Lipsky (1980) studied the importance of front-line implementers for policy implementation performance. He argued that street-level bureaucrats have greater knowledge about resources, and they understand their clients or target groups better than the central administration. His model stresses two components of variables—the nature of the job and the nature of the clients—which affect the policy implementation process. Front-line implementers can affect only a kind of policy that is implemented through service delivery, but their influence may not be stronger in some other kinds of policy implementations.

The synthesis perspective was developed based on criticisms of both the top-down and bottom-up models of policy implementation. The study of Goggin, Bowman, Lester, and O'Toole (1995) explains how the central, local, and agency level of policy implementation outcome and outputs are affected by external and internal factors. The clarity and consistency of policy decisions or policy formulation are more addressed at the central level. At the local level, interest groups, state and local elected officials, and the implementing agency are important. At the agency level, organizational capacity—financial resources, personnel and structure and ecological capacity—and the economic, political and situational capacity of the state or agency are important. The agency level is presented as an intervening variable between the local and central level (Goggin et al., 1990). One of the strengths of this model is that it covers the factors affecting policy implementation at inter-governmental levels. However, it may only be suitable for testing in the federal system. Also, organizational capacity could be an independent variable or explanatory variable rather than an intervening variable.

Based on the reviewed models, on the one hand, it can be seen that the most common factors studied in these perspectives were policy goal and content, organizations and their resources, people's motives, and the dispositions and communications that affect implementation success or the failure of policy implementation. On the other hand, these models cannot be applied to any kind of policy implementation analysis, which means no general implementation theory has emerged yet because every policy has its specific conditions for being implemented successfully. The limitations of the various models previously detailed are listed as follows:

1) The models proposed many variables that do not specify which is the most crucial in bringing about effective or ineffective implementation;

2) These frameworks could capture only a particular time of the implementation process, not longitudinally;

3) The concepts of the factors are not defined clearly;

4) Most of the models try to seek effective implementation more than ineffective;

5) The measurement of each independent variable, even the dependent variable, which is policy implementation, has been inadequately developed;

6) Implementation results or performance have not been defined perfectly, which means that the implementation process, output, and outcome have not been clarified as to how to measure and define those performances; and

7) Most of these implementation models were broadly classified into either the top-down or bottom-up approach.

All of the top-down and bottom up models proposed different factors for effective implementation. This is because most of the models were developed based on one case study of policy implementation rather than testing it on different kinds of policy implementation. Policies have been very differently implemented based on their characteristics, such as the nature of the policy, its duration, stakeholders, and resources.

For example, regulatory policy implementation seems to be very different from implementing distributive policy. More specifically, labor regulation policy implementation is different from implementing housing policy in terms of their implementation duration, the measurement of the implementation performance, the patterns of the implementation process, and so on. Also, implementation models, particularly regulation policy, must cover continuous periods more than a particular one, and provide feedback or revision. In conclusion, due to the limitations of the previously-developed models and the reasons explained above, the current study needed to develop a more specific implementation model for foreign investment policy.

3.5 A Theoretical Perspective

In developing a foreign investment policy implementation effectiveness model, theoretical and empirical works have been assessed in several disciplines, including organizational theory and the study of public analysis and foreign investment theory. These areas of study do not specifically examine policy implementation effectiveness, but rather adopt these areas in order to study the topic.

Policy Typology: A theoretical framework begins with the policy itself, where goals and objectives are established. Lowi (1972), Van Meter and Van Horn (1975), and Matland (1995) argued that implementation models are developed depending on

their nature or typology. Matland (1995) developed an ambiguity/conflict model based on a policy's ambiguity and conflict level for understanding implementation. He argues that if multi-organizations see a policy as directly relevant to their interest and if organizations have inappropriate views, policy conflict will be real. Policy ambiguity arises from many sources and has been classified into ambiguity of goals and ambiguity of means. Goal conflict and ambiguity are often negatively correlated.

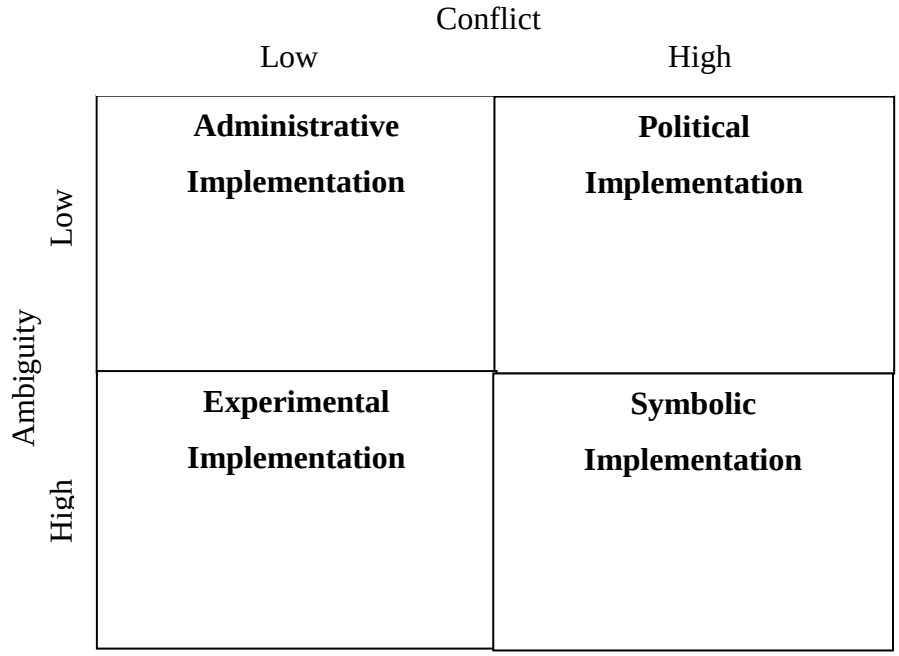

Figure 3.1 Ambiguity-Conflict Matrix: Policy Implementation Processes
Source: Matland, 1995.

Based on the correlation between policy conflict and ambiguity, four implementation perspectives have been developed: administrative, political, experimental, and symbolic implementation. Administrative implementation takes place when policy ambiguity and conflict are low and sufficient resources become the main determinant factors for policy goal achievement. Political implementation takes place when policy goals and objectives are in low ambiguity and high conflict, and implementation outcome is rather mostly relying on the power. When policy ambiguity is high, and conflict is low, experimental implementation perspective will be exercised and implementation performance heavily depends on resources and

implementers, especially front-line implementers. Symbolic implementation is exercised when policy ambiguity and conflict are high, and implementation outcome is determined by the implementers that control the available resources. This implies that policy goals and objectives do not only affect the outcome, but also resources, implementers, and compliance with the target group.

Similarly, Van Meter and Van Horn (1975) developed a goal change-consensus model. According to them, policies can be classified into two distinguishing characteristics: the amount of change involved and goal consensus or degree conflict among the participants in the implementation process. The combination of these two features produces a typology of public policies. These features can be correlated positively, which means that goals involve a major change leading to goal conflict on the part of the relevant actors, while goal consensus is usually highest where little change is involved.

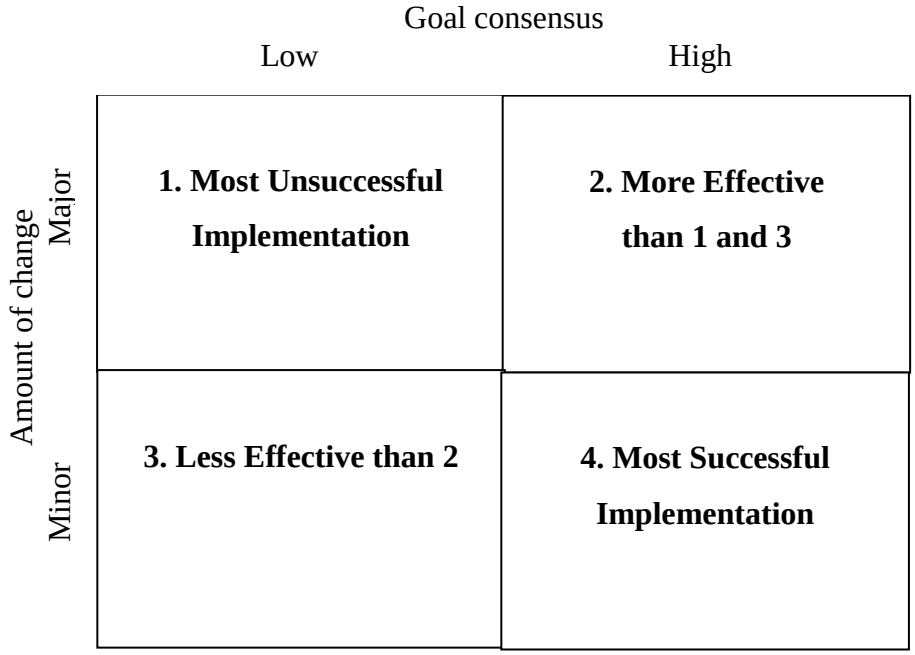

Figure 3.2 Change-Conflict Matrix: Policy Implementation Processes
Source: Van Meter and Van Horn, 1975.

Horn and Meter argued in this model that an implementation could be successful if implementation requires the minor change and policy stakeholders

strongly agree on goals. Also, policy will be more effectively implemented if policy stakeholders strongly agree on goals even if the implementation requires more major changes than policies involving minor change and low consensus. However, if policy involves a major change and low consensus, policy will be more likely to be implemented unsuccessfully.

Resource-based View: The main idea here is that organizations' capacities and resources are to be comparative advantages in a competitive environment in formulating organization strategy and determining performance (Barney, 1991; Wernerfelt, 1995). Resources are categorized into tangible and intangible resources. Tangible resources refer to physical assets—physical, financial, and human resources that an organization possesses. Intangible resources refer to intellectual/technical resources and reputation. The assumptions of the resource-based view include, first, resources should be rare (not widely held), resources should be valuable (contribute to firm efficiency and effectiveness), resources should be simultaneously not imitable (cannot easily be replicated by others), and resources should not be substitutable (cannot be fulfilled by the other resources) (Barney, 1991). These kinds of resources create a sustained competitive advantage, which leads to an improvement in the organizations' effectiveness and more able to respond to customers' needs.

From an implementation perspective, resources also lead to policies obtaining more competitive advantages for successful implementation. An organization implements several policies that should be implemented, but only the policy that has received more resources (i.e. financial resources, power, human resources and information) from the policy makers is the one that gets more priority than others.

Compliance Theory: The foundation of compliance theory was developed in Etzioni's (1961) "Comparative analysis of complex organization" study. The main idea of compliance theory is that organizations are different in terms of their approaches to controlling participants, the level of participants' compliance with these controls, and involvement in the organization's control effort (Etzioni, 1961). This theory states that the organization uses three kinds of power for controlling their participants: coercive, remunerative, and normative. The approaches to be used for controlling participants are coercive power, which is based on force (prisons); remunerative power, which is based on compensation, salaries, wages, fees and fines

(factories); and normative power, which is based on appeals to the values people already have, persuasion, and leadership (church). Compliance or involvement of the participants refers to the attitudes of the members in the organization, their rank, and their perceptions of the organization, its goals, and leaders.

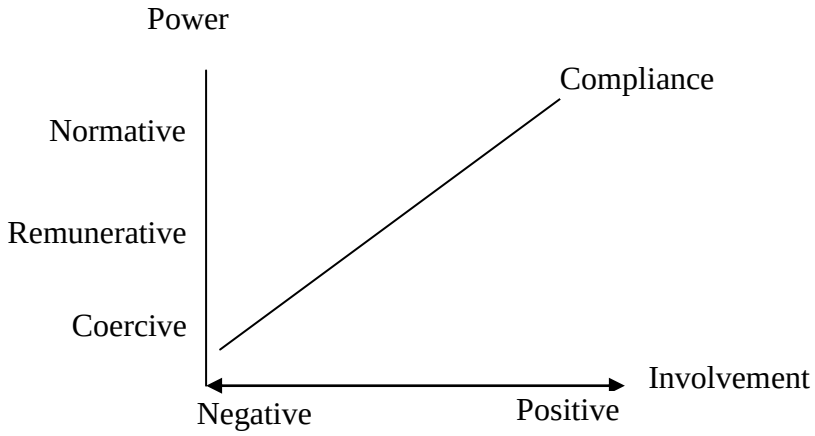

Figure 3.3 Compliance Equilibrium Model of the Organization
Source: Developed by Researcher Based on Etzioni, 1961.

The assumption is that if participants' involvement tends to be negative, the organization tends to use the coercive power; whereas if the participants' involvement tends to be positive, the organization tends to use normative power. For example, if high-security prisons exercise normative power, inmates will not comply with the regulations of the prison.

In terms of compliance with policy implementation regulations, compliance theory could be applied to the target groups' compliance with implementation regulations. If the target group tends to resist implementation regulation, the implementers will tend to use the coercive power for the target group's compliance in implementation regulations. On the other hand, if the target group's compliance with implementation regulations is at a high level, implementers will tend to use normative power for the target group's compliance in implementation regulations.

Location Theory: The original location theory is concerned with the territorial allocation of resources within the country. In the case of the foreign investment area,

the theory has been modified for analyzing foreign investment companies' decisions in choosing that country to invest in. The host countries' policy or estimated investment location's factors affect the foreign investors' decision. For example, location factors include cost of inputs, marketing factors, bypassing trade restriction and government policies on foreign investment of the host country (Buckley & Casson 1985).

In terms of the government policies on foreign investment, foreign-invested firms are often attracted to invest abroad because another country offers attractive or better policies on foreign investment than their home countries. For example, host countries offer better fiscal or non-fiscal incentives or the stability of the legal environment than their home countries.

Eclectic Theory: In general, this theory focuses on why firms are encouraged to make foreign investment and what factors affect foreign investors' decisions to invest abroad. Dunning (1993) developed the OLI paradigm or eclectic theory in order to answers these questions. Eclectic theory includes three groups of factors: the ownership-specific advantages of firms, internalization advantages, and location-specific factors of the home and host countries.

With the location-specific factors, foreign investors' decision to invest abroad is because of a lack of natural resources, raw materials, and cheap labor in the home country; scarcity of market opportunities; and less favored conditions offered by home countries, such as tax incentives, financial supports, and so on. Among these the location-specific factors, the last factor is more relevant to the government's policy regarding foreign investment.

In terms of government policy, the host country offers better policy for protecting its investment, providing tax incentives, offering financial supports, and many other policies given by the host government which reduce foreign investors' costs and risks (Dunning, 1988).

3.6 A Model of the Factors Affecting Policy Implementation Effectiveness

The foreign investment policy implementation effectiveness model in this study involves three sets of variables, including socio-demographic, external, and

policy factors, which determine foreign investment policy implementation effectiveness. The policy factors are the clarity of policy objectives, the characteristics of the implementing agency, the quality of public service, and foreign investors' compliance with implementation regulations. The external factors are market size, quality of infrastructure, quality of labor, and political stability. The socio-demographic factors are investment size, firm size, length of experience, ownership type, and operating sector. This model not only specifies the relationship between the independent and dependent variables, but also makes the relationships among the independent variables explicit. Selections of policy and external factors are based on the literature above cited. In addition to these variables, the study adds a set of socio-demographic factors that is simply the socio-demographic variables of foreign-invested companies.

Factors Affecting Policy Implementation Effectiveness

Many models have been proposed by several scholars and the common variables are displayed in the following table.

Table 3.3 Summary of Common Variables Studied in Implementation Models

	Scholars	1	2	3	4	5	6	7	8	9	10
1	Van Meter and Van Horn (1975)	+	+		+	+	+	+			
2	Edwards (1980)	+	+			+		+			
3	Mazmanian & Sabatier (1983)	+	+	+	+	+	+		+	+	
4	Goggin et al. (1987)	+	+		+	+	+				+
5	Brewer & Deleon (1983)	+				+	+				+
6	Awamleh (1990)	+	+							+	

Note: 1. clarity of policy; 2. characteristics of implementing agency (decision rule, structure, authority); 3. compliance with target group; 4. external factors; 5. resources; 6. coordination and communication among implementing agencies; 7. disposition of implementers; 8. capacity of implementers; 9. compliance with implementers; 10. support for policy

Based on Table 3.2, clarity of policy, characteristics of the implementing agency, resources and coordination and communication among implementing agencies are the most common variables in most known implementation studies. Clarity of policy is discussed in every implementation study. However, the other common discussed variables, including the characteristics of the implementing agency, resources and coordination, and communication among implementing agencies mostly refer to the implementing agency. These variables can be combined into only one variable, which is the capacity of the implementing agency. In addition, some specific factors need to be explored in this study based on the nature of the policy. The specific factors are the quality of public service, compliance with implementation regulations, and external factors and socio-demographic factors, because foreign investment policy implementation effectiveness is very dependent on foreign investors' decisions and behaviors.

3.6.1 Policy Factors

Policy factors are the clarity of policy objectives, the characteristics of the implementing agency, the quality of public service, and foreign investors' compliance with implementation regulation. These variables were selected on the basis of organization theories and policy-implementation models.

3.6.1.1 Clarity of Policy Objectives and Standards

In order to implement policy effectively, policy objectives and standards should be consistent, accurate and clearly defined for achieving desired policy outcomes and solving targeted problems. If policy objectives and standards are clear, accurate, adhere to the problems stated and are agreed on by all participants, it will be a good guideline for implementing policy and evaluating policy outcomes. However, some policy objectives and performance are more difficult to identify and measure than others. This could be because of the far-reaching nature of goals, the ambiguity of policy objectives and standards, and many other reasons (Van Meter & Van Horn, 1973).

Clearly-defined policy objectives and standards increase the quality of implementation performance. Hogwood and Gunn (1984) argued that if implementers completely understood and agreed on the objectives to be achieved and retained them

throughout the implementation process, it would lead to a perfect implementation. Similarly, Edwards (1980) stated that the first requirement of effective implementation is that those that are to implement a decision must know what they are supposed to do, which means that policy goals must be clear and understandable (Edwards, 1980). Second, requirements are means or standards that should be clear and understandable in order to achieve policy goals. The determinants and consequences of ambiguous policy objectives and standards have been discussed by various scholars.

Regarding policy objectives, they can be ambiguously defined for intentional and unintentional reasons: 1) policy makers try to avoid antagonizing groups in the public, who may disagree with their specific regulations; 2) lack of professional knowledge or understandings of a policy area among top policy makers; and 3) disagreement among several policy makers with diverse interests (Edwards, 1980; Matland, 1995). Policy ambiguity could be minimized by increasing the participation of implementers in the decision-making process (Van Meter & Van Horn, 1975). Lack of clarity of policy enables implementers to give a new meaning to policies, meaning that sometimes is contrary to the original intention of the law (Ginger, 1998). Also, Matland (1995) stated that if the policy goals are ambiguous, implementers will understand what goals supposed to be achieved and how to achieve these goals (Cohen, Timmons & Fesko, 2005).

On the other hand, sometimes policy objectives are defined clearly by policy makers, but they can be misinterpreted by implementers. There are two common reasons that explain how clear policy objective could be misinterpreted: 1) if communications between top and bottom level of organizations are inadequate or if the organization has many levels of hierarchies (Hogwood & Gunn, 1984; 2) if the implementers disagree with the policy or if the implementers have selective perceptions about the policy or if it does not match their policies or agency or personal interests (Edwards, 1980). Once policy objectives and standards are ambiguous or interpreted in a different way, it leads to unsuccessful policy implementation outcome.

The ambiguity of standards creates uncertainties about what roles various organizations are to play in the implementation process, which tools to use,

how to use them, and what the effects of this usage will be for attaining the desired goals (Simon, 2010).

Ambiguous policy objectives and standards not only affect policy implementation outcomes, but also affect the capacity of implementing agencies, resources, compliance, and public services. For example, Sylvester and Ferrara's (2003) research concluded that the ambiguity of policy is a very important factor in effective implementation when several implementing agencies are included in the process. Ambiguity leads to conflicts among those implementing institutions. This is because, if a policy is more ambiguous, each implementing institutions will interpret or explain the policy objectives based on their perceptions, interests, and values.

Furthermore, Howard, Wrobel, and Nitta's (2010) findings on implementing the new policy to reorganize management structure in an urban school district suggest that a successful implementation is directly related to policy ambiguity and conflict. Their research confirmed that distinct groups of policy actors—district, school and individual level—perceive policy goals differently depending on their received resources, particularly regarding information about the new roles and responsibilities within the new organizational structure, political support, and clarity of means, and this leads to different implementation strategies being required for successful implementation.

Also, Cohen, Timmons, and Fesko (2005) found that the ambiguity of policy goals affects the relationship among the implementing agencies negatively when they provide a one-stop service together. For example, implementing agencies can be confused about what each step of the agency's responsibility or decision-making authority is; the role of staff and agencies in one-stop systems; funding a mechanism for ascertaining which agency has responsibility for what part of the one-stop center. Moreover, McCreadie, Mathew, Filinson and Askham (2007) found how the ambiguity of policy objectives and standards creates problems in adult protection policy implementation when several agencies are involved in the implementation process. They concluded their research by saying that unclear policy objectives create problems in the evaluation of policy outcomes and clarification of the target group, while unclear policy standards lead to problems in defining roles, responsibilities and

the accountability of the implementers, providing quality of public service, communication among implementing agencies, and resource commitment.

The third requirement of effective implementation is that implementation orders must be consistent. Policy objectives and standards must be consistent and in line with addressing policy problems, and should be achievable. Policy objectives should be focused on solving targeted problems. However, they can be distorted when there are interest groups involved, or when there is a lack of information about the problem among policy makers (Edwards, 1980).

3.6.1.2 Capacity of Implementing Agency

The next policy factor that affects policy implementation is the capacity of the implementing agency. The capacity of the implementing agency can be considered in terms of sufficient resources (financial, human, power, time, and information), good coordination and communication with other implementing agencies for effective policy implementation, and achieving desired outcomes. Many scholars have recognized the importance of the capacity of the implementing agency regarding implementation performance (Nakamura & Smallwood, 1980; Van Meter & Van Horn, 1975), especially when implementation is undertaken by multiple agencies (Goggin et al., 1990). According to them, implementing agency capacity means "the ability of a government to 'get its act together,' to institute the structure, the routines, and the coordinated efforts of talented people sufficient to convert a policy message into a set of real achievement" (Goggin et al., 1990).

Different scholars and policy analysts have considered the capacity of implementing agencies in terms of the organizational capacity in the policy implementation process. For example, Goggin et al. (1990) suggested that organizational capacity involves three element—organizational structure, personnel, and financial resources—and that those most affect organizational outcomes, the achievement of policy objectives, and the carrying out of policy (Goggin et al., 1990). Also, Van Meter and Van Horn (1975) suggested a list of elements that characterize the capacity of the implementing agency. These elements include the adequacy of size and capability of the implementing agency's staff, the survival capacity and political resources of the implementing agency, the degree of open communication and hierarchical control of submitting decisions and processes within the implementing

agencies, and the agency's formal and informal linkage with the policy-makers (Van Meter & Van Horn, 1975).

The capacity of the implementing agency can be classified into two features: resources and communication with other implementing agencies. In terms of resources, financial, human, power and information resources are important for effective implementation. Especially, financial resources are very important in the implementation process specifically for hiring the staff and conducting the technical analyses involved in the development of regulations, the administration of permit programs, and the monitoring of compliance. Funding should be allocated adequately for effective implementation (Brewer & Deleon, 1983; Mazmanian & Sabatier, 1983; Goggin et al., 1990). Human resources are also an important factor. For instance, a less qualified staff can create obstacles in transforming policy directives into actions. Also, lack of information of the top administrative staff often causes ambiguity in their implementation orders (Edwards, 1980). Furthermore, the quality of the staff in the implementing agency is important regarding the commitment to the implementation success (Goggin et al., 1990). Mazmanian and Sabatier (1983) mentioned that the policy output of the implementing agency directly affects the commitment of agency officials in terms of realizing the policy objectives. If personnel values do not match the policy objective, enough enforcement to change their behavior should be available. Power resources refer to the ability to move other actors toward implementing policy goals (Nakamura & Smallwood, 1980). The limited authority that is typically available diminishes the possibility that officials on one level can effectively control those on the lower level—whether through monitoring behavior, providing incentives, or exercising sanctions (Edwards, 1980).

The second characteristic of the implementing agency is agency's communication and coordination with other implementing agencies. Hogwood and Gunn (1984) suggested for achieving perfect implementation that the policy should be implemented by only one agency and that the agency's possible ways to achieve desired outcomes do not depend on other agencies. Or, if other agencies must be involved in the implementation process, it is important that the number of agencies involved should be minimal (Hogwood & Gunn, 1984). It is important to understand that the implementation of is different from a single agency's implementation. Hall

and O'Toole distinguished these two forms in their research. Regarding multiple-actors implementation types, if they are related vertically or hierarchically, it is called intergovernmental implementation (Goggin et al., 1990), whereas if many agencies are horizontally related, it is called inter-agency or inter-organizational implementation.

In order to implement foreign investment policy, the importance of the implementing agency has been studied. For example, Morisset and Johnson (2003) surveyed fifty-eight investment promotion agencies and evaluated their effectiveness as agents for foreign investment inflow. They found that an increase in promotional efforts accounted for significant variance among countries in their respective volume of investment inward. They found a positive association only when the promotion effort was measured by the IPA budget.

At a country level, Djokoto (2012) investigated the effect of the establishment of the investment promotion agency under the control of trade openness and inflation on foreign investment inflow into Ghana. The study found the establishment of the investment promotion agency in the short run and that there was a positive but statistically-insignificant effect on foreign investment inflow. In the long run, the results showed that in spite of a positive relationship between the investment promotion agency and foreign investment inflow, this relationship was statistically insignificant in the short run.

3.6.1.3 Quality of Public Service

The quality of public service is critical in determining and enhancing customer satisfaction or policy outcome. Quality of service is always connected with a customers' satisfaction. Customers will be satisfied with the quality of service if the received service equals or exceeds the service receiver's expectations; otherwise they will be unsatisfied (Liljander & Strandvik, 1995). Similarly, Johnson, Nader, and Fornell's (1996) study states that both expectations and service delivery performance directly influence customer satisfaction. Their model posits that customers form their expectations positively based on actual past performance and that they continuously adjust their expectations over time based on their consumption experience. As a result, expectations and actual performance tend to move together, and both can affect satisfaction in the same manner (i.e., direction). Satisfied customers are likely to continue their relationship with the current organization (Danjuma & Rasli, 2012).

The nature of services is intangible and is characterized by inseparability features (Lovelock, 1981); that is, they cannot be separated from the service provider and are produced (by service producer) and consumed (by the user) at the same time. The interaction that takes place during the service delivery has the greatest effect on the service quality perceptions of the consumers (Brady & Cronin, 2001).

Quality of service has been defined in different ways. Overall, service quality is the customers' attitude or global judgment of service superiority (Parasuraman et al., 1988). On the one hand, it is defined as the difference between what a service provider should offer and what it actually offers (Parasuraman et al., 1988). On the other hand, it is the difference between the service receivers' expectations and performance (Murugan, 2012).

The difference between public and private sectors in providing service is very crucial. In the private sector, services are provided in a competing market. In order to survive in such an environment, service providers design their services for different customers, and they are always trying to improve quality and decrease price. Defining the standards of service depends on the receivers' demand and the providers' availability. If service receivers are expecting more, providers will follow up on their demand. In terms of payment, the person that receives the service is the one that directly paid for it in the private sector, while in the public sector, services are provided for people in a monopoly market or with no competition. Since public service is distributed in a monopoly market, quality and standards are always out of the providers' consideration. Also, in terms of service standards in the public sector, the service is designed for all and providers decide the standards of services. This means that governmental organizations will decide what the standards of service should be. Regarding payment, public service is always paid by tax payers and should be provided to all people even if they do not pay. There are three different groups involved in public service; namely, receivers or users, providers, and tax payers. Also, it does not matter whether receivers wish to get public services or not; the services are provided to them already.

Several researchers have found a positive relation between the quality of public service and policy outcomes (Disney, 1999; Tam, 2012). For example, Kelly and Swindell (2002) concluded their study by saying that the quality of public service

provided by the governor's office of the city is an important factor regarding the citizens' satisfaction. Also, Danjuma and Rasli (2012) and Popescu et al. (2009) stated that the quality of service in the education sector is an important factor in students' satisfaction or education policy outcome. Also, Golubova (2011) concludes that greater autonomy and financial resources enhance better quality of services in public service institutions.

The quality of public service also has a relation with implementers. According to Lipsky (1980), public service is designed by street-level bureaucrats. He argues that public service workers, which are called street-level bureaucrats in his research, have a pivotal role in delivering government services and "goods" because they have constant direct interactions with public service receivers, which leads them to heavily influence the direction of policy. They could change policy objectives through delivering public service. Also, their delivery of public service varies from client to client, consequently changing policy as a reaction to the employees' needs rather than the clients.

The Foreign Investment Agency provides services to foreign investors in Mongolia. Since the current study measures, foreign investment policy implementation according to the investor's perception, the quality of service provided by governmental organizations for foreign investors is very important to study. Public organizations produce services but not products or something else. Service is something that cannot be seen, touched or smelled. The quality of a service could affect the investor's satisfaction level. The services provided by governmental organizations are considered as a public service.

3.6.1.4 Foreign Investors' Compliance with Implementation Regulations

Compliance of the target group with regulations is also an important determinant factor for effective implementation. Some policy outcomes, especially regulatory policy, are dependent on the target groups' compliance. For instance, if non-alcohol champion does not reach the target groups, which means that if target groups do not comply with the non-alcohol champions, this champion would not be implemented successfully. Policy can influence the implementation process by stipulating the formal decision rules of the implementing agencies, which is implementation regulation (Mazmanian & Sabatier, 1983).

There are several reasons why governments regulate activities and most of them are based on market failure, such as natural monopolies, windfall profits, information inadequacies, continuity and availability of service, scarcity of commodities, unequal bargaining power, distributional justice, and so on. Regulation is the public agency's sustained and focused control of the communities' valued activities (Selznick, 1985). According to Mazmanian and Sabatier (1983), implementation regulation is policy goal-oriented sets of rules and controls exercised by the implementing agency for affecting communities. Regulations can be used for changing industrial or social behavior and achieving particular goals. Regulations are not only activities that restrict behavior and prevent undesired occurrences, but also can be enabling or facilitative (Baldwin & Cave, 1999).

Also, various approaches including command strategies, deploying wealth, providing information, acting directly, harnessing the market, and conferring protected rights can be used to regulate certain kinds of activities. If agencies want to prohibit certain forms of conduct, or to set down conditions for entry into the sector, or to insist some positive actions, they tend to use the force of law. The strengths of this regulation approach are to impose fixed standards with immediacy and to prohibit activities that are against those standards. On the other hand, there are many difficulties faced when public agencies use command strategies. First, regulators and the regulated might tend to have a close relation and the regulators may have the intention to focus on regulated individuals' interests rather than the public's interest. Second, regulators may produce unnecessarily complex and inflexible rules that may lead to over-regulation.

Compliance has been defined as something that "refers both to a relation in which an actor behaves in accordance with a directive supported by another actor's power, and to the orientation of the subordinated actor to the power applied" (Etzioni, 1961). It means that one actor follows another actor's power to achieve the intended goal.

The public policy's target groups' understanding, capability and willingness may influence compliance with regulations and other regulatory outcomes (Vedung, 1997). First of all, the target groups' understanding of policy intentions may influence their compliance with regulations and policy outcomes. In order to make

them understand the policy objectives and standards, the government should provide sufficient information to the target groups using press releases, advertisements, brochures, media, and so on. The target group can be individuals or collective actors. If target group is collective actors such as trade associations, foreign-invested companies, the energy sector and so on, distributing governmental information may be easier than with the public. Many business firms have hired staff members with the express response of gathering information about public policies that might concern them (Vedung, 1997).

A second important issue regarding the target groups' compliance with implementation regulation for determining effective implementation is the capacity of the target groups. For example, if any country wants to have less smoke in the air produced by industrial firms, the government could ask firms to use a reduced-smoke heating system. However, it may be difficult for some industrial firms to comply for many reasons, including lack of finance to buy new heating systems (Vedung, 1997). Third, the target groups' willingness to comply with implementation regulations is important for policy implementation effectiveness. The policy may be more effectively implemented among some policy receivers because some people are willing and capable of committing their time and energy to it (Vedung, 1997). In addition, the target groups' compliance is also dependent on their benefits maximization. Giles and Gatlin (1980) asserted that compliance does not depend on individuals' attitudes, but it can be expected when the cost of non-compliance plus the benefits of compliance outweigh the costs of compliance plus the benefits of non-compliance.

Many researchers have conducted studies assessing the effect of the target groups' compliance on implementation effectiveness. Halperin and Regotti's (2003) study of tobacco control policy concluded that compliance with the target group is an important factor in effective implementation. Also, awareness of policy information is crucial for the target groups' compliance with implementation regulations. Giles and Gatlin (1980) concluded that individuals' compliance with school desegregation policy depends on their costs for complying it, but is not influenced by their attitudes and greater target groups' compliance increases implementation effectiveness.

In terms of the factors affecting firms' compliance, Marcus (1980) conducted a study on how command and control mechanisms worked for smokestack emissions control policy. Compliance with the target group depended on the clarity of policy objectives and the characteristics of the firm. The achievement of goals was not clear because the defined goals were ambiguous. Also, the firms' characteristics such as operating sector, size of the firm and year of establishment were important factors in determining whether the firms complied with the implementation regulations or not.

3.6.2 External Factors

Many studies have considered external factors including the economic, social, political and environmental factors which are crucial for policy implementation (Van Meter & Van Horn, 1975; Mazmanian & Sabatier, 1983; Goggin et al., 1990). For example, Mazmanian and Sabatier (1983) argued that the policy will be implemented successfully when target groups' socioeconomic conditions are prosperous, and solutions of the problem being addressed are less costly. In the case of policies which are directly tied to technology, less change required in the technological condition over time are important for implementation success (Mazmanian & Sabatier, 1983).

Several studies have shown that external factors have the capability to influence implementation processes and outcomes. In the case of foreign investment policy implementation effectiveness, very specific and well-studied factors are important for determining implementation outcome. Based on location and eclectic theories and local conditions, some factors are very important for foreign investment policy implementation effectiveness. If economic, political, and social and external factors or conditions are scarce in the host country, no matter how good the foreign investment policies implemented are they will be useless. A sizable empirical literature exists on the factors determining foreign investment in developing countries, and most of them have identified common variables, such as market size, quality of infrastructure, quality of labor, and political stability.

3.6.2.1 Market Size

Market size refers mainly to the size of markets for goods and services or to the measurement of the total volume of a given market. Another definition is that market size is the number of buyers and sellers in the host country. The empirical

results concerning the role of market size in enhancing foreign investment inflow have been mixed. Some authors (Schneider & Fray, 1985; Wheeler & Mody, 1992; Loree & Guisinger, 1995; Chakraborti, 2001; Campos & Kinoshita, 2003) have reported that market size has significant and positive effects, while others (Tallman, 1988; Grosse & Trevino, 1996; Kyrkilis & Pantelidis, 2003) found the effect inconclusive.

Scaperlanda and Mauer (1969) found that market size positively affects foreign investment inflow when the size of the market is large enough to allow economies of scale and efficient utilization of resources. Also, it has been argued by Kobrin (1976) that foreign investment inflow is positively influenced by the size (measured, for example in terms of population or GDP) of the host economy market.

3.6.2.2 Quality of Labor

Quality of labor has been defined as the sufficient number of qualified workers in the market. Qualified workers usually get a higher salary, attend more training, and bear more responsibilities than unskilled workers (Schwartz, 1997). Skill is a measure of a worker's expertise, specialization, wages, and supervisory capacity. Some sectors require qualified labor for using advanced technology. The labor quality and cost in many developing countries are crucial factors for labor intensive and efficiency seeking foreign investment because labor typically costs less in developing countries for a given level of productivity (Noorbakhsh et al., 2001). Considering the importance of labor, Habib and Zurawicki (2002) assumed that a country with greater levels of labor resources becomes a better foreign investment location.

Many studies agree that the more available skilled laborers there are in the country, the more attractive this country becomes for foreign investment. For example, Root and Ahmed (1979) and Schneider and Frey (1985) Hanson (1996), found that the level of the skilled workforce is a significant determinant of the location advantage of a host country and plays a key role in attracting foreign investment. In addition, Noorbakhsh et al. (2001) found that human capital, which can also be a proxy for investment attractiveness, is a key determinant of foreign investment.

3.6.2.3 Quality of Infrastructure

Quality of infrastructure refers to accessibility of transportation facilities, including roads, railways, airports, and seaports, availability of energy and

water supply, and communication facilities, and the provision of social services such as education facilities and hospitals (Chambers, 2007). Foreign investment inflow is more likely to occur in countries with good physical infrastructure such as bridges, ports, and highways. The authors argued that a good infrastructure is a necessary condition for foreign investors to operate their business successfully. Multinational corporations are, in fact, profit-seeking entities that seek to minimize the costs of doing business and poor infrastructure or unavailable public inputs on the other hand increase costs. Better quality infrastructure allows foreign investors to subsidize their total investment costs and increase their rate of investment return (Khadaroo & Seetanah, 2005).

In the case of developing countries, researchers also use different samples. For instance, the research by Rehman et al. (2011) investigated empirically the effects of infrastructure availability on foreign investment inflows in a developing nation such as Pakistan. By using time series data from 1975 to 2008, the result indicated that there was a significant short term and long term positive impact of infrastructure on foreign investment inflow in Pakistan (Rehman et al., 2011). In addition, Mollick et al. (2006) analyzed the role of telecommunications (telephone lines) and transport infrastructure (roads) in foreign investment inflow to Mexico and found a positive impact of both types of infrastructure.

3.6.2.4 Political Stability

Goggin et al. (1990) stated that a political capacity, a conservative, non-innovative, and non-progressive political environment, is more compatible with state policy implementation. In addition, political conditions such as public opinion, partisanship, degree of openness, policy innovation, political culture and interest group mobilization affect a state's policy implementation in a profound way.

Political stability represents a positive investment climate. It is thus possible that a country with a less risky investment climate has more foreign investment inflows (Schneider & Frey, 1985). Blondel (1968) defined political instability as the lack of longevity of the government policy. Asiedy (2006) used three approaches to measuring political instability: coups against the central government, political assassinations, and revolutions with government.

A few previous studies and a number of speculative articles have suggested that foreign investment may be heavily influenced by the nation's level of political stability. Basi (1963) found that the nation's level of political instability and the extent of its market potential were the two of most important factors in foreign investment decisions. Similarly, Aharoni (1966) conducted in-depth interviews with international personnel in 38 firms to determine the basis for foreign investment decisions. His results indicated that a nation must exhibit a minimum market and a certain level of political and economic stability before it will even be considered as an investment site.

Also, Chan and Gemayel (2004) found that political stability in Middle East and North African countries is most important factor for attracting foreign investment inflow. In these countries, political instability creates stronger obstacles to foreign investment inflow than developing countries. Moreover, Deichman et al. (2003) found a positive association between political stability and investment climate. This means that political stability is a significant factor in the determination of foreign investment inflow in Eurasian transition states.

These scholars confirmed that more political stability attracts greater foreign investment inflow into the country. However, some other works have suggested that political instability is not an influential factor in the investment decision. For example, Bennett and Green (1972) concluded their study by saying that political instability does not influence foreign investments in the US. In support of this finding, Kobrin (1976) failed to establish any relationship between foreign investment and variables based upon political event data. This shows that further research on the area is required to establish a concrete theory.

3.6.3 Socio-Demographic Factors

The socio-demographic factors or characteristics of the target group are considered as the direct determinants of the implementation outcome. The current study suggests that some of the important socio-demographic factors, such as the operating sector, firm size, investment size, ownership type, and length of experience tend to have an influence on the implementation process. In terms of the operating sector, foreign-invested companies were classified into 15 different sectors. Foreign

investors' satisfaction with foreign investment policy implementation could vary, and the foreign investment growth rate can likewise vary because foreign investment policy in Mongolia implies different implementing approaches in different sectors. For instance, foreign-invested companies in strategically-important sectors have to get permission from the government for their new investment and certain transactions. The performance of the firm can be influenced by the sector in which it is operating (Liedholm & Mead, 1998), and there might be a difference in the level of performance between manufacturing, mining, production, trade, or service.

Regarding investment size, foreign investors can be satisfied regarding foreign investment policy implementation and the foreign investment growth rate could be variously based on their amount of investment. This is because the Government of Mongolia treats and deals with foreign-invested companies based on their investment sizes such as stability agreement and investment agreement.

With regards to the length of experience, foreign investors can be satisfied differently regarding policy implementation and the foreign investment growth rate could vary based on the experience of being a foreign investor in Mongolia. This is because the approaches of foreign investment policy implementation have changed since 1993. Foreign investors that have been staying longer in Mongolia have different experiences and perceptions about foreign investment policy implementation than new investors. Some studies have suggested that older firms or more experienced firms have enjoyed the benefits of learning and tend to have better performance (Stinchcombe, 1965). Majumdar (1997) found that more experienced firms are more profitable than new firms and tend to be satisfied with the market. In terms of foreign-invested firms, Gao et al. (2008) found a positive effect of foreign-invested companies' experiences on their performance in host countries.

In the case of firm size or employee number, foreign-invested companies with many local employees could be treated by public organizations differently in many cases. For example, one of the conditions to extend the foreign investment certificate is a greater number of local employees in the foreign-invested company. The main idea of the impact of firm size on company performance is that a large firm has diverse capabilities, the ability to exploit economies of scale and scope, and the formalization of procedures (Penrose, 1959). Kinnberly (1976) indicated that bigger-

size firms in the market are likely to have good performance and to be satisfied with their market. However, Blau (1972) stated that there are chances of an increase in problems of communication and coordination in big organizations compared to small ones.

Regarding ownership type, different types of foreign-invested firms can be satisfied with foreign investment policies in many different ways. At the same time, they can also achieve various investment growth rates. This is because the percentage of the share of one shareholder is a main factor in terms of the decision-making process in foreign-invested companies. Many foreign-invested companies suffer from the limitation of just being foreign. A company's decisions on re-investment, for example, what kind of business they are interested in and many other kinds of decisions, can be influenced by the share of the foreign shareholder. There is a difference between a joint venture and wholly foreign-owned companies in the case of their performance abroad. For example, Kyaw and Theingi (2009) found that joint ventures perform better than wholly foreign-owned companies in terms of the average return on sales, and average return on assets, in the electronics industry in Thailand. However, wholly foreign-owned companies exhibit greater return on equity measures than joint ventures in this industry. Also, wholly foreign-owned companies are better in terms of the asset management efficiency and poor in cost management, whereas joint-venture firms are better in cost management and poor in asset management efficiency. In terms of overall organizational performance, joint ventures are much better than wholly foreign-owned companies (Chowdhury, 1992).

Table 3.4 Summary Table of the Literature Showing the Relationship between the Independent Variables and Policy Implementation Effectiveness

Factors	**Relation -ship**	**Supporting theories/literature/scholars**
Policy Factors		Implementation models, Resource-based theory, Policy typology theory, Compliance theory
Clarity of policy objectives and standards	+	Van Meter and Van Horn (1975), Hogwood and Gunn (1984), Edwards (1980), Sylvester and Ferrara (2003), McCreadie et al. (2007), Howard, Wrobel and Nitta (2010), Simon (2010)
Capacity of implementing agency	+	Nakamura and Smallwood (1980), Van Meter and Van Horn (1975), Goggin et al. (1990), Howlett et al. (2009)
Quality of public service	+	Disney (1999), Tam (2012), Kelly and Swindell (2002), Danjuma and Rasli (2012), Popescu et al. (2009)
Compliance with implementation regulation	+	Vedung (1997), Mazmanian and Sabatier (1983), Etzioni (1961), Helperin and Regotti (2003), Giles and Gatlin (1980), Marcus (1980)
External Factors		Location theory, Eclectic theory
Quality of infrastructure	+/-	Wheeler and Mody (1992), Cheng and Kwan (2000), Asiedu (2006), Rehman et al. (2011), Pradhan (2008), Aw and Tang (2010), Hailu (2010)
Market size	+/-	Schneider and Fray (1985) Wheeler and Mody (1992), Grosse and Trevino (1996), Rameriz (2006), Tallman (1988)
Quality of labor	+/-	Schneider & Frey (1985), Hanson (1996), Root and Ahmed (1979), Porcano (1993), Noorbakhsh et al. (2001), Narula (1996)

Table 3.4 (Continued)

Factors	**Relation -ship**	**Supporting theories/literature/scholars**
Political stability	+/-	Deichman et al. (2003), Chan and Gemayel (2004), Bennett and Green (1972), Kobrin (1976), Naude and Krugell (2007), Quazi (2007)
Socio-demographic factors		
Firm size	+/-	Kinnberly (1976), Blau (1972), Penrose (1959)
Investment size	+/-	
Operating sector		Liedholm and Mead (1998); Lidholm (2002); Gebreeyesus (2009); Masakure et al. (2009)
Experience	+	Stinchcombe (1965), Majumdar (1997), Gao et al. (2008)
Ownership type	+/-	Kyaw and Theingi (2009), Chowdhury (1992)

3.7 Conceptual Framework

After a review of the related concepts, theories and findings of the previous studies on the factors affecting foreign investment policy implementation effectiveness, the following integrated conceptual framework (Figure 3.4) is developed for the purpose of this study.

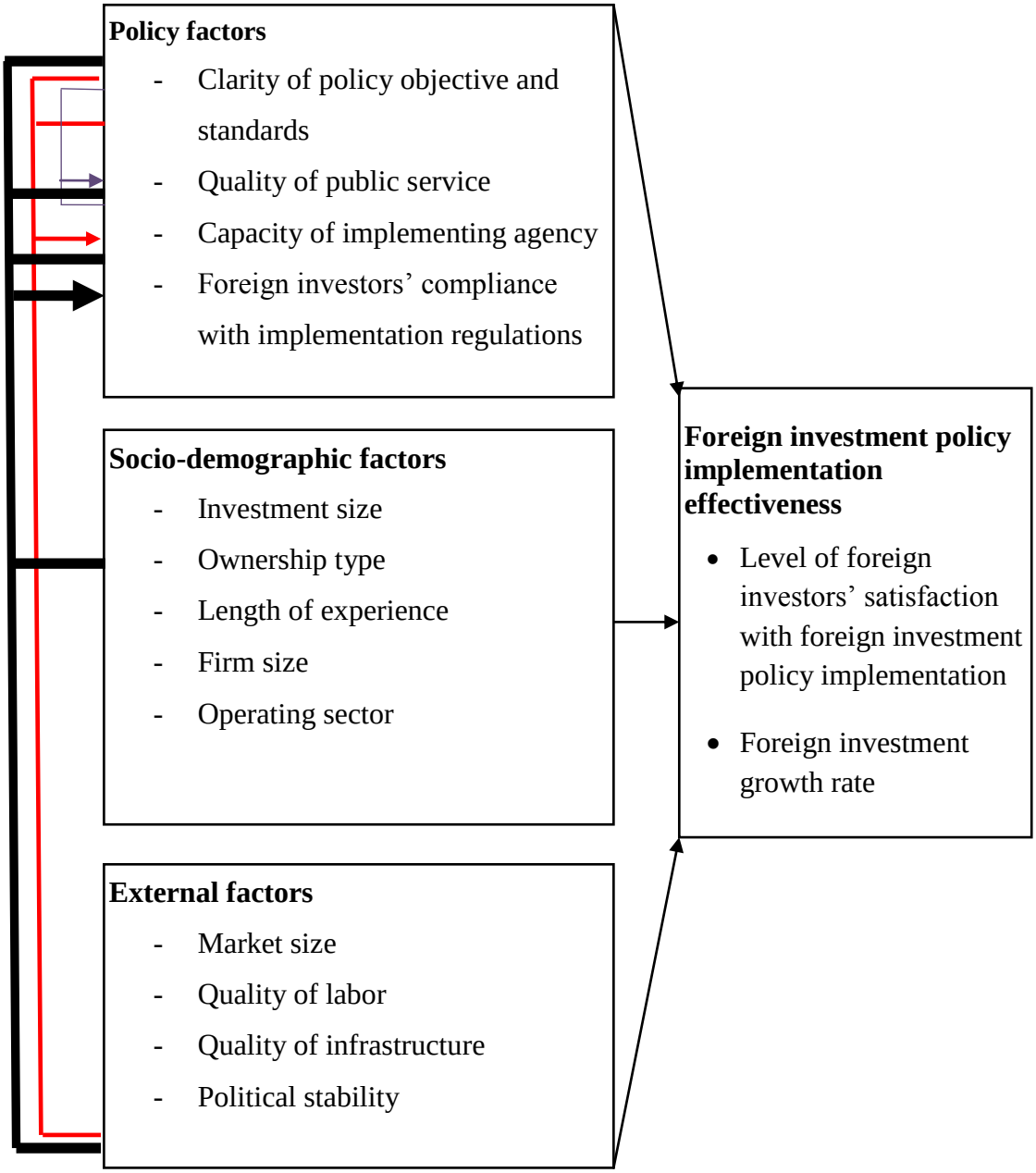

Figure 3.4 The Conceptual Framework for the Study Showing the Proposed Relationship between Socio-Demographic, External, and Policy Factors, and Foreign Investment Policy Implementation Effectiveness: Level of Foreign Investors' Satisfaction with Foreign Investment Policy Implementation and Foreign Investment Growth Rate

3.8 Research Hypotheses

Based on the conceptual framework, seven hypotheses were developed and analyzed. Each hypothesis stated the possibility of a relationship between the independent and dependent variables.

Hypothesis 1: Socio-demographic factors—investment size, ownership type, length of experience, firm size, and operating sector—positively affect foreign investment policy implementation effectiveness in Mongolia: the level of the foreign investor's satisfaction regarding foreign investment policy implementation and foreign investment growth rate.

Hypothesis 2: External factors—market size, quality of labor, quality of infrastructure and political stability—positively affect the foreign investment policy implementation effectiveness in Mongolia: the level of the foreign investor's satisfaction regarding foreign investment policy implementation and foreign investment growth rate.

Hypothesis 3: Policy factors—the clarity of policy objective and standards, the capacity of the implementing agency, the quality of public service, and the foreign investor's compliance with implementation regulations—are able to predict the foreign investment policy implementation effectiveness in Mongolia: the level of the foreign investor's satisfaction regarding foreign investment policy implementation and the foreign investment growth rate.

Hypothesis 4: Policy factors—the clarity of policy objectives and standards, the capacity of the implementing agency, the quality of public service, and the foreign investors' compliance with implementation regulations—positively affect foreign investment policy implementation effectiveness, including the level of the foreign investor's satisfaction regarding foreign investment policy implementation and foreign investment growth rate, after controlling for the socio-demographic factors: operating sector, investment size, ownership type, firm size, and length of experience, and external factors: market size, quality of infrastructure, quality of labor, and political stability.

Hypothesis 5: The clarity of policy objectives and standards, the **c**apacity of the implementing agency, the quality of public service, ownership type, and political

stability positively affect the foreign investors' compliance with implementation regulations.

Hypothesis 6: The clarity of policy objectives and standards, the quality of public service, and political stability positively affect the capacity of the implementing agency.

Hypothesis 7: The clarity of policy objectives and standards and the capacity of the implementing agency positively affect the quality of public service.

CHAPTER 4

METHODOLOGY

4.1 Introduction

This chapter provides a clear and complete description of the methodologies employed in the present study, the purpose of which was to determine the factors affecting foreign investment policy implementation effectiveness in Mongolia. The main goals of this section were to develop the research design, to describe the sample, to determine the measurements of the each variable, to identify the data sources, and to discuss the data collection approaches.

The research methodology differs in every study and choosing the right methodology depends on multiple factors used in a particular study. Those factors not only concern the nature of the research, the unit of study, the location of the research, available time and resource, but also the researcher's knowledge and experiences with the approaches (Gray, 2004). Also, policy implementation effectiveness can be perfectly described or analyzed using both quantitative and qualitative data.

The study emphasizes the factors affecting foreign investment policy implementation effectiveness in Mongolia. In order to answer the research questions and to test the hypotheses of this study, mixed methods were used. Mixed methods can be defined as combining both quantitative and qualitative research and methods in a research study (Creswell, 2009). Mixed method emphasizes timing, weighing and mixing. In terms of timing, qualitative data were collected first for clarifying variables and understanding the contexts of foreign investment policy implementation in Mongolia. Then quantitative data were collected from a large number of foreign-invested companies for gaining data about the variables to test the hypotheses. Finally, qualitative data were collected for supporting the results of the quantitative analysis.

The next aspect was to ascertain which research method should be given priority in a particular study. The study emphasizes quantitative methods more than qualitative methods. The quantitative method is was the main method applied to test all of the hypotheses, to measure foreign investment policy implementation effectiveness according to the level of foreign investors' satisfaction regarding foreign investment policy implementation and foreign investment growth rate, and to access the major factors affecting foreign investment policy implementation effectiveness in Mongolia. The study determined several factors: policy factors, socio-demographic factors and external factors. The policy factors were the clarity of policy objectives and standards, the quality of public service, the capacity of the implementing agency, and foreign investors' compliance with implementation regulations. The socio-demographic factors were investment size, ownership type, length of experience, firm size, and operating sector. The external factors were market size, quality of labor, quality of infrastructure, and political stability. On the other hand, qualitative methods were applied as a second method to support the results gained through the quantitative study and to explore foreign investment policy, to estimate foreign investment policy implementation, and to determine the major factors affecting foreign investment policy implementation effectiveness in Mongolia. The last aspect was mixing; the mixing of the two types of data occurred at the data analysis and interpretation stages. Qualitative data were used, first, to explain and describe what data should be collected via the quantitative method. Second, they supported the interpretation of the results of the quantitative data analysis.

The chapter has been structured into two main sections, quantitative and qualitative, based on the purpose of the study. The quantitative section begins with the description and explanation of the research design, and then it specifies the unit of analysis, explains the population, sample size, and sampling procedures, determines the measurements and discusses the data collection method and data analysis methods. The qualitative section involves the research design, sampling, data collection methods, and data analysis.

4.2 Quantitative Method

The quantitative method focuses more on testing objective theories by analyzing the relationship among variables. These variables can be measured by numbers and analyzed using the statistical procedure (Creswell, 2009).

4.2.1 Research Design

Research designs are plans and procedures that guide decisions about when and how often to collect data, what data to gather, from whom and how to collect data, and how to analyze data. The research design of the quantitative study used a cross-sectional survey methodology for analyzing the factors affecting foreign investment policy implementation effectiveness in Mongolia. The study was designed to collect primary data through mail surveys. The questionnaire was sent to 228 foreign-invested companies in different sectors in Mongolia in June, 2013. The Foreign Investment Registrations and Regulations Department, Ministry of Economic Development (FIRRD), provided an official letter which certified the researcher's survey as strictly for academic purpose, thus making the participants feel more comfortable and confident in answering the survey.

4.2.2 Unit of Analysis

The unit of analysis can be national, organizations, community level, groups of people, individuals or even time series depending on the policy objective of the study and the researcher's interests or availability. The unit of analysis of this study is at the organizational level. Foreign-invested companies in Mongolia were the targeted units for analysis in this study.

Two positions in each foreign investment company were considered to be most suitable for representing their companies in this study. They were executive members and foreign investors, who were required to express their opinions through the stated questions. They were to respond by making a tick mark where required and to write their answers where open-ended questions were asked.

4.2.3 Population and Sampling

The main objective of this study was to evaluate the factors affecting foreign investment policy implementation effectiveness in Mongolia based on foreign investors' perceptions. In order to select an appropriate sample, the study has employed the selective population and systematic sampling method.

4.2.3.1 Population

In terms of the clarifying population, two criteria were applied for selecting the foreign-invested companies in this study. First, the selected foreign-invested companies had to hold a valid foreign investment certificate. Second, for the purpose of asking about their experiences with foreign investment policy implementation, the foreign-invested companies had to have at least one year of experience in operating a business in Mongolia.

Until 2012, around 12000 foreign-invested companies were registered at the Foreign Investment Agency. The following table presents the number of foreign-invested companies in different sectors. However, among these foreign-invested companies, 8000 had either become wholly locally-owned company or had closed down, and some of them just disappeared without any announcement. Based on the above-mentioned two criteria, about 2900 foreign-invested companies remained that continuously operating their business in Mongolia and had more than one year of experience.

Table 4.1 Registered Foreign-Invested Companies in Different Sectors

Sectors	**Number of Registered Foreign-invested Companies (2013.01.01)**
Mining	1504
Trade and service	8232
Construction	388
Banking	60
Light industry	190
Livestock	264

Table 4.1 (Continued)

Sectors	**Number of Registered Foreign-invested Companies (2013.01.01)**
Manufacturing	308
Information & communication	108
Education	60
Transportation	129
Tourism	312
Food industry	180
Healthcare	53
Other	330
Total	12118

Source: FIRRD, 2013.

4.2.3.2 Sampling

In order to examine a large population, the sampling method is very important. First, an adequate sample size is important. According to Tabachnick and Fidel (2007), in order to calculate the required sample size the formula given is 50+8m, where m is the number of variables in the study. Given that, 13 independent variables and a minimum of 154 cases were required for this study. Second, the study has purposed to cover foreign investment companies in different sectors and with various amounts of investment. Based on this purpose, systematic selection of the sampling was employed. This sampling method is used when representatives from each subgroup within the population need to be represented in the sample (Westfal, 2009). The foreign-invested companies were divided into three subgroups based on the amount of investment as big, middle, and small foreign investors. Then all these three subgroups were classified into different sectors. The number of foreign-invested companies representing their operating sectors was also dependent on the percentage of investment received by that sector. This means that the number of foreign-invested companies that presents each sector will depend on the amount of the foreign

investment shared by that sector in terms of total investment. Once the sample of foreign-invested companies in different sectors and their share of investments were represented, the questionnaires were distributed to them. The types of samples systematically selected are presented in table.

Table 4.2 Number of Foreign-Invested Companies Selected in Different Sectors

Sector	**Percentage of Foreign Investment**	**Investment Size**		**Estimated Sample Size**	**Actual Size**
Mining	73.9%	< 100,000$	30	90	62
		>=<100,000$ - 1,000,000$	30		
		> 1,000,000$	30		
Trade and Service	16.3%	< 100,000$	15	45	26
		>=<100,000$ - 1,000,000$	15		
		> 1,000,000$	15		
Construction	0.9%	< 100,000$	10	30	20
		>=<100,000$ - 1,000,000$	10		
		> 1,000,000$	10		
Banking	1.5%	< 100,000$	5	15	9
		>=<100,000$ - 1,000,000$	5		
		> 1,000,000$	5		
Light industry	0.9%	< 100,000$	3	10	8
		>=<100,000$ - 1,000,000$	3		
		> 1,000,000$	3		
Livestock	0.5%	< 100,000$	2	6	7
		>=<100,000$ - 1,000,000$	2		
		> 1,000,000$	2		
Manufacturing	3.1%	< 100,000$	2	6	8
		>=<100,000$ - 1,000,000$	2		
		> 1,000,000$	2		
Information & communication	0.4%	< 100,000$	2	6	7
		>=<100,000$ - 1,000,000$	2		
		> 1,000,000$	2		

Table 4.2 (Continued)

Sector	Percentage of Foreign Investment	Investment Size		Estimated Sample Size	Actual Size
Education	0.1%	< 100,000$	2	6	7
		>=<100,000$ - 1,000,000$	2		
		> 1,000,000$	2		
Transportation	0.4%	< 100,000$	2	6	6
		>=<100,000$ - 1,000,000$	2		
		> 1,000,000$	2		
Tourism	0.5%	< 100,000$	2	6	5
		>=<100,000$ - 1,000,000$	2		
		> 1,000,000$	2		
Food industry	0.2%	< 100,000$	2	6	4
		>=<100,000$ - 1,000,000$	2		
		> 1,000,000$	2		
Healthcare	0.1%	< 100,000$	2	6	4
		>=<100,000$ - 1,000,000$	2		
		> 1,000,000$	2		
Service	1.2%	-		8	7
Total	100%			228	180

Source: FIRRD, 2013.

4.2.4 Operational Definitions and Measurements

The development of a research model involves an extensive review of existing literature regarding foreign investment policy implementation effectiveness. Based on this review, operational definitions for all of the variables were provided and applied to the research model. It was very important to transfer the conceptual framework of the research to a valid measurement. There were three main processes: conceptualization, operationalization, and measurement. Conceptualization produces a specific agreed-upon meaning for a concept for the purposes of research. Conceptual definitions range

from brief descriptions through detailed statements. The next step was operationalization, which produces an operational definition. Operationalization involves a process of assigning indicators for each definition, and each variable should possess different indicators or different aspects of the definition in the research context. The last step was measurement, which clarifies the scales to measure each variable. They can be nominal scales, ordinal scales, interval scales, and ratio scales. It should be mentioned that each scale involves categorization (Babbie, 2001).

4.2.4.1 Dependent Variable

One part of study objective was to analyze foreign investment policy implementation effectiveness in Mongolia, which was the dependent variable. Based on organization perspectives (Goodman & Pennings, 1977) and policy evaluation criteria and indicators (Nakamura & Smallwood, 1980; Chandarasorn, 1984; Vedung, 1997), which were reviewed in Chapter 3, foreign investment policy implementation effectiveness was measured by the growth rate of foreign investment and the level of satisfaction of the foreign investment policy target group.

The level of foreign investors' satisfaction regarding foreign investment policy implementation was measured using scores from 1 to 10: '1' refers to dissatisfaction of foreign investors and '10' indicates that foreign investors were very satisfied with the foreign investment policy implementation.

The foreign investment growth rate was calculated using the following equation: Foreign investment growth rate

$$\text{Foreign investment growth rate} = \frac{\left[\frac{(\text{Total foreign investment} - \text{Initial foreign investment})}{\text{Initial foreign investment}} \times 100\right]}{\text{Lenght of year operating business in Mongolia}}$$

4.2.4.2 Independent Variables

There were three sets of independent variables proposed in this study; namely, policy, external and socio-demographic factors. The policy factors were clarity of policy objectives and standards, the capacity of the implementing agency, the quality of public service, and foreign investors' compliance with implementation

regulations. The socio-demographic factors were investment size, firm size, length of experience, ownership type, and operating sector. The external factors were market size, quality of infrastructure, quality of labor, and political stability.

1) Policy Factors

The policy factors were clarity of policy objectives and standards, quality of public service, capacity of implementing agency and foreign investors' compliance with implementation regulations.

(1) Clarity of Policy Objectives and Standards

Clarity of policy objectives: Directions of policy to be achieved and to be the measurement of policy outcomes. The objectives of the foreign investment policy should be clear, precise, and understandable.

Clarity of policy standards: In order to implement foreign investment policy and to be a handy guide for implementers, the standards or rules of policy implementation should be clearly stated and detailed.

(2) Capacity of Implementing Agency

Resources: In terms of resources, the implementing agency must have enough resources (financial, human, power, and information) in order to implement policy effectively.

Capacity of front-line implementers: Front-line implementers' skills and ethics affect implementation effectiveness because they tend to interpret policy objectives based on their interest. More skilled officers tend to provide a higher quality of services. Better ethical officers are likely to support less bureaucracy and greater transparency when they provide public service.

Cooperation with other agencies: If main implementing agency has better cooperation and coordination with other public organizations, the implementation process will be smooth and less bureaucratic.

Communication with investors: The implementing agency should have more quality and frequency of communication with their target groups. Better communication exists when the implementing agency distributes higher quality of information through a variety of channels in a short time.

(3) Quality of Public Service

Variety of services provided: The implementing agency may need to provide a number of services necessary for existing investors and prospective investors.

Length of public service: Public services should be provided in proper time. Because of bureaucracy, ambiguity of standards, information awareness, and many other reasons, provision of public service tends to be delayed.

Consistency of public service: The services provided by implementing agency should meet investors' demands, match addressed problems and be consistent with policy objectives.

(4) Foreign Investors' Compliance with Implementation Regulations

Compliance with the registration process: Foreign investors should comply with or follow the rules and regulations of the registration process. If foreign investors re-invest, they must register the investment.

Compliance with control: Foreign investors should announce their investment performance to related public organizations.

2) Socio-demographic Factors

Socio-demographic factors are investment size, ownership type, length of experience, firm size and operating sector.

(1) Investment size: This refers to how much foreign-invested companies have invested in Mongolia. Investment size was classified into three groups: big, middle and small investors in this study.

(2) Ownership type: This refers to the percentage of the property in the foreign-invested company was invested by the foreigner. Foreign Investment Law classifies it into two types: wholly-owned foreign-invested company and joint venture. In this study, foreign ownership percentage was classified into four types: wholly, majority, equal, and minority foreign-owned foreign-invested company.

(3) Length of experience: This refers to the foreign-invested company's experience in conducting business in Mongolia or year of establishment as a foreign-invested company. Length of experience was classified as less than three years, 4-7 years, 8-13 years, and more than 13 years.

(4) Firm size: This refers to how many local employees are working in a foreign-invested company. If a company had fewer than 100 workers, it was classified as small. If a company had more than 1000 workers it was considered as a big company. The Foreign Investment Company, which has between 100-1000 workers, is a middle-size company.

(5) Operating sector: This refers to the main operating sectors, which should be the same as issued on the foreign investment certificate.

3) External Factors

(1) Market size: This refers to the capability of customers in related markets or sectors.

(2) Quality of labor: This refers to the accessibility and quality of labor in the market.

(3) Quality of infrastructure: This refers to the accessibility and quality of transportation, water, and electricity supply.

(4) Political stability: This refers to the stability of the legal and political environment.

Table 4.3 Operational Definitions and Measurements

Variables	Definitions	Operationalization
Dependent variables: Foreign investment policy implementation effectiveness		
Level of foreign investors satisfaction with foreign investment policy implementation	Level of an implementation achievement for intended foreign investment policy output and outcome	The level of foreign investors satisfaction with foreign investment policy implementation
Foreign investment growth rate		Annual investment growth of foreign-invested companies

Table 4.3 (Continued)

Variables	Definitions	Operationalization
Independent Variables		
Policy factors		
Clarity of policy objectives	Level of clear and precisely-defined policy objectives and standards for intended goals of foreign investment policy	1. Level of foreign investors' understanding of foreign investment policy objectives 2. Level of foreign investors' understanding of foreign investment policy standards 3. Level of consistency with addressed problems with foreign investment issues
Capacity of implementing agency	Sufficient resources, skilled implementers and optimal operations of implementing agency	1. Sufficiency of resources 2. Capacity of implementers 3. Sufficient communication among implementers 4. Level of coordination and cooperation with public organizations
Quality of service	Variety and quality of service provided by implementing agency for intended policy goals	1. Variety of services provided 2. Time requirement of public service 3.Consistency of public service
Foreign investors' compliance with implementation regulations	Target group's acceptance of policy regulations	Level of investors acceptance of implementation regulations

Table 4.3 (Continued)

Variables	Definitions	Operationalization
Socio-demographic factors		
Investment size		Total amount of investment
Ownership type		Share of foreign investors in percentage
Length of experience		Number of years since being registered as a foreign-invested entity
Firm size		Number of employees
Operating sector		Main operating sector
External factors		
Market size		Level of capability of customers
Quality of labor		Level of availability and accessibility of skilled labor
Quality of infrastructure		Level of quality of infrastructure (transportation, water, and electricity)
Political stability		Level of stability of legal and political environment

Source: Developed by researcher, 2013.

4.2.5 Scale Construction

According to Lavrakas (2008) said, that "A construct is an abstract idea, underlying theme, or subject matter that one wishes to measure using survey

questions" (Lavrakas, 2008). In this study, the questionnaires asked a wide variety of questions that could be answered anonymously if so desired. They all consisted of the same questions, and respondents were given enough time to consider their answers carefully. The questionnaires were divided into three sections (Appendix C).

Section I. General information: This section consists of nine questions and asks about general information concerning the foreign-invested companies. Questions include the year of establishment, the amount of foreign investment, the number of employees, invested sectors, form of entities, and some additional information. They were not required to identify themselves.

Section II. Information about foreign investment policy: This consists 30 questions and questions were rated on five levels ("strongly agree = 5," "agree = 4," "moderate = 3," "disagree = 2," and "strongly disagree = 1" to cover the policy and external variables; namely, clarity of policy objectives and standards, quality of public service, capacity of implementing agency, and foreign investors' compliance with implementation regulations. A response of "strongly agree" meant that the respondent strongly agreed with the question; a response of "agree" meant moderate agreement with the question; a response of "disagree" meant agreement with the question at a low level; a response of "strongly disagree" meant that the respondent totally disagreed with the question; and a response of "moderate" meant that the respondent agreed with the question at a middle level. In addition to these 30 questions, questions about the foreign investors' satisfaction level regarding external factors, including market size, quality of infrastructure, quality of labor, and political stability, were asked in this section.

Section III: Level of foreign investors' satisfaction: This section consists of two parts. The first part asked the foreign investors to describe their satisfaction level on foreign investment policy implementation. The second part provided open-ended questions on the respondents' suggestions or recommendations for improving foreign investment policy implementation effectiveness. In this section, the respondents were able to express their opinions freely, which they could not do in the previous two sections.

4.2.6 Validity and Reliability of the Measurement

Researchers want to use measurement tools that are both reliable and valid. Nevertheless, how can these measures be evaluated? Two of the primary criteria for evaluation in any measurement or observation are measuring what we intend to measure and to analyse whether the same measurement process yields the same results. These two concepts are validity and reliability.

4.2.6.1 Validity

The validity of a scale refers to the degree to which it measures what it is supposed to measure. In this research, construct validity was ensured through applying factor analysis.

1) Factor Analysis

According to Tabachnick and Fidell (2007), the specific goals of principle component analysis (CPA) or exploratory factor analysis (EFA) are to summarize patterns of correlations among observed variables, to reduce a large number of observed variables to a smaller number of factors, to provide an operational definition for an underlying process by using observed variables, or to test a theory about the nature of underlying processes. EFA is often used in the early stages of the research in order to construct measurement scales and to identify the underlying factor structure or model (Burns & Burns, 2008). Pallant points out that the correlation coefficients should be larger than 0.3. Also, important measures for considering the factorability of the data according to Pallant (2007) are that Bartlett's test of sphericity and Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy should be significant ($p<.05$). For the factor analysis to be considered as appropriate KMO index ranges from 0 to 1, it is suggested that 0.6 be the minimum value for good factor analysis.

2) Factor Analysis of Independent Variables: Policy Factors

(1) Factor analysis of clarity of policy objectives and standards

There are five questions asked for assessing the clarity of policy objectives and standards. Checking the correlation matrix showed that all coefficients were greater than .29, which meant that the data were suitable for using factor analysis. The Kaiser-Meyer-Oklin value was .742 at a statistical significance of

(p<.001), which exceeded the recommended value of .6 (Kaiser 1970, 1974). The results supported the factorability of the correlation matrix.

There was only one component with eigenvalues greater than 1, explaining 52.64 percent of the variance. To be able to interpret this component, the Varimax method was used. Hence, all of the variables had substantial loading on one component and all five items had strong loading on component 1, which is shown in Table 4.4 for illustration purposes.

Table 4.4 Factor Analysis Results for Clarity of Policy Objectives and Standards

Content	**Factor loading**
	1
Q1: Level of clarity of policy objectives	.715
Q3: Level of consistency of policy objectives	.660
Q4: Level of consistency of standards	.749
Q5: Level of understanding of investors' obligations	.756
Q6: Level of understanding of investors' rights	.740

Note: K.M.O =.742, Eigenvalue =2.44, Variance Explained =52.64%, p<.001
Extraction Method: Principal Component Analysis

(2) Factor Analysis of Quality of Public Service

Five questions were asked for evaluating the quality of public service. Checking the correlation matrix showed that all coefficients were greater than .31, which meant that the data were suitable for using factor analysis. The Kaiser-Meyer-Oklin value was .773, with a statistical significance of (p<.001), approving the factorability of the correlation matrix. There was only one component with eigenvalues greater than 1, explaining 58.26 percent of the variance.

Table 4.5 Factor Analysis Results for Quality of Public Service

Content	**Factor loading**
	1
Q171: Variety of services provided	.742
Q172: Speed of public service	.811
Q174: Accessibility of public service	.797
Q175: Difference between quality of public service and investors' expectation	.837
Q176: Quality of public service	.605

Note: K.M.O =.773, Eigenvalue =3.21, Variance Explained =58.26%, p<.001
Extraction Method: Principal Component Analysis

(3) Factor Analysis of Capacity of Implementing Agency

Five questions were asked for analyzing the capacity of the implementing agency. All of the items' correlation coefficients were above .3, which indicated that the data were suitable for using factor analysis.

Table 4.6 Factor Analysis Results for the Capacity of the Implementing Agency

Content	**Factor loading**
	1
Q19: Capacity of front-line implementers	.728
Q21: Financial resources	.599
Q25: Cooperation with other implementing agencies	.721
Q26: Quality and accessibility of information	.773
Q27: Cooperation with target group	.655

Note: K.M.O =.779, Eigenvalue =2.89, Variance Explained =48.7%, p<.001
Extraction Method: Principal Component Analysis

The Kaiser-Meyer-Oklin value was .779, with a statistical significance of (p<.001), supporting the factorability of the correlation matrix. There was only one component with eigenvalues greater than 1, explaining 47.7 percent of the variance.

(4) Factor Analysis of Foreign Investors' Compliance with Implementation Regulations

In order to estimate the foreign investors' compliance with the implementation regulations, five questions were asked. All of the items' correlation coefficients were above .2, which indicated that the data were suitable for using factor analysis. The Kaiser-Meyer-Oklin value was .698, with a statistical significance of (p<.001), supporting the factorability of the correlation matrix. There was only one component with eigenvalues greater than 1, explaining 43.2 percent of the variance.

Table 4.7 Factor Analysis Results for Foreign Investors' Compliance with Implementation Regulations

Content	**Factor loading**
	1
Q7: Compliance with registering reinvestment	.743
Q8: Compliance with regulation standards	.699
Q16: Overall regulation activities	.557
Q173: Regulation for registering new investors	.544
Q20: Regulation for controlling foreign investors' performance	.690

Note: K.M.O =.698, Eigenvalue =3.12, Variance Explained =43.2%, p<.001
Extraction Method: Principal Component Analysis

4.2.6.2 Reliability

Babbie (2001) stated "reliability checks whether a particular technique that is repeatedly applied to the same object yields the same results or not." A good measure should be reasonably reliable—that is, it should yield consistent results. Low

reliability implies that the scores contain a lot of measurements error. The most popular test for examining the reliability of the questionnaire is Cronbach's coefficient alpha (Pallant, 2007), which is used to determine the internal consistency of a measure. This method is based on the assumption that variables measured the same construct should be highly correlated with one another. For all forms of reliability, a quantitative measurement of reliability can be used, applied much like the inter-observer reliability coefficient. It should be .70 or higher. However, the coefficient can be lower for averages in a group because individual scores vary.

Reliability analysis was applied to the policy factors in the present study: The clarity of policy objectives and standards, quality of public service, foreign investors' compliance with foreign investment policy implementation, and capacity the of the implementing agency. The reliability of the internal consistency of the scales was tested through Cronbach alpha values using SPSS in this study. The Cronbach alpha statistics if greater than >.60 indicated an acceptable level, >.70 indicated a good level, and >.90 indicated an excellent level of reliability of the scales in measuring the construct.

Table 4.8 presents the items used to form a construct along with the respective Cronbach alpha value. The Cronbach alpha value being greater than .6 confirmed the reliability of the scale used in the study at an acceptable level (see Table D. 1 for the details of the statistics used for the reliability analysis).

Table 4.8 Reliability Analysis of Policy Factors

Scale	**Cronbach's Alpha**
Clarity of policy objectives and standards	.785
Foreign investors' compliance with implementation regulations	.632
Quality of public service	.818
Capacity of implementing agency	.745

4.2.7 Data Analysis

The data analysis of the present study involved not only how the data were analyzed, but also how the data were prepared for descriptive, correlation, and regression analyzes and what assumptions were supposed to be met.

4.2.7.1 Assumptions

It is very important that any study check its assumptions before deciding which statistical test is appropriate. There are seven basic assumptions that must be met for the statistical analysis, especially univariate, bi-variate and multivariate analyses, to be accurate: sample size, normality, outliers, independence, linearity, homoscedasticity and multicollinearity.

1) Sample Size

In order to run a regression, the sample size must be good enough. The minimum sample size for the factor analysis is to have at least five times as many observations as the number of variables to be analyzed (Hair et al., 2010). On the other hand, sample size depends on the size of the effect in the regression that the study intends to detect. The minimum acceptable sample size can be defined as 50+8k, where k is the number of predictors if the study wants to test the overall fit of its regression model or it can be determined to be 104+k if the study wants to test the individual predictors within the model (Green, 1991).

2) Outliers

Outliers are observations with unique combinations of characteristics, which means unusually high and low values on the variable identified as distinctly different from the other observations. Outliers occur due to procedural errors or extraordinary events or extraordinary observations. In descriptive analysis, outliers are identified or those cases that fall at the outer ranges of the distribution of observations for each variable in the analysis. In the regression analysis, the Mahalanobis D2 measure was used for assessing the outliers in each observation. A higher value of D2 indicated that outliers occurred in the observations (Hair et al., 2010).

3) Normality

Normality refers to the data distribution of each variable's score. Hair et al. (2010: 71) states that "If variables' data are distributed sufficiently

large, the statistical test result will be invalid, because normality is required to use the F and t statistics." Normality or normal distribution can be tested through histograms, the P-P plot test, and the values of skewness and kurtosis statistics. A histogram looks at the shape of the distribution, and the normal distribution of the data in the histogram is expected to have a bell-shape curve. The shape of the distribution can be described using two measures: kurtosis and skewness. The skewness and kurtosis statistics within the range of minus one to plus one shows that the univariate data are normally distributed. Also, the P-P plot test compares the cumulative distribution of the actual data values with the cumulative distribution of the normal distribution (Hair et al., 2010).

If the variables are not normally distributed, there is a need to transform the data by converting the variables into log variables. Alternatively, one can use the square root method to ensure that the variables are normally distributed. The type of transformation depends on the type of skewness of the distribution.

4) Linearity

The mean values of the dependent variable for each increment of the predictor(s) lie along a straight line. Linear means a squared linear relationship. If the dependent and independent variables relation is non-linear and uses a liner model then it limits the generalizability of the findings (Field, 2009). Linearity can be examined in different ways. First, many scatterplot programs show a straight line, indicating a linear relationship. Second, running regression analysis and examining the scatter plot of the regression-standardized residuals and regression standardized predicted values where the plot shows the residuals in a linear pattern below and above the horizontal straight from zero ensures non-violation of the assumption of multivariate linearity (Hair et al., 2010). Solving the linearity problem can be done by transforming the variables into log variables oR-square root variables, or inverse variables.

5) Independent Errors

Assumption of independent error assumes that each predictor variable should be independent, which means that the predicted value is not related to any other prediction (Hair et al., 2010). In a regression, for any two observations the residual terms should be uncorrelated. This assumption can be tested with the Durbin-

Watson test, which tests whether adjacent residuals are correlated. The test statistics can vary between 0 and 4, with a value of two meaning that the residuals are uncorrelated. A value greater than 2 indicates a negative correlation between adjacent residuals, whereas a value below 2 indicates a positive correlation. If the values are less than 1 or greater than 3, it indicates violation of this assumption (Field, 2009).

6) Multicollinearity

The problem of multicollinearity means that there is a strong correlation between two or more predictors in a regression model. R-square is used for checking the assumption of multicollinearity. For example R^2=.5, which means that 50 percent of the variance of the variable has been explained by the other independent variable. A correlation over 70 percent means that the variables are highly correlated. Another way to check the multicollinearity problem is using the value of tolerance and variance inflation factor (VIF). If there is multicollinearity, the size of the tolerance is less than .1 and close to zero. On the other hand, the size of the VIF is greater than 10. The multicollinearity problem can be solved either by deleting one of the highly-correlated variables which should be independent variable or by combining those highly-correlated variables.

7) Homoscedasticity

The assumption of homoscedasticity is that the dependent variable should not have equal levels of variance across a range of predictor variables (Hair et al., 2010). Hair et al. (2010: 74) stated that "Homoscedasticity is desirable because the variance of the dependent variable being explained in the dependence relationships should not be concentrated on only a limited range of independent values." In multiple regression, the assumption of homoscedasticity is examined through the regression standardized residuals' scatterplots. The violation of the assumption of homoscedasticity is called the heteroscedasticity. If heteroscedasticity is identified, the transformation of the respective variables into LOG or SQRT or INVERSE may help to solve the problem.

4.2.7.2 Analysis

After checking the assumptions, all of the quantitative data were assessed in descriptive, correlation and regression analysis. The data from this study were analyzed using SPSS program version 17.0.

1) Descriptive Analysis

Descriptive statistics helps to describe the samples of subjects in terms of variables or combinations of variables. Descriptive analysis is applied once it is sure that there are no errors in the data file. Descriptive statistics includes describing the characteristics of the sample, checking all of the variables to address the research question for any conflict of the assumptions underlying the statistical techniques and addressing specific research questions. In addition, descriptive analysis is also used for summarizing and examining large and small data sets and comparing more than one variable to others.

In this study, the descriptive analysis examined both the independent variables and the dependent variable to describe the characteristics of the sample, and to check the variables for any violation of the assumptions underlying the statistical techniques that were based on addressed research objectives.

2) Correlation Analysis

Correlation analysis quantifies the degree to which two variables are related. The difference between correlation and regression is that correlation refers to examining how much two quantitative variables are linearly associated, while regression refers to finding the best line that predicts the dependent variable from at least one independent variable. Three kinds of correlations could be found in the correlation analysis: positive, negative and no correlation. A positive correlation means that as one value goes up, the other value also goes up. A negative correlation means that as one value goes up, the other value goes down. A zero correlation coefficient indicates no relationship between the variables.

The Person's correlation coefficient indicates the strength of the relationship. The value of the correlation coefficient from 0.8 to 1.0 is considered as a very strong relationship. Similarly, the value of the correlation coefficient between 0.6 and 0.8 is considered as a strong relationship. However, 0.4 and 0.6 are considered as a moderate relationship 0.2 and 0.4 as a weak relationship, and 0.0 and 0.2 as a very weak relation or no relationship.

3) Regression Analysis

Multiple regression refers to the analysis of the relationship between a single dependent variable and several independent variables. The main

objective of regression analysis is how the value of a single dependent variable can be predicted by the value of the independent variables selected by the researcher (Hair et al., 2010). The study used both ordinary least squares regression (OLS) and hierarchical regression.

The difference between OLS and hierarchical regression is that hierarchical regression is used to examine the relationships between a set of independent variables and a dependent variable, after controlling for the effects of some other independent variables on the dependent variable (Field, 2005). In hierarchical multiple regression, the independent variables are entered in two stages. First, set of independent variables that called control variables are intered into the regression. Then, set of independent variables that expected to predict values of the dependent variable are entered into the regression after the control variables are entered. The value R-square change test is used to evaluate the importance of the variables entered in the second stage (Field, 2005).

Standardized coefficients (Beta/β) in both regression analysis are the standard values that are comparable with each other. T statistics indicates the strength of the predictor. They can be used to point out which variable is the strongest predictor in the model influencing the dependent variable. The significance value (also known as p value) refers to the level of significance of the association between a particular predictor and dependent variable; thus, it is used to test the hypothesis. The rejection or non-rejection of the hypotheses is tested at different levels such as $p<.001$, $p<.01$, $p<.05$, $p<.10$. R^2 in both regressions refers to the variability of the dependent variable explained by the predictors included in the model. The adjusted R^2 is also similar to R^2. The difference between R^2 and adjusted R^2 is that the R^2 is likely to be inflated by the number of the predictors in the model that is adjusted in the adjusted R^2. Adjusted R^2 is preferred over R^2. Opinions vary on the acceptable range of R^2. R^2 tends to be influenced by nature of the sample, sample size, research design and so on. F statistics and the associated level of significance (p value) indicate the significance of the regression model fit.

4.3 Qualitative Method

Qualitative methods refer to exploring and understanding the meaning of individuals or groups ascribed to a social or human problem (Creswell, 2009). The data are usually collected in the form of written or spoken words, texts, pictures, visuals, and other instruments rather than numbers.

4.3.1 Research Design

The research design of the qualitative part in this study was descriptive research methodology for describing foreign investment policy implementation in Mongolia and supporting the quantitative results. The study was designed to collect primary data using structured telephone interviews. The interviews were carried out after the quantitative survey responses were completed. The interviews were conducted with foreign-invested companies' executive members or foreign investors, and the calls were made from the Ministry of Economic Development in order to increase the respondent's confidence in answering questions. The purpose of the telephone interviews was to interpret and support the quantitative research results. The interviews were conducted by the researcher herself. The purpose of the documentary review was to describe foreign investment policy and its implementation in Mongolia and to support the interview results.

4.3.2 Sampling

In terms of the sampling in the qualitative method, the researcher tends to purposefully selected participants or sites that could best help her in understanding the problem and the research questions (Creswell, 2009) because the random or representative sampling method increases the scope or range of the data exposed and also it can uncover the full array of multiple realities (Lincoln & Guba, 1985). Also, a large sample is not necessary for qualitative research. There are no theories or equations to determine the sample size in qualitative research; it can be determined solely by the researcher. The researcher can begin the data analysis when she/he is satisfied with the amount of data she/he has collected. Moreover, qualitative research requires the researcher to identify and locate participants that have experienced or are experiencing the phenomenon being studied (Rudestam & Newton, 2001).

Table 4.9 Sample of Structured Telephone Interviews

Sectors	**Respondents of a Mail Survey**	**Expected Interview Sample Size**
Exploration & exploitation	61	20
International trade	21	10
Bank & finance	9	5
Light industry	6	2
Transport	4	1
Construction & engineering	26	13
Tourism	4	2
Information & communication	8	3
Livestock	4	1
Education	8	3
Catering or food industry	6	2
Manufacturing	8	3
Agriculture	5	2
Healthcare	3	1
Service	7	2
Total	180	70

Source: Developed by Researcher

In order to support the quantitative research results, structured telephone interviews were conducted with foreign-invested companies' executive members or foreign investors. A structured interview requires prepared set of questions and those questions suggested being asked in the same order to all interviewees (Fontana & Frey, 1994). One hundred and eighty foreign-invested companies responded to the mail survey and the study conducted structured telephone interviews with 70 that reported a low satisfaction score in their response. The study selected interviewer from different sector. Some of the respondents of the mail survey were willing to explain their problems in complying with foreign investment policy.

4.3.3 Data Collection Method

For collecting the primary data, the study used telephone interviews. Kahn and Cannel (1957) said, "An interview is a purposeful discussion between two or more people" (Kahn & Cannel, 1957). The use of interviews can help the researcher gather valid and reliable data that are relevant to the current research questions and objectives.

The structured telephone interview used in this study was conducted for supporting and clarifying the foreign investors' responses to the mail survey. The use of the telephone as a medium for conducting the interviews is becoming an increasingly popular data collection method. Telephone interviews are more effective when the researcher has more specific questions and more structured interview guides. Telephone interviews are similar to a face-to-face interview and can be more advantageous than face-to-face interviews in terms of cost effectiveness and time efficiency (Emily, 2008).

Telephone interviews give an opportunity to interviewers for conducting interviews with participants that may not be available their locations. The telephone interview saves interviewers' valuable time and allows them to conduct several interviewees for gathering contextual information for their qualitative studies. Compared with the face-to-face interview, a telephone interview saves fifty to seventy-five percent of the cost of face-to-face interviews.

The structured telephone interviews were performed by the researcher herself and used land phones of the Foreign Investment Agency (FIRRD, Ministry of Economic Development, Mongolia). The cell phone numbers of executive members of foreign investors were provided by the database of FIRRD. The interviews were planned to select 70 interviewees and were finally conducted with 80 foreign-invested companies' executive members or foreign investors from July to August 2013 (Appendix 4.3). Each interview took about twenty minutes. The researcher took notes while she was interviewing on the phone.

The questionnaires for the structured telephone interview (Appendix 4.4) were different depending on how they responded to the mail survey. However, the interviews aimed at estimating each variable studied in this research.

4.3.4 Validity and Reliability of the Interview

Validity means that the instrument must measure what it was intended to measure. For in-depth interviews, proving a validity is problematic because it depends

on the nature and direction of the questions that will be asked and on the responses of the interviewee to the questions. However, any researcher must provide a validated interview. According to Arksey and Knight (1999), validity is strengthened as follows: 1) the researcher must build rapport and trust 2) the researcher should provide confidence to illustrate his/her initial proposes, 3) the researcher should organize sufficient time and the topic should be explored in depth, and 4) the interview questions should be from the literature or from pilot work with the respondents.

Moreover, Arksey and Knight (1999) added two more points to try to select a sample that allowed for a subject to be viewed from all relevant perspectives, and to keep increasing the sample size, or sub-samples that represented different perspectives, until no new viewpoints emerged from the data. Gray (2009) suggested about size of sample in qualitative analysis that "A sample size of eight is often sufficient, although a survey should then be used to verify the data" (Gray, 2009).

For a research instrument to be reliable, it must consistently measure what it set out to measure. Reliability in interviews involves a standardized interview schedule and the behavior of the interviewer. Standardization helps to avoid interviewer bias, and all interviewers must follow the same protocol. Hence, a set of guidelines might be drawn up which require the interviewer to read the questions exactly as they are written, to repeat a question if asked, to accept a respondent's refusal to answer a question without any sign of irritation, and to probe in a non-directive manner (Gray, 2009).

This study used a variety of data collection methods, and data were collected from different sources, which indicated triangulation.

4.3.5 Data Analysis

The data collected through the telephone interviews were analysed in 3 steps. The first step was reducing and grouping the raw data. These raw data were classified into groups based on their interviewees' characteristics. Second, descriptive analysis was applied to each group of data based on their characteristics. Finally, the study determined each group based on how they expressed each variable studied in the research.

CHAPTER 5

DATA ANALYSIS AND RESEARCH FINDINGS

5.1 Introduction

After gathering the relevant empirical data from the quantitative and qualitative data collection methods, it is important to continue to the next stage of the research, which means data sources should be analyzed to answer the current study objectives. This chapter is divided into quantitative and qualitative research findings.

The quantitative data analysis and research findings began with a descriptive analysis, which included the characteristics of the respondents and descriptive and frequency of all of the variables. Then correlation analysis was used for examining the nature of the relationship between the independent and dependent variables. Finally, this study used regression methods, particularly ordinary least squares regression and hierarchical regression. Related assumptions were checked before the regression methods were applied. The qualitative data analysis and research findings began with the characteristics of the interviewees. Finally, regarding results of the structured telephone interviews, each policy, external, and socio-demographic variable was discussed, clarified and analyzed in order to support the quantitative research findings.

5.2 Quantitative Data Analysis and Research Findings

In this study, quantitative data analysis involved descriptive, correlation and regression analysis for examining the factors affecting foreign investment policy implementation effectiveness. The assumptions of each method were checked.

5.2.1 Descriptive Analysis

Descriptive analysis involves the characteristics of the respondents, a descriptive and frequency analysis of each variable. The characteristics of the

respondent section present demographical information about the participants (foreign-invested companies). Descriptive and frequency analyses were applied to all of the policies, external, and socio-demographic factors. Also, related assumptions were checked.

5.2.1.1 Characteristics of Mail Survey Respondents

This section explains the demographic characteristics of the respondents. The responses to the questionnaire were gathered from foreign-invested companies in Mongolia. Only 180 companies (79 percent of sample size) out of 228 responded to the mail survey. These 180 questionnaires were appraised in terms of their response adequacy and completeness. The characteristics are detailed in Table 5.1, demonstrating the amount of investment, number of employees, ownership type, operating sectors, and length of experience with the foreign-invested company.

1) Amount of Investment: In Table 5.1, the investment amount of foreign-invested companies is classified into five levels in order to see how big, middle and small foreign-invested companies participated in this survey. The percentage of each classification was almost equally distributed. 27.8% of the respondents invested less than $100,000, and 17.8% of them invested more than 10 million USD. The remaining respondents invested between 100,000 and 10,000,000.

2) Number of Employees: Another characteristic was the size of the foreign-invested company, which was measured according to the number of their employees. The respondents were classified into four groups in order to check the participation of different sizes of foreign-invested companies. Almost 39% of the respondents had fewer than ten employees, and an equal percentage of respondents had between 11-100 employees. Only 6.7% of the respondents had more than 500 employees. Others had a number of employees between 100 and 500.

3) Ownership Type: In terms of ownership type of the foreign-invested company, 71.6% of the respondents were wholly foreign-owned companies, and another 28.4% were joint ventures.

4) Operating Sectors: Table 5.1 indicates that all of the sectors' foreign-invested companies participated in this study. Also, it indicates that the majority of respondents were from the mining or exploration and exploitation sector, the service and trade sector, and the construction and engineering sector. The

biggest number of respondents was from the mining sector, which accounted 35%, then service and trade, and the engineering and construction sectors at 14.5% and 11.1% respectively. The lowest number of respondents was from the healthcare sector at only 2.3%. Other sectors such as bank and finance, light industry, transport, tourism, information and communication, livestock, education, manufacturing each accounted for around 3.5-5% of total respondents.

Table 5.1 Profile of Participating Foreign-Invested Companies

Variables		**Percentage**
Amount of investment ($)	Less than 100,000	27.8
	100,001 – 500,000	22.2
	500,001 – 1,000,000	15
	1,000,001 – 10,000,000	17.2
	More than 10,000,000	17.8
Number of employees	Less than 10	38.9
	11-100	38.9
	101-500	15.5
	More than 500	6.7
Ownership type	Wholly foreign-owned	71.6
	Joint venture	28.4
Operating sectors	Mining	62
	Trade & service	26
	Construction	20
	Banking	9
	Light industry	8
	Live stock	7
	Manufacturing	8
	Information & communication	7
	Education	7

Table 5.1 (Continued)

Variables		**Percentage**
	Transportation	6
	Tourism	5
	Food industry	4
	Healthcare	4
	Other	7
Length of experience	More than 13 years	10.6
	8-13 years	22.2
	3-7 years	47.8
	Less than 3 years	19.4

Source: Field Survey, 2013.

5) Years of Establishment: Based on the current study's purpose, the respondents should have had one year of experience in conducting business in Mongolia. This is because foreign investment policy implementation was evaluated based on the investors' perceptions. Ten point six percent of the respondents had more than 13 years of experience, 22.2% had 9-13 years of experience, and 47.8% of them had 4-8 years of experience. The other 19.4% had fewer than 3 years of experience.

Overall, the demographic characteristics of the respondents indicated that the majority of the respondents of foreign-invested companies were wholly foreign-owned companies and had experience of 3-7 years as foreign investors in Mongolia. In addition, the majority of the respondents had fewer than 100 employees and invested less than 500,001$ in Mongolia. Lastly, the majority of respondents were from the mining or exploration and exploitation, trade and service, and construction and engineering sectors, which accounted for about 60 percent of total respondents.

5.2.1.2 Descriptive Analysis of Foreign Investment Policy Implementation Effectiveness

Analyzing foreign investment policy implementation effectiveness was one of the main objectives of the study. It was measured by the level of the foreign

investors' satisfaction with foreign investment policy implementation and the foreign investment growth rate.

1) Descriptive analysis of the level of the foreign investors' satisfaction with foreign investment policy implementation

The level of the foreign investors' satisfaction with foreign investment policy implementation was measured between scores of 1 and 10. Table 5.2 presents the basic descriptive results of the level of the foreign investors' satisfaction with foreign investment policy implementation according to means, standard deviation, variance, skewness, and kurtosis.

The average of this variable was 5.11, and the variance was 4.04; this indicates fewer errors between the average score and the observations. In addition, the standard devotion was 2.01, which meant that the scores of the level of foreign investors' satisfaction with foreign investment policy implementation were similar.

Table 5.2 Descriptive Statistics on the Level of Foreign Investors' Satisfaction with Foreign Investment Policy Implementation

N=180	**Min.**	**Max.**	**Mean.**	**S.D.**	**Var.**	**Skewness**	**Kurtosis**
Level of foreign investors' satisfaction with foreign investment policy implementation	1.0	10.0	5.11	2.01	4.04	-.038	-.290

Source: Field Survey, 2013.

For assessing normality, the scores of the foreign investors' satisfaction with foreign investment policy implementation were bell-shapedin the histogram and distributed on a reasonably straight line at the probability plots (Figures G.1) Also, the skewness statistics of this variable was -.038 and the kurtosis statistics was -.290, which meant that non-violation of the assumption was ensured.

Table 5.3 Frequency of the Level of Foreign Investors' Satisfaction with Foreign Investment Policy Implementation in 3 Groups

Group	**f**	**%**
Low	68	37.8
Middle	91	50.5
High	21	11.7
Total	180	100.0
SD (.561), Mean (1.44), Variance (.315), Skewness (.836), Kurtosis (-.324)		

Source: Field Survey, 2013.

Based only on the descriptive statistic, it was difficult to compare the low and high scores of the investors' satisfaction. For comparison purposes, the scores of the level of foreign investors' satisfaction with foreign investment policy implementation were divided into three groups. If the scores were less than 5, they were counted as a low level; if the scores were between 5 and 7, it refers to a middle level; and if the scores were greater than 7, they belonged to a high-level satisfaction group. Table 5.3 shows the frequency of each group's statistic result.

The results implied that almost 38 percent of the foreign-invested companies were less satisfied with foreign investment policy implementation. Also, half of them were moderately satisfied, and only around 12 percent of them were highly satisfied with foreign investment policy implementation. The value of the mean was 1.74, and the standard deviation was .654. The skewness statistics of this variable was.320, and the kurtosis statistics was -.728, which indicated that non-violation of the assumption was ensured.

2) Descriptive Analysis of Foreign Investment Growth Rate

The actual values of foreign investment growth rate were calculated based on the equation of calculating percent (straight-line) growth rates. However, in order to provide normal distribution, transformation technique LOG 10 applied to the actual values of the foreign investment growth rate. Table 5.4 shows the

descriptive analysis of the transformed foreign investment growth rate according to minimum, maximum, mean, standard deviation, variance, skewness and kurtosis. The average of this variable was 1.761, and the standard devotion was .8266. In terms of checking for normality, the scores of the foreign investment growth rate tended to be bell-shapedat the histogram and distributed on a reasonably straight line at the probability plots, and this suggested a normal distribution (Figures G.2). In addition, the skewness statistics of this variable was -.683 and the kurtosis statistics was 4.174, which indicated that non-violation of the assumption was ensured.

Table 5.4 Descriptive Statistics for the Transformed Foreign Investment Growth Rate

N=149	**Min.**	**Max.**	**Mean.**	**S.D.**	**Var.**	**Skewness**	**Kurtosis**
Foreign investment growth rate	-1.9	4.2	1.761	.8266	.683	-.680	4.174

Source: Field Survey, 2013.

The actual values of foreign investment growth rate were divided into three groups: high growth, low growth, and constant. The high growth group was when growth rate was more than 100 percent. The medium growth group is when the growth rate was up to 100 percent. If the foreign-invested companies had not re-invested since their initial investment, they belonged to the constant group. Table 5.5 shows the frequency of each group's statistical results. The results imply that almost half of the foreign-invested companies were classified into the low growth group, and 24.2% of them were involved into the high growth group. However, 26.8 percent of the foreign-invested companies were in the constant group and had not re-invested since their initial investment. The value of the mean was 1.97 and the standard deviation was .716. The skewness statistics for all three groups was .039, and the kurtosis statistics was -1.031, which indicated that the non-violation of the assumption was ensured.

Table 5.5 Frequency of Foreign Investment Growth Rate in Three Groups

	f	**%**
Constant	40	26.8
Low	73	49.0
High	36	24.2
Total	149	100.0
SD (.716), Mean (1.97), Variance (.513), Skewness (.039), Kurtosis (-1.031)		

Source: Field Survey, 2013.

5.2.1.3 Descriptive Analysis of the Policy Factors

The data on the policy factors: clarity of policy objectives and standards, quality of public service, the capacity of the implementing agency, and foreign investors' compliance with implementation regulation were gathered based on CEO or foreign investors' perceptions of foreign-invested companies. All four policy factors were measured with five items. After conducting the factor analysis, these five items in each variable were strongly loaded as one component (see chapter 4).

Table 5.6 shows the descriptive statistics for the policy factors in mean, standard deviation, variance, minimum value, maximum value, skewness, and kurtosis. In terms of the clarity of policy objectives and standards, the minimum score was -2.69, while the maximum score was 2.76. The average of the clarity of policy objectives and standards was -.024. Standard deviation was 1.01, which meant that the scores of the clarity of policy objectives and standards had spread values.

For assessing the normality of the clarity of policy objectives and standards, the scores were bell-shapedin the histogram and distributed on a reasonably straight line at the probability plots (Figures G.3). In addition, the skewness statistics for the clarity of policy objectives and standards was .089, and the kurtosis statistics was .365, which meant that the scores of this variable were normally distributed.

Table 5.6 Descriptive Statistics for Policy Factors

	Min	Max	Mean	Std. Deviation	Variance	Skewness	Kurtosis
Clarity of policy objective and standards	-2.69	2.76	-.024	1.01	1.022	.089	.365
Quality of public service	-2.08	2.16	-.010	.989	.998	.015	-.131
Capacity of implementing agency	-2.22	2.79	.019	1.00	1.018	.407	.344
Investors' compliance with implementation regulations	-2.43	1.72	.061	.997	.995	-.375	-.480

Source: Field Survey, 2013.

With regards to the quality of public service, minimum score was -2.08 and the maximum score was 2.16. The average score for quality of service was -.010 and the standard deviation was .98, which meant that the scores for quality of public service had a similar value. For assessing the normality of the quality of public service, the scores were bell-shapedin the histogram and distributed on a reasonably straight line at the probability plots (Figures G.4). In addition, the skewness statistics of the quality of public service was .015 and for the kurtosis, it was -.131, which meant that the scores of this variable were normally distributed.

For the capacity of the implementing agency, the minimum score was -2.22 and the maximum score was 2.79, while the average score was .019 and the standard deviation was 1.00. The standard deviation for the capacity of the implementing agency was much higher than average, which meant that the scores for the capacity of the implementing agency had spread values. In terms of assessing the normality, the scores of the capacity of the implementing agency were bell-shapedat the histogram and distributed on a reasonably straight line at probability plots and this suggested a normal distribution (Figures G.5). Also, the skewness statistics of the capacity of the implementing agency was .407, and kurtosis statistic was .344, which indicated that non-violation of the assumption was ensured.

In terms of foreign investors' compliance with implementation regulations, the minimum score was -2.63 and the maximum score was 1.69. The average score of this variable was .003, while the standard deviation was 1.01, which meant that the scores were similar. For assessing the normality of the foreign investors' compliance with implementation regulations, the scores were bell-shapedat the histogram and distributed on a reasonably straight line at the probability plots and this suggested a normal distribution (Figures G.6). Moreover, the skewness statistics of the foreign investors' compliance with implementation regulations was -.376, and the kurtosis was -.480, which indicated that the scores for foreign investors' compliance with implementation regulations were normally distributed.

5.2.1.4 Descriptive Analysis of the External Factors

The data on the external factors, including market size, quality of infrastructure, quality of labor market, and political stability were gathered based on the perceptions of the CEOs and foreign investors of foreign-invested companies concerning the external factors. With the exception of political stability, the scores for the other three factors, market size, quality of infrastructure, and quality of labor market, were transformed by combining the item scores in order to reduce the item numbers.

Table 5.7 Descriptive Statistics for the External Factors

Variables	Min	Max	Mean	S.D	Variance	Skewness	Kurtosis
Market size	2.0	10.0	5.70	1.49	2.23	-.115	.097
Quality of infrastructure	1.0	10.0	4.28	1.73	3.01	.705	.547
Quality of labor	2.0	9.0	5.74	1.60	2.58	-.367	-.155
Political stability	1	5	2.24	1.07	1.16	.537	-.395

Source: Field Survey, 2013.

The data presented in Table 5.7 show the descriptive statistics for the external factors. In terms of market size, the data were collected based on foreign investors' perceptions on the market size. The minimum score of market size was 2, while the maximum score was 10. the average for market size was 5.703 and for the standard deviation it was 1.49, which meant that the scores for market size had spread values.

For assessing the normality of market size, the scores were bell-shapedat the histogram and distributed on a reasonably straight line at the probability plots, and this suggested a normal distribution (Figures G.7). Also, the skewness statistics for market size was -.115 and kurtosis statistics was .097, which meant that the scores for market size were normally distributed.

For the quality of infrastructure, the data collected were based on foreign investors' perceptions of the quality of infrastructures, which may have affected their business in Mongolia. The minimum score for the quality of infrastructure was 1 and the maximum score was 10. The average score for the quality of infrastructure was 4.28, which was relatively smaller than other external factors. The standard deviation was 1.73, which indicated that the scores on market size had spread values.

For assessing the normality of the quality of infrastructure, the scores were bell-shapedat the histogram and distributed on a reasonably straight line at probability plots and this suggested a normal distribution (Figures G.8). The skewness statistics for the quality of infrastructure was .705 and kurtosis statistics was .547. However, the score of skewness was close to 1, which meant that the scores of quality of infrastructure were not normally distributed. However, this could be checked using the kurtosis score, and it was close to 0, meaning that the scores for the quality of infrastructure were normally distributed.

With regards to the quality of labor, the data collected were based on foreign investors' perceptions of the quality of labor. The minimum score for this variable was 2, and the maximum score was 9, while the average score was .5.84 and the standard deviation was 1.60. The standard deviation for quality of labor was much lower than the average, which meant that the sores for quality of labor had spread values. For assessing the normality of the quality of labor, the scores were bell-

shapedat the histogram and distributed on a reasonably straight line at the probability plots and this suggested a normal distribution (Figures G.9). In addition, the skewness statistics of the quality of labor was -.367 and kurtosis statistics was -.157, which indicated that the scores for quality of labor were normally distributed.

In the case of political stability, the data were collected based on foreign investors' perceptions of the stability of the policies, rules, and regulations in the investment environment. The minimum score for political stability was 1 and the maximum score was 5. The average score for this variable was 2.24, while the standard deviation was 1.07, which meant that the scores for political stability were of similar value. For assessing the normality of political stability, the scores were bell-shapedat the histogram and distributed on a reasonably straight line at the probability plots and this suggested a normal distribution (Figures G.10). Also, the skewness statistics for political stability was .537 and kurtosis statistics was -.395, which meant that the scores of political stability were normally distributed.

5.2.1.5 Descriptive Analysis of the Socio-demographic Factors

The socio-demographic factors, including investment size, length of experience, firm size, operating sector, and ownership type were analyzed in the descriptive analysis. The socio-demographic factors were presented in two different forms of measurement in the descriptive analysis. First, the numeric data on investment size, length of experience, firm size (number of employee) and ownership type were analyzed by descriptive analysis.

1) Descriptive Analysis of the Socio-demographic Factors

The data presented in Table 5.8 show the descriptive statistics for the socio-demographic factors, including transformed investment size, ownership type, firm size, and length of experience. The socio-demographic factors were transformed by LOG 10 for providing a normal distribution. In terms of the transformed investment size, the minimum score was 4.0 while the maximum score was 8.9. The average of the investment size was 5.943 and the standard deviation was 1.06, which meant that the scores on investment size had spread values. For assessing the normality of investment size, the scores were bell-shapedat the histogram and distributed on a reasonably straight line at probability plots and this suggested a normal distribution (Figures G.11). Also, the skewness statistics was .788 and kurtosis statistics was .261, which indicated that non-violation of the assumption was ensured.

With regards to transformed ownership type, the minimum score was 1.3, while the maximum score was 2.9. The average of ownership type was 1.924 and the standard deviation was .1477, which meant that the scores of ownership type had similar values. For assessing the normality of ownership type, the scores were bell-shapedat the histogram and distributed on a reasonably straight line at the probability plots and this suggested a normal distribution (Figures G.12). Also, the skewness statistics was -1.939 and kurtosis statistics was 3.044. However, both skewness and kurtosis scores were far from zero, which meant that the scores for ownership type were not normally distributed.

Table 5.8 Descriptive Statistics of the Transformed Socio-demographic Factors

Variables	Min	Max	Mean	SD	Variance	Skewness	Kurtosis
Investment size	4.0	8.9	5.943	1.0610	1.126	.788	.261
Ownership type	1.3	2.0	1.924	.1477	.022	-1.939	3.044
Firm size	.0	4.0	1.291	.7348	.540	.709	.431
Length of experience	.0	1.6	.805	.2632	.069	-.253	.126

Source: Field Survey, 2013.

In the case of the transformed firm size, the minimum score was 0, while the maximum score was 4.0. The average investment size was 1.291 and the standard deviation was .7348, which meant that the scores for firm size had similar values. For assessing the normality of firm size, the scores were bell-shapedat the histogram and distributed on a reasonably straight line at the probability plots and this suggested a normal distribution (Figures G.13). Also, the skewness statistics was .709 and the kurtosis was .431, which indicated that non-violation of the assumption was ensured.

For the transformed length of experience, the minimum score was 0, while the maximum score was 1.6. The average of length of experience was .805 and the standard deviation was 26.32, which meant that the scores of investment

size had similar values. For assessing the normality of the length of experience, the scores were bell-shaped at the histogram and distributed on a reasonably straight line at the probability plots and this suggested a normal distribution (Figures G.14). Also, the skewness statistics was -.253 and for the kurtosis it was .126, which meant that the scores for market size were normally distributed.

2) Frequency of the Socio-demographic Factors

The study developed some socio-demographic categorical variables from the continuous variables in order to see them in a general view. Ownership type, firm size, investment size, and operating sectors were analyzed according to frequency.

Table 5.9 presents the frequency of ownership type. Only two types of foreign-invested firms were mentioned in the Foreign Investment Law, wholly foreign-owned and joint venture, based on the percentage of the foreign investors' share in the property. However, in practice those that own more share have more authority in making decisions in the foreign-invested firms. The study classified the percentage of foreign investors' ownership into four types: minority, equal, majority, and wholly-owned foreign investment. In many practical cases, foreign-invested companies with more local investors tend to have better communication with public organizations, access information from public organizations, comply with new policies and regulations, and understand cultural contexts better than wholly foreign-owned firms. The results confirmed that 72.2% of the participants were wholly foreign-owned firm, 14.4% were majority foreign-owned firms, and 9.6% of them were minority foreign-owned firms. Only 3.7% were foreign-invested firms that equally distributed their shares with foreign and local investors.

Table 5.9 Frequency of Ownership Type

Ownership Type	**f**	**%**
Minority foreign-owned firm	18	9.6
Equally foreign-owned firm	7	3.7
Majority foreign-owned firm	27	14.4
Wholly foreign-owned firm	135	72.2
Total	187	100.0
SD (.952), Mean (3.49), Variance (.907), Skewness (-1.807), Kurtosis (1.940)		

Source: Field Survey, 2013.

In the case of firm size, it was measured by the number of employees. The study has classified the number of employees into three types of firms: small, middle, and big. The small firm refers to firms that have employed fewer than 100 employees. Middle firm refers to firms that have employed between 101 and 500 employees. Big firm refers to firms that have employed more than 500 employees. Table 5.10 presents the frequency of firm size. The results indicated that there were fewer big foreign-invested companies than middle and small firms.

Table 5.10 Frequency of Firm Size

Firm Size	**f**	**%**
Small firm	78	43.6
Middle firm	76	42.5
Big firm	26	14.0
Total	180	100.0
SD (.700), Mean (1.70), Variance (.490), Skewness (.483), Kurtosis (-.871)		

Source: Field Survey, 2013.

In the case of the investment size, the Government of Mongolia has implemented different policies for big investors through making stability agreements or investment agreements for stabilizing legal and tax environment. The study classified investment size into three types: small, middle and big.

Table 5.11 Frequency of Investment Size

Investment Size	**f**	**%**
Small	46	25.5
Middle	71	39.6
Big	63	34.9
Total	180	100.0
SD (.774), Mean (2.90), Variance (.599), Skewness (-.164), Kurtosis (-1.308)		

Source: Field Survey, 2013.

The small investor refers to firms that have invested less than $100,000. The middle investor refers to firms that invested between $100,000 and 10,000,000. The big investor refers to firms that have invested more than $10,000,000. Table 5.11 presents the frequency of investment size and the results indicated that most investors tended to invest more than $100,000. Also, around 35% of the respondents were big investors.

Table 5.12 Frequency of Operating Sector

Sector	**f**	**%**
Exploration & exploitation	61	33.8
International trade	21	11.6
Bank & finance	9	5
Light industry	6	3

Table 5.12 (Continued)

Sector	**f**	**%**
Transport	4	2.2
Constriction & engineering	26	14.4
Tourism	4	2.2
Information & communication	8	4.4
Livestock	4	2.2
Education	8	4.4
Catering or food industry	6	3
Manufacturing	8	4.4
Agriculture	5	2.8
Healthcare	3	1.7
Service	7	3.9
Total	180	100.0
SD (4.397), Mean (5.37), Variance (19.330), Skewness (.698), Kurtosis (-.724)		

Source: Field Survey, 2013.

In terms of the operating sector, the majority of investors invested in the mining sector, which accounted for 34%, followed by the construction and engineering sector at 14.4%, and the service and trade sector at 11.5%. Other sectors accounted for very low shares of operating sectors and each of these sectors presented a range between 1.7 – 5% of total foreign investment.

5.2.2 Correlation Analysis of the Data

The correlation analysis in this study involved Pearson's correlation coefficient, which examines the nature of the relationship between two variables. It was used in this study for assessing the relationships between each dependent and independent variable, whereas it was used for examining the relationships between the independent variables.

5.2.2.1 Assumptions of Pearson's Correlation Coefficient

Before analyzing Pearson's correlation coefficient, assumptions of normality and independent errors were checked.

1) Normality: The normality of the data was examined through the histograms with a normal curve and Normal Q-Q with linear distribution and the results indicated that the variables were normally distributed (Figures G.15).

2) Independent Errors: The assumption of independent errors requires that the errors or residuals be assumed to be independent of each other. In the case of the level of foreign investors' satisfaction with foreign investment policy implementation, Durbin-Watson statistics showed that the value was 1.749, which was close to '2,' which meant that the assumption had almost certainly been met. In terms of the foreign investment growth rate, Durbin-Watson statistics showed that the value was 1.655, which was close to '2,' which means that the assumption had almost certainly been met.

5.2.2.2 Pearson's Correlation Coefficient Between Foreign Investment Policy Implementation Effectiveness and Policy Factors

Clarity of policy objectives and standards, capacity of the implementing agency, the quality of public service, and foreign investors' compliance with implementation regulations were analyzed for assessing how each variable correlated with foreign investment policy implementation effectiveness: level of foreign investors' satisfaction with foreign investment policy implementation and foreign investment growth rate. Table 5.13 presents the correlation matrix of foreign investment policy implementation effectiveness and policy factors.

In terms of the dependent variables, the level of foreign investors' satisfaction with foreign investment policy implementation and foreign investment growth rate had no significant correlation.

Table 5.13 Results of the Correlation Analysis between Foreign Investment Policy Implementation Effectiveness and Policy Factors

	1	2	3	4	5	6
1. The level of foreign investors' satisfaction with foreign investment policy implementation	1.0					
2. Foreign investment growth rate	.020	1.0				
3. Clarity of policy objectives and standards	.619**	-.070	1.0			
4. Quality of public service	.529**	.087	.256**	1.0		
5. Capacity of implementing agency	.685**	.121	.456**	.391**	1.0	
6. Foreign investors' compliance with implementation regulations	.467**	.073	.296**	.307**	.284**	1.0
Mean	5.111	1.176	-.024	-.010	.019	.061
Standard deviation	2.0992	.8266	1.005	.982	1.000	.997

Note: **p<.01

Source: Field Survey, 2013.

In terms of the correlation between the level of the foreign investor's satisfaction with foreign investment policy implementation and policy factors, the result showed that all variables were positively associated with each other at a significant level of p<.01. The level of the foreign investor's satisfaction with foreign investment policy implementation had a strong positive association with the capacity of the implementing agency (r=.685, p<.01) and the clarity of policy objectives and standards (r=.619, p<.01), and a moderate positive correlation with the quality of public service (r=.529, p<.01) and foreign investors' compliance with implementation regulations (r=.467, p<.01). Overall, there was no weak relationship between the dependent variable and policy factors. In the case of foreign investment growth rate, it had no significant correlation with any of the policy factors.

Regarding the relationship among the independent variables, clarity of policy objectives and standards had a moderate positive relationship with the capacity of the implementing agency (r=.456, p<.01) and a weak positive correlation with the quality of public service (r=.256, p<.01) and foreign investors' compliance with implementation regulations (r=.296, p<.01). The quality of public service had a weak positive association with the capacity of the implementing agency (r=.391, p<.01) and foreign investors' compliance with implementation regulations (r=.307, p<.01). The capacity of the implementing agency had a positive, weak and significant relationship with foreign investors' compliance with implementation regulations (r=.284, p<.01). No strong correlation was observed among the independent variables.

5.2.2.3 Pearson's Correlation Coefficient Between Foreign Investment Policy Implementation Effectiveness and External Factors

External factors were analyzed for assessing how each variable correlated with foreign investment policy implementation effectiveness. Table 5.14 presents the correlation matrix of foreign investment policy implementation effectiveness, including the level of the foreign investor's satisfaction with policy implementation and foreign investment growth rate, and external factors, including market size, quality of infrastructure, and quality of labor and political stability. In terms of the dependent variables, the level of the foreign investor's satisfaction with foreign investment policy implementation and the foreign investment growth rate had no significant correlation.

Table 5.14 Results of the Correlation Analysis between Foreign Investment Policy Implementation Effectiveness and External Factors

	1	2	3	4	5	6
1. The level of foreign investors' satisfaction with foreign investment policy implementation	1.0					
2. Foreign investment growth rate	.020	1.0				
3. Market size	.288**	.024	1.0			

Table 5.14 (Continued)

	1	2	3	4	5	6
4. Quality of infrastructure	.495**	.115	.392**	1.0		
5. Quality of labor	.279**	.063	.299**	.382**	1.0	
6. Political stability	.543**	.285*	.275**	.515**	.248**	1.0
Mean	5.111	1.176	5.703	4.280	5.736	2.24
Standard deviation	2.0992	.8266	1.4943	1.7348	1.6061	1.075
Note: **p<.01; *p<.05						

Source: Field Survey, 2013.

Concerning the correlation between the level of the foreign investor's satisfaction with foreign investment policy implementation and external factors, the results showed that all of the variables were positively associated with each other. The level of the foreign investor's satisfaction with policy implementation had a moderate positive correlation with political stability (r=.543, p<.01) and quality of infrastructure (r=.495, p<.01), and a weak positive association with market size (r=.288, p<.01) and quality of labor (r=.279, p<.01).

Also, the results showed that the correlations between the foreign investment growth rate and external factors were positively associated with each other. However, only political stability (r=.285, p<.05) had a moderate positive association with foreign investment growth rate.

For the relationship among the independent variables, quality of infrastructure had a moderate positive correlation with political stability (r=.515, p<.01), and a weak positive association with and quality of labor (r=.382, p<.01) and market size (r=.392, p<.01). Also, quality of labor has a weak positive correlation with market size (r=.299, p<.01) and political stability (r=.248, p<.01). Moreover, political stability had a weak, positive relationship with market size (r=.275, p<.01). No strong relationship was observed among the independent variables.

5.2.2.4 Pearson's Correlation Coefficient Between Foreign Investment Policy Implementation Effectiveness and Socio-demographic Factors

The socio-demographic factors were analyzed for assessing how each variable correlated with foreign investment policy implementation effectiveness. Table 5.15 presents the correlation matrix of foreign investment policy implementation effectiveness, including the level of the foreign investor's satisfaction with foreign investment policy implementation and foreign investment growth rate, and the socio-demographic factors, including investment size, firm size, length of experience, and ownership type. In terms of the dependent variables, the level of the foreign investor's satisfaction with foreign investment policy implementation and the foreign investment growth rate had no significant correlation.

Regarding the correlations between the level of the foreign investor's satisfaction with foreign investment policy implementation and socio-demographic factors, the level of the foreign investor's satisfaction with foreign investment policy implementation had no significant correlation with investment size, firm size, length of experience, or ownership type.

Table 5.15 Results of Correlation Analysis between Foreign Investors' Satisfaction with Foreign Investment Policy Implementation and Socio-Demographic Factors

	1	2	3	4	5	6
1. The level of the foreign investor's satisfaction with foreign investment policy implementation	1.0					
2. Foreign investment growth rate	.020	1.0				
3. Investment size	.004	.219*	1.0			
4. Firm size	-.021	-.067	.341**	1.0		

Table 5.15 (Continued)

	1	2	3	4	5	6
5. Length of experience	.062	-.190*	.116	.257**	1.0	
6. Ownership type	.104	.085	.105	.023	.104	1.0
Mean	5.128	1.761	5.943	1.291	.805	1.924
Standard deviation	2.011	.8266	1.061	.7348	.2632	.1477
Note: **p<.01; *p<.1						

Source: Field Survey, 2013.

Regarding the correlation between the foreign investment growth rate and socio-demographic factors, foreign investment growth rate had a weak positive correlation with investment size (r=.219, p<.1) and a weak negative correlation with length of experience (r=.-190, p<.1). However, firm size and ownership type had no significant relation with foreign investment growth rate. For the relationship among the socio-demographic factors, firm size had a moderate positive correlation with investment size (r=.341, p<.01) and a weak positive association with length of experience (r=.257, p<.01). No strong relationship was observed among the independent variables. However, ownership type had no relationship with other socio-demographic factors.

5.2.3 Regression Analysis of the Data

In this study, the regression analysis involved ordinary least squares and hierarchical regression analysis for analyzing the relationship between the independent and dependent variables and testing hypotheses I - VII. Before that the non-violations of the basic assumptions were checked.

5.2.3.1 Assumptions of Multiple Regression Analysis

The assumptions of the multiple regressions such as normality, linearity, multicollinearity, homoscedasticity, and independence of error were ensured before the final analysis of the regression results.

1) Normality: Foreign investment policy implementation effectiveness, including the level of the foreign investor's satisfaction on policy implementation and foreign investment growth rate, was ensured through a histogram and Normal P-P plot of the standardized residuals for checking non-violation of the assumption of the multiple regression analysis. The normality of the level of the foreign investor's satisfaction with policy implementation and the independent variables was presented in a histogram and Normal P-P plot. The figure indicated that the dependent and independent variables were normally distributed (Figures G.16). Also, the normality of foreign investment growth rate and the independent variables were presented in a histogram and Normal P-P plot. The figure indicated that the dependent and independent variables were normally distributed (Figures G.17).

2) Linearity: The assumption of linearity for foreign investment policy implementation effectiveness, including the level of the foreign investor's satisfaction with policy implementation and foreign investment growth rate, was ensured through the scatter plot of the regression-standardized residuals. The linearity of the level of the foreign investor's satisfaction on foreign investment policy implementation presented through Normal P-P plot (Figures G.16) and it ensured that there is no violation of linearity assumption. Also, the linearity of level of the foreign investor's satisfaction with foreign investment policy implementation presented through Normal P-P plot (Figures G.17) and it ensured that there was no violation of the linearity assumption.

3) Homoscedasticity: The equal variance or assumption of homoscedasticity was ensured through the scatter plot of the regression standardized residuals and regression standardized predicted values. Figure 5.1 shows no pattern of increasing or decreasing residuals, which meant that the majority of the residuals were distributed in a rectangular with the pattern of almost equal difference below and above the horizontal straight from zero. This finding indicated homoscedasticity in the set of independent variables.

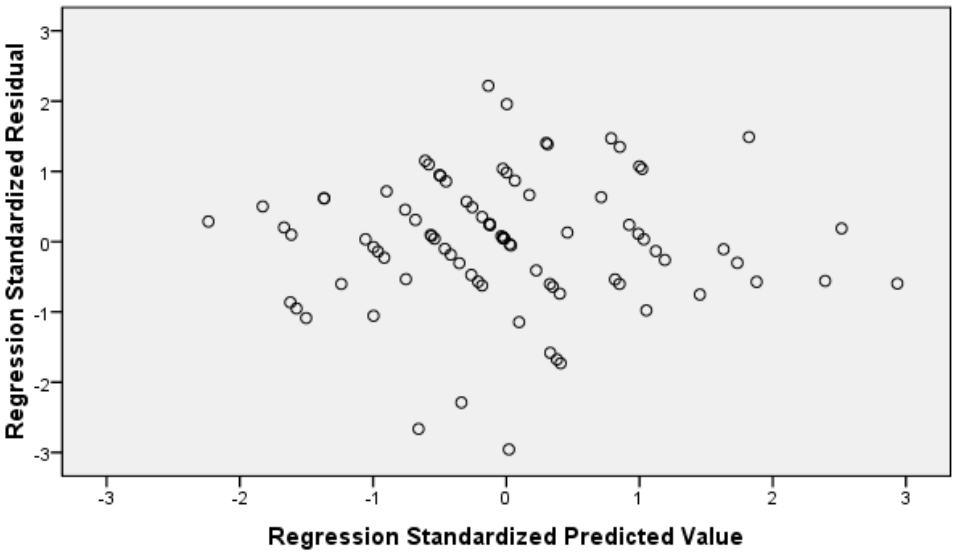

Figure 5.1 Scatter Plot

Source: Field Survey, 2013.

4) Multicollinearity: Over 70 percent of the correlation means that the variables were highly correlated or that the assumption of multicollinearity is violated. Regarding the multicollinearity in this study, all of the variables had correlations below 0.7 and there were significant relationships between and among most of the components of the variables of the study (Table 5.16).

5) Independence error: The Durbin-Watson test used for checking for independent error violation. The value of Durbin-Watson statistics for the level of foreign investors' satisfaction with foreign investment policy implementation showed that the value was 1.757, which was close to 2 and meant that the assumption had almost certainly been met. Also, the Durbin-Watson statistics for foreign investment growth rate showed that the value was 1.826, which was close to 2, thus ensuring the non-violation of the assumption.

Table 5.16 Correlation and Tolerance and VIF for the Independent Variables

	1	2	3	4	5	6	7	8	9	10	11	Tolerance	VIF
1	1											.683	1.46
2	.256**	1										.801	1.25
3	.456**	.391**	1									.407	2.46
4	.296**	.307**	.284**	1								.747	1.34
5	.170*	.072	.214**	.061	1							.748	1.34
6	.179*	.184*	.567**	-.034	.392**	1						.438	2.28
7	.144	.027	.296**	.040	.299**	.382**	1					.746	1.34
8	.332**	.224**	.548**	.221**	.283**	.583**	.283**	1				.415	2.41
9	.027	.004	.039	.012	.027	.106	.113	-.003	1			.840	1.19
10	.047	.035	.035	.216**	.149	-.028	-.042	.049	.097	1		.792	1.26
11	.016	.049	.041	-.050	.074	.116	.094	.077	.409**	.070	1	.812	1.23
12	.020	.061	.004	.039	.011	.137	.153	.226**	.162	-.091	.229**	.792	1.26

Note: *p<.05, **p<.01;

1) clarity of policy objectives and standards, 2) quality of public service, 3) capacity of implementing agency, 4) foreign investors' compliance with implementation regulations, 5) market size, 6) quality of infrastructure, 7) quality of labor, 8) political stability, 9) investment size, 10) ownership type, 11) firm size, and 12) length of experience.

5.2.3.2 Ordinary Least Squares Regression Results for the Policy Factors Determining Foreign Investment Policy Implementation Effectiveness

The literature suggested that policy factors were able to determine foreign investment policy implementation effectiveness. In order to identify the factors determining foreign investment policy implementation effectiveness, a set of policy factors was included in the multiple regression model.

Hypothesis III: The research claims that policy factor—clarity of policy objectives and standards, capacity of implementing agency, quality of public service, and goreign investors' compliance with implementation regulations—are able to predict the foreign investment policy implementation effectiveness in Mongolia: the level of the investor's satisfaction with foreign investment policy implementation and foreign investment growth rate.

Table 5.17 OLS Regression Results for Level of the Foreign Investor's Satisfaction in Relation to Foreign Investment Policy Implementation and Policy Factors

Predicting Variables	**Unstandardized Coefficients**	**Standardized Coefficients**	**t**	**Sig. (p)**
	B	**Beta**		
(Constant)	5.116		47.485	***
Clarity of policy objectives and standards	.674	.339	5.809	***
Quality of public service	.446	.221	3.805	***
Capacity of implementing agency	.798	.391	6.351	***
Foreign investors' compliance with implementation regulations	.375	.173	3.053	***

Note: N=180; $^{***}p<.001$; $R^2 = .820$, Adjusted $R^2 = .662$; $F = 62.622$, $p<.001$; Durbin Watson Statistics = 1.839

With regards to the level of the investor's satisfaction with foreign investment policy implementations, the OLS regression model summary is presented in Table 5.17. It shows the regression result for checking the proximity of the policy factors, including clarity of policy objectives and standards, capacity of the implementing agency, quality of public service, and foreign investors' compliance with implementation regulations, in order to predict the level of foreign investors' satisfaction with foreign investment policy implementation.

The model summary shows that the Adjusted R-square value was .662, which meant that clarity of policy objective and standards, capacity of implementing agency, quality of public service, and foreign investors' compliance with implementation regulations all together accounted for 66.2 percent of the variation in the level of the investor's satisfaction with foreign investment policy implementations. Only 33.8 percent of the variation was accounted for by other predictors, which were not studied in this research. Also, F change value was $F(4, 126) = 62.622$ at significant level of $p<.001$, which meant that there was less than a 0.1 percent chance that an F ratio this large would happen if the null hypothesis were true. All of the policy factors had a positive influence on the level of the investor's satisfaction with foreign investment policy implementation at a significant level of $p<.001$.

Among the several policy factors included in the regression model, the capacity of the implementing agency had the strongest positive influence on the level of foreign investors' satisfaction with foreign investment policy implementation ($\beta = .391$, $t = 6.351$, $p<.001$), followed by clarity of policy objectives and standards ($\beta = .339$, $t = 5.809$, $p<.001$). This implies that if the Foreign Investment Agency has better capacities in implementing foreign investment policy, such as enough financial, human, information, and power resources, good skills of front-line implementers, good communication with foreign investors and other public organizations, foreign investors will tend to have a significantly higher level of satisfaction with foreign investment policy implementation. Similarly, if foreign investment policy objectives and standards are more clearly defined and understandable for foreign investors, consistent with foreign investment issues, foreign investors will tend to have a significantly higher level of satisfaction with foreign investment policy implementation. However, other policy factors, including quality of public service ($\beta = .221$, $t = 3.805$, $p<.001$) and foreign investors' compliance with implementation regulations ($\beta = .173$, $t = 3.053$, $p<.001$), were found to have a weak positive influence on the level of satisfaction with foreign investment policy implementation. This means that if there is a better quality of public service, such as faster and greater variety of service provided, foreign investors will tend to have a slightly higher level of satisfaction with foreign investment policy implementation. In the same way, if foreign investors are more likely to comply with foreign investment implementation

regulations, they will tend to have a slightly higher level of satisfaction with foreign investment policy implementation.

In the case of foreign investment growth rate, the regression model summary is presented in Table 5.18. It shows the regression results for checking the proximity of policy factors, including clarity of policy objective and standards, capacity of implementing agency, quality of public service, and foreign investors' compliance with implementation regulations in order to predict foreign investment growth rate.

Table 5.18 OLS Regression Results for Foreign Investment Growth Rate and Policy Factors

Predicting Variables	**Unstandardized Coefficients**	**Standardized Coefficients**	**t**	**Sig. (p)**
	B	**Beta**		
(Constant)	1.752		20.562	.000
Clarity of policy objectives and standards	-.144	-.176	-1.484	.141
Quality of public service	.040	.048	.416	.679
Capacities of implementing agency	.136	.165	1.339	.184
Foreign investors' compliance with implementation regulation	.053	.064	.568	.572

Note: R=.203, R^2 = .041, Adjusted R^2 = -.002; F = .963; Durbin Watson Statistics = 1.633

The model summary shows that the Adjusted R-square value was -.002, which meant that that clarity of policy objectives and standards, the capacity of the implementing agency, the quality of public service, and foreign investors' compliance with implementation regulation all together accounted for only minus 2 percent of the variation in the foreign investment growth rate (F(4,90)=.963 at not significant level). The remaining 98 percent of the variation was accounted by other predictors not

studied in this research. None of the policy factors had a significant effect on foreign investment growth rate. This implies that none of the changes in clarity of policy objective and standards, quality of public service, capacity of implementing agency, or foreign investors' compliance with implementation regulations had a significant effect on foreign investment growth rate.

5.2.3.3 Ordinary Least Squares Regression Results for the External Factors Determining Foreign Investment Policy Implementation Effectiveness

The literature suggested that external factors determine foreign investment policy implementation effectiveness. Current study developed the following hypothesis:

Hypothesis II: The research claims that external factors—market size, quality of infrastructure, quality of labor, and political stability—are able to predict the foreign investment policy implementation effectiveness in Mongolia: the level of the investor's satisfaction with foreign investment policy implementation and foreign investment growth rate.

Table 5.19 OLS Regression Results for Level of the Foreign Investor's Satisfaction with Foreign Investment Policy Implementation and External Factors

Predicting Variables	**Unstandardized Coefficients**	**Standardized Coefficients**	**t**	**Sig. (p)**
	B	**Beta**		
(Constant)	1.227		2.117	*
Market size	.105	.078	1.136	.258
Quality of infrastructure	.264	.225	2.834	**
Quality of labor	.073	.060	.895	.372
Political stability	.801	.427	5.667	***

Note: N=180; $^{*}p<.05$, $^{**}p<.01$, $^{***}p<.001$; $R^2 = .641$, Adjusted $R^2 = .396$; $F = 27.228$, $p<.001$; Durbin Watson Statistics = 1.923

With regards to the level of the foreign investor's satisfaction with foreign investment policy implementation, the regression model summary is presented in Table 5.19 and shows the regression results for checking the proximity of external factors, including market size, quality of infrastructure, quality of labor, and political stability in order to predict the level of foreign investors' satisfaction with foreign policy implementation.

The model summary shows that the Adjusted R-square value was .396, which meant that market size, quality of infrastructure, quality of labor, and Political stability all together accounted for 39.6 percent of the variation in level of the foreign investor's satisfaction with foreign investment policy implementation with $F (4, 160) = 27.228$ at a significant level of $p<.001$. Among the external factors, only political stability and quality of infrastructure had a significant effect, while market size and quality of labor were not significant. Within the significant factors in the regression model, political stability ($\beta = .427$, $t = 5.667$, $p<.001$) had the strongest positive influence on the level of foreign investors' satisfaction with foreign investment policy implementation, followed by quality of infrastructure ($\beta = .225$, $t = 2.835$, $p<.05$). This implies that if legal or policy environment is more stable, foreign investors will tend to have a significantly higher level of satisfaction with foreign investment policy implementation. Similarly, if there is better quality of infrastructure, such as transportation, communication, electricity, and water supply provided, foreign investors will tend to have a slightly higher level of satisfaction with foreign investment policy implementation.

Table 5.20 OLS Regression Results for Foreign Investment Growth Rate and External Factors

Predicting Variables	**Unstandardized Coefficients**	**Standardized Coefficients**	**t**	**Sig. (p)**
	B	**Beta**		
(Constant)	1.437		3.726	.000
Market size	-.030	-.055	-.499	.619

Table 5.20 (Continued)

Predicting Variables	Unstandardized Coefficients	Standardized Coefficients	t	Sig. (p)
	B	Beta		
Quality of infrastructure	-.014	-.029	-.230	.818
Quality of labor	.007	.013	.120	.905
Political stability	.225	.311	2.687	.009*

Note: *p<.01, R=291, R^2 = .085, Adjusted R^2 = .046; F = 2.176, p<.05; Durbin Watson Statistics = 1.730

In terms of the foreign investment growth rate, the regression model summary is presented in Table 5.20. It shows the regression results for checking the proximity of the external factors, including market size, quality of infrastructure, quality of labor, and political stability in order to predict foreign investment growth rate.

The model summary shows that the Adjusted R-square value was .085, which meant that market size, quality of infrastructure, quality of labor, and political stability together accounted for only 8.5 percent of the variation in foreign investment growth rate. F (4,194)=2.176 was at a significant level of p<.05. Among the external factors, only political stability (β = .311, t = 2.687) had a moderate positive effect on foreign investment growth rate at a significant level: p<.01. This implies that if the legal and policy environment is more stable, foreign-invested companies will tend to have a higher growth rate of investment. However, quality of infrastructure, market size, and quality of labor were not significant. This means that any changes in quality of labor, quality of infrastructure, and market size would not influence the foreign investment growth rate.

5.2.3.4 Ordinary Least Squares Regression Results for the Effect of Socio-demographic Factors on Foreign Investment Policy Implementation Effectiveness

The literature suggested that socio-demographic factors determine foreign investment policy implementation effectiveness. In order to identify the set of

socio-demographic factors which determines foreign investment policy implementation effectiveness, including the level of the investor's satisfaction with foreign investment policy implementation and foreign investment growth rate, the multiple regression method used in this research.

Hypothesis III: The research claims that socio-demographic factors—investment size, ownership type, firm size, and length of experience are able to predict the foreign investment policy implementation effectiveness in Mongolia: the level of the investor's satisfaction with foreign investment policy implementation and foreign investment growth rate.

With regards to the level of the investor's satisfaction with foreign investment policy implementation, the OLS regression model summary is presented in Table 5.21. It shows the regression results for checking for the proximity of socio-demographic factors, including investment size, ownership type, firm size, and length of experience in order to predict the level of foreign investors' satisfaction with foreign policy implementation.

Table 5.21 OLS Regression Results for Level of the Foreign Investor's Satisfaction with Foreign Investment Policy Implementation and Socio-Demographic Factors

Predicting Variables	**Unstandardized Coefficients**	**Standardized Coefficients**	**t**	**Sig.**
	B	**Beta**		
(Constant)	2.073		.858	.392
Investment size	-.003	-.002	-.020	.984
Firm size	-.114	-.042	-.446	.656
Length of experience	.567	.074	.836	.405
Ownership type	1.438	.106	1.225	.223

Note: R=.128, R^2 = .016, Adjusted R^2 = -.013; F = .558; Durbin Watson Statistics = 1.840

The model summary shows that the Adjusted R-square value was -.013, which meant that investment size, ownership type, firm size, and length of experience all accounted for only a minus 1.3 percent of the variation in level of the foreign investor's satisfaction with foreign investment policy implementation with F (4, 134) = .558 not significant. The remaining 98.7% of the variation would be explained by other factors which were not involved in this study. None of the socio-demographic factors was significant.

In terms of foreign investment growth rate, the regression model summary is presented in Table 5.22. It shows the regression results for checking the proximity of socio-demographic factors, including investment size, ownership type, firm size, and length of experience in order to predict foreign investment growth rate.

Table 5.22 OLS Regression Results for Foreign Investment Growth Rate and Socio-Demographic Factors

Predicting Variables	**Unstandardized Coefficients**	**Standardized Coefficients**	**t**	**Sig.**
	B	**Beta**		
(Constant)	.533		.497	.620
Investment size	.213	.274	2.765	.007**
Firm size	-.127	-.113	-1.112	.269
Length of experience	-.603	-.192	-2.005	.048*
Ownership type	.316	.057	.607	.545

Note: $^{**}p<.01$, p*<.05; R = 330, R^2 = .109, Adjusted R^2 = .075; F = 3.178, p<.01, Durbin Watson Statistics = 1.655

The model summary shows that the Adjusted R-square value was .075, which meant that investment size, ownership type, firm size, and length of experience accounted for only 7.5 percent of the variation in foreign investment growth rate with f(4,104) =3.178, p<.01. The remaining 92.5% of the variation would be explained by other factors which were not involved in this study. Among the socio-demographic

factors, investment size (β = .274, t = 2.765, p<.01) had a weak positive relationship and length of experience (β = -.192, t = -2.005, p<.05) had a weak negative relationship with foreign investment growth rate. The other socio-demographic factors however were not significant.

5.2.3.5 Hierarchical Regression for Factors Determining Foreign Investment Policy Implementation Effectiveness

Hierarchical multiple regression was used for assessing the ability of the policy factors, including clarity of policy objectives and standards, the capacity of the implementing agency, quality of public service, and foreign investors' compliance with implementation regulations, to predict foreign investment policy implementation effectiveness after controlling for the socio-demographic factors, including operating sector, investment size, ownership type, firm size, and length of experience, and external factors, including market size, quality of infrastructure, quality of labor, and political stability. According to previous research studies and theoretical arguments, the policy variables were the major factors that influenced policy implementation effectiveness.

Hypothesis IV: Policy factors - clarity of policy objective and standards, the capacity of the implementing agency, the quality of public service, and foreign investors' compliance with implementation regulations positively affected foreign investment policy implementation effectiveness – the level of the foreign investor's satisfaction with foreign investment policy implementation and foreign investment growth rate after controlling for the socio-demographic factors - operating sector, investment size, ownership type, firm size, and length of experience, and external factors - market size, quality of infrastructure, quality of labor, and political stability.

In terms of the level of the foreign investor's satisfaction with foreign investment policy implementation, Table 5.23 is a summary of the hierarchical regression models. The model 1 summary shows that the socio-demographic factors were entered at Step 1 and the adjusted R-square had a value of -.024, which meant that all of the socio-demographic factors explained only -2.4% of the variance of the level of foreign investors' satisfaction with foreign investment policy implementation F (1, 125) = .405.

Table 5.23 Hierarchical Regression Model Summary

Model	R	R-square	Adjusted R-square	R-square Change	F Change	Sig. F Change
1	.129	.017	-.024	.017	.405	.844
2	.622	.387	.340	.371	17.553	.000**
3	.866	.749	.720	.362	40.404	.000**

Note: **p<.001;

The model 2 summary shows that after the entry of the external factors at step 2, the total variance explained by model 2 as a whole was 34%, F (9, 125) = 8.151, p<.001. This means that the socio-demographic factors, including operating sector, investment size, ownership type, firm size, and length of experience, and the external factors, including market size, quality of infrastructure, quality of labor, and political stability, together accounted for 34 percent of the variation in level of the investor's satisfaction with foreign investment policy implementation. The external factors explained an additional 38% of the variance in the level of foreign investors' satisfaction with foreign investment policy implementation after controlling for the socio-demographic factors, where the R-squared change = .371, and the F change (4, 116) = 17.553, p<.001.

The model 3 summary includes all three sets of variables, including the socio-demographic factors, external factors, and policy factors that were entered in all 3 blocks. The total variance explained by model 3 as a whole was 72%, F (13, 125) = 25.742, p<.001. The adjusted R-square value at .72 meant that the socio-demographic factors, including operating sector, investment size, ownership type, firm size, and length of experience, and the external factors, including market size, quality of infrastructure, quality of labor, and political stability, and the policy factors, including clarity of policy objectives and standards, the capacity of the implementing agency, the quality of public service, and foreign investors' compliance with implementation regulations, all together accounted for 72 percent of the variation in level of the

foreign investor's satisfaction with foreign investment policy implementation. The policy factors explained in additional 36.2% of the variance in level of foreign investors' satisfaction with foreign investment policy implementation after controlling for the socio-demographic factors and external factors, where R-squared change = .362, and the F change (4, 112) = 40.404, p<.001.

Table 5.24 Hierarchical Regression Results for the Level of Foreign Investors' Satisfaction with Foreign Investment Policy Implementation

Predicting Variables	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	Beta		
Model I				
(Constant)	1.957		.737	.463
Socio-demographic factors				
Operating sector	.007	.015	.160	.873
Investment size	-.002	.000	-.009	.993
Firm size	-.118	-.043	-.433	.666
Length of experience	.561	.073	.781	.436
Ownership type	1.479	.109	1.168	.245
Note: R=.130, R^2 = .017, Adj R^2 = -.024; F = .415, p<.837				
Model II				
(Constant)	-.762		-.349	.728
Socio-demographic factors				
Operating sector	.008	.017	.222	.825
Investment size	-.148	-.078	-.967	.335
Firm size	-.138	-.050	-.631	.529
Length of experience	.118	.015	.202	.841
Ownership type	1.592	.117	1.528	.129

Table 5.24 (Continued)

Predicting Variables	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	**Beta**		
External factors				
Market size	.043	.032	.381	.704
Quality of infrastructure	.323	.278	2.948	.004
Quality of labor	.107	.086	1.048	.297
Political stability	.657	.374	4.356	.000

Note: $^{+}p<.1$, $^{*}p<.05$, $^{**}p<.01$, $^{***}p<.001$; R=.635, R^2 = .403, Adj R^2 = .357; F = 18.780, p<.001

Model III				
(Constant)	1.977		1.365	.175
Socio-demographic factors				
Operating sector	.021	.045	.914	.363
Investment size	-.106	-.056	-1.065	.289
Firm size	.024	.009	.164	.870
Length of experience	.119	.016	.310	.757
Ownership type	.771	.057	1.116	.267
External factors				
Market size	.034	.025	.459	.647
Quality of infrastructure	.251	.216	3.079	.003
Quality of labor	.059	.047	.868	.387
Political stability	.194	.111	1.827	.070
Policy factors				
Clarity of policy objectives and standards	.622	.311	5.571	.000
Quality of public service	.500	.244	4.584	.000

Table 5.24 (Continued)

Predicting Variables	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	**Beta**		
Capacity of implementing agency	.399	.199	2.764	.007
Foreign investors' compliance with implementation regulation	.423	.210	3.799	.000

Note: $^{+}p<.1$, $^{*}p<.05$, $^{**}p<.01$, $^{***}p<.001$; R=.867, R^2 = .751, Adj R^2 = .722; F = 39.149, p<.001

Table 5.24 contains the hierarchical regression results for the level of foreign investors' satisfaction with foreign investment policy implementation and policy factors, after being controlled by the socio-demographic factors and external factors. In the first regression model, no socio-demographic factors, including operating sector, investment size, firm size, length of experience, or ownership type, were found to have significant effects on the level of foreign investors' satisfaction with foreign investment policy implementation.

In the second regression model, which included the external factors and socio-demographic factors, only two external factors, quality of infrastructure and political stability, were found to have a significant effect on the level of foreign investors' satisfaction with foreign investment policy implementation. Between the two significant variables, political stability (β = .374, p<.001) was the strongest factor influencing the level of foreign investors' satisfaction with foreign investment policy implementation, followed by the quality of infrastructure (β = .278, p<.05). This implies that if policy and the legal environment were more stable and a better quality infrastructure was provided, foreign investors would be more satisfied with policy implementation. However, all of the socio-demographic factors and the remaining external factors, namely, quality of labor and market size, did not appear to have a

significant effect on the level of foreign investors' satisfaction with foreign investment policy implementation.

In the third regression model, among the various socio-demographic, external and policy factors, only quality of infrastructure, political stability, clarity of policy objectives and standards, quality of public service, the capacity of the implementing agency, and foreign investors' compliance with implementation were found to have a significant effect on the level of foreign investors' satisfaction with foreign investment policy implementation. However, all of the socio-demographic factors and some of the external factors, including quality of labor and market size, were found to be non-significant in model 3.

Among the significant external factors, quality of infrastructure ($\beta = .216$, $p<.05$) was the strongest factor influencing the level of foreign investors' satisfaction with foreign investment policy implementation, followed by political infrastructure ($\beta = .111$, $p<.05$). Other external factors, including quality of labor and market size, did not appear to have a significant effect on the evel of foreign investors' satisfaction with foreign investment policy implementation.

Regarding the policy factors, all of the variables were found to have significant effects on the level of foreign investors' satisfaction with foreign investment policy implementation. Among all of the significant policy factors, clarity of policy objectives and standards ($\beta = .311$, $p<.001$) was the strongest factor influencing the level of foreign investors' satisfaction with foreign investment policy implementation, followed by the quality of public service ($\beta = .244$, $p<.001$), foreign investor's compliance with implementation regulations ($\beta = .210$, $p<.001$), and the capacity of the implementing agency ($\beta = .199$, $p<.01$). This means that the clarity of policy objectives and standards had a strong positive influence on the level of foreign investors' satisfaction with foreign investment policy implementation after being controlled by the socio-demographic factors and external factors. Also, the quality of public service, foreign investor's compliance with implementation regulations, and the capacity of the implementing agency had a weak positive relationship with the level of foreign investors' satisfaction with foreign investment policy implementation after being controlled by the socio-demographic factors and external factors.

With regards to the foreign investment growth rate, Table 5.25 shows a summary of the hierarchical regression models. The model 1 summary shows that the socio-demographic factors were entered at Step 1, and the Adjusted R-square had a value of .088, which meant that all of the socio-demographic factors were able to explain only 8.8% of the variance in foreign investment growth rate (F (5, 89)=2.808 with p<.05).

Table 5.25 Hierarchical Regression Model Summary

Model	R	R-square	Adjusted R-square	R-square Change	F Change	Sig. F Change
1	.369	.136	.088	.136	2.808	.021
2	.485	.235	.154	.099	2.740	.034
3	.510	.260	.142	.025	.698	.596

Note: *p<.05

The model 2 summary shows that after the entry of the external factors at step 2, the total variance explained by model 2 as a whole was .154, F (9, 94) = 2.900, p<.01. This meant that the socio-demographic factors, including operating sector, investment size, ownership type, firm size, and length of experience, and the external factors, including market size, quality of infrastructure, quality of labor, and political stability, all together accounted for 15.4 percent of the variation in the foreign investment growth rate. The external factors explained an additional 10% of the variance in the foreign investment growth rate after controlling for the socio-demographic factors, where R-squared change = .099, and the F change (4, 85) = 2.740, p<.05.

The model 3 summary included all of the socio-demographic, external, and policy factors that were entered in all 3 blocks. The adjusted R-square value at .142 meant that all of the socio-demographic, external, and policy factors accounted for only 14.2 percent of the variation in the foreign investment growth rate F (13, 94)

= 2.194, p<.05. All of the policy factors explained an additional 2.5% of the variance in the foreign investment growth rate after controlling for the socio-demographic and external factors, where R-squared change = .025, and the F change (4, 81) = .698 was not significant.

Table 5.26 presents the hierarchical regression results for the foreign investment growth rate and policy factors, including clarity of policy objectives and standards, the capacity of the implementing agency, the quality of public service, and foreign investors' compliance with implementation regulations after controlling for the socio-demographic factors, including operating sector, investment size, ownership type, firm size, and length of experience, and the external factors, including market size, quality of infrastructure, quality of labor and political stability.

Table 5.26 Hierarchical Regression Results for the Foreign Investment Growth Rate

Predicting Variables	**Unstandardized Coefficients**	**Standardized Coefficients**	**t**	**Sig.**
	B	**Beta**		
Model I				
(Constant)	1.081		.910	.365
Socio-demographic factors				
Operating sector	-.032	-.170	-1.678	.097
Investment size	.205	.263	2.487	.015
Firm size	-.111	-.098	-.909	.366
Length of experience	-.575	-.183	-1.791	.077
Ownership type	.125	.022	.221	.826
Note: N=180; $^{+}$p<.1, *p<.05, **p<.01, ***p<.001; R=.228, R^2 = .052, Adj R^2 = .012; F = 1.312				
Model II				
(Constant)	.832		.711	.479

Table 5.26 (Continued)

Predicting Variables	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	**Beta**		
Socio-demographic factors				
Operating sector	-.033	-.175	-1.794	.076
Investment size	.204	.262	2.497	.014
Firm size	-.125	-.111	-1.067	.289
Length of experience	-.672	-.214	-2.144	.035
Ownership type	.130	.023	.232	.817
External factors				
Market size	-.034	-.061	-.560	.577
Quality of infrastructure	-.044	-.091	-.741	.461
Quality of labor	.024	.047	.445	.658
Political stability	.253	.351	3.131	.002

Note: N=180; $^{+}p<.1$, $^{*}p<.05$, $^{**}p<.01$, $^{***}p<.001$; R=.420, R^2 = .176, Adj R^2 = .112; F = 4.374, p<.002

Model III				
(Constant)	.604		.503	.617
Socio-demographic factors				
Operating sector	-.031	-.166	-1.657	.101
Investment size	.197	.252	2.378	.020
Firm size	-.143	-.127	-1.197	.235
Length of experience	-.684	-.218	-2.141	.035
Ownership type	.183	.033	.320	.750
External factors				
Market size	-.030	-.054	-.491	.624
Quality of infrastructure	-.035	-.074	-.520	.605

Table 5.26 (Continued)

Predicting Variables	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	**Beta**		
Quality of labor	.034	.066	.609	.544
Political stability	.288	.398	3.259	.002
Policy factors				
Clarity of policy objectives and standards	-.129	-.157	-1.388	.169
Quality of public service	.048	.057	.531	.597
Capacity of implementing agency	-.045	-.054	-.372	.711
Foreign investors' compliance with implementation regulations	.009	.011	.098	.922

Note: N=180; $^{+}p<.1$, $^{*}p<.05$, $^{**}p<.01$, $^{***}p<.001$; R=.493, R^2 = .243, Adj R^2 = .156; F = 2.493, p<.05

In the first regression model, among all of the socio-demographic factors included in model 1, only investment size (β = .263, p<.01) was found to have a weak positive relationship, and length of experience (β = -.183, p<.1) was found to have a weak negative relationship with foreign investment growth rate. The other socio-demographic factors, however, including operating sector, firm size, and ownership type were found to have no significant effects on the foreign investment growth rate.

In the second regression model, among all of the external and socio-demographic factors, only investment size (β = .262, p<.01), length of experience (β = -.214, p<.05), and political stability (β = .351, p<.005) were found to have a significant effect on the foreign investment growth rate. Political stability had a positive moderate effect, investment size had a weak positive relationship, and length

of experience had a weak negative relationship with foreign investment growth rate. This implies then that if the policy and legal environment are more stable, foreign-invested companies will tend to have a higher investment growth rate. Similarly, the bigger investment foreign companies are likely to have a greater investment growth rate, while new foreign-invested companies tend to have a greater foreign investment growth rate. However, the remaining socio-demographic and external factors, including operating sector, firm size, ownership type, market size, quality of infrastructure, and quality of labor, were not significant.

In the third regression model, among all of the external, socio-demographic, and policy factors, only political stability, operating sector, investment size, and length of experience were found to have a significant effect on foreign investment growth rate. Among the significant positive influencing variables, political stability ($\beta = .398$, $p<.001$) was the strongest factor influencing the foreign investment growth rate, followed by investment size ($\beta = .252$, $p<.05$), length of experience ($\beta = -.218$, $p<.05$), and operating sector ($\beta = -.166$, $p<.1$). This means that the greater the stability of the legal and political environment, the bigger was the size of investment in foreign companies and new investors tended to have a greater investment growth rate. However, the remaining socio-demographic, external, and policy factors were found to have no significant effects on the foreign investment growth rate in model 3.

5.2.3.6 Ordinary Least Squares Regression Results for the Determinant Factors Affecting Foreign Investors' Compliance with Implementation Regulations

It is important to know what factors affected the target groups' attitudes in complying with implementation regulations. The literature suggested that foreign investors tend to comply with implementation regulations if policy objectives and standards are defined more clearly, if the implementing agency provides enough resources, if better-quality public services are provided, if the legal and political environment become more stable, and if local investors hold more shares in ownership. In order to identify the factors determining the foreign investors' compliance with implementation regulation, various factors were included in the regression model (Table 5.27).

Table 5.27 OLS Regression Results for Foreign Investors' Compliance with Implementation Regulations and Determinant Factors

Predicting Variables	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	Beta		
(Constant)	-.690		-1.988	.049
Clarity of policy objectives and standards	.174	.176	2.028	.044
Quality of public service	.221	.218	2.618	.010
Capacities of implementing agency	.076	.076	.748	.456
Political stability	.065	.070	.762	.448
Ownership type	.175	.167	2.187	.030

Note: N=180; $^{***}p<.001$; R = .430, R^2 = .185, Adjusted R^2 = .156; F = 6.365, p<.001; Durbin Watson Statistics = 1.885

Hypothesis V: The clarity of policy objective and standards, the capacity of the implementing agency, the quality of public service, ownership type, and political stability positively affect foreign investors' compliance with implementation regulations.

The OLS regression used for testing Hypothesis V and for checking for the proximity of the five variables, including Clarity of policy objective and standards, the Capacity of the implementing agency, the Quality of public service, Ownership type, and Political stability, in order to predict foreign investors' compliance with implementation regulations (Table 5.30). The model summary shows that the adjusted R-square value was .156, which meant that the clarity of policy objective and standards, the capacity of the implementing agency, the quality of public service, ownership type, and political stability accounted for only 15.6 percent of the variation in foreign investors' compliance with implementation regulations. The remaining 84.4 percent of the variation could be presented by other predictors which were not studied in this research. Also, F (5, 145) = 6.365 was at significant

level p<.001, which meant that there was less than a 0.1 percent chance that an F ratio this large would occur if the null hypothesis were true.

Among the predicting factors included in the regression model, only clarity of policy objectives and standards, quality of public service, and ownership type had significant weak positive relationship with foreign investors' compliance with implementation regulations. Quality of public service ($\beta = .218$, $t = 2.618$, $p<.01$) had the strongest positive influence on foreign investors' compliance with implementation regulations, followed by the clarity of policy objective and standards ($\beta = .176$, $t = 2.028$, $p<.05$) and ownership type ($\beta = .167$, $t = 2.187$, $p<.05$). The results showed that if better-quality public services were provided, and foreign investment policy objectives and standards were more clearly defined, foreign investors tended to comply with implementation regulations to a greater extent This is in contrast with the initial prediction of the study, which expected that if local investors of foreign investment companies hold a greater share, they will tend to comply with implementation regulations more. However, the results imply that if foreign ownership share increases, they will tend to comply with implementation regulations.

However, the capacity of implementing agency and political stability did not significantly affect foreign investors' compliance with implementation regulations. This could be because foreign investors might be more interested in the quality of services provided by the implementing agency rather than the implementing agency's internal resources or implementing capacity. Also, political stability can be more important when foreign investors make initial investment decisions than their compliance with implementation.

5.2.3.7 Ordinary Least Squares Regression Results for the Factors Affecting the Capacity of the Implementing Agency

The capacity of the implementing agency is a very important factor for policy implementation effectiveness. It means that in order to improve the capacity of the implementing agency, it is also crucial to consider the factors that could affect this improvement. If policy objectives and standards are defined very clearly, the implementing agency's capacity can increase. This is because standards and objectives are the main guidelines for implementers. Also, the stability of the legal

and political environment determines the capacity of the implementing agency. This is because the structure of the implementing agency is relative to political environmental changes.

Hypothesis VI: Clarity of policy objective and standards, quality of public service, and political stability positively affect the capacity of the implementing agency.

Table 5.28 OLS Regression Results for the Capacity of the Implementing Agency and Determining Factors

Predicting Variables	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	Beta		
(Constant)	-.826		-5.365	.000
Clarity of policy objectives and standards	.259	.261	3.848	.000
Quality of public service	.236	.232	3.541	.001
Political stability	.381	.410	6.094	.000

Note: N=180; $^{***}p<.001$; R = .659, R^2 = .434, Adjusted R^2 = .423; F = 36.862, p<.001; Durbin Watson Statistics = 1.932

The OLS regression was used for testing Hypothesis VI, which was to check for the proximity of the three variables, including clarity of policy objectives and standards, the quality of public service, and political stability, in order to predict the capacity of the implementing agency. The model summary shows that the adjusted R-square value was .423, which meant that the clarity of policy objectives and standards, the quality of public service, and political stability together accounted for 42.3 percent of the variation in the capacity of the implementing agency. The remaining 57.7 percent of the variation would be accounted for by other predictors which were not studied in this research. Also, F (3,147)=36.862 at a significant level of p<.001. All of the predicting factors had a positive relationship with the capacity of the implementing agency at significant level of p<.001.

Among the predicting factors included in the regression model, political stability (β = .410, t = 6.094, p<.001) had the strongest positive influence on the capacity of the implementing agency, followed by the clarity of policy objectives and standards (β = .261, t = 3.848, p<.001) and quality of public service (β = .232, t = 3.531, p<.001). The results showed that the capacity of the implementing agency strongly depends on political stability. Also, if policy objectives and standards are not clearly defined, it would be difficult to carry out implementation. In addition to this, better-quality public services tend to mean better capacity of the implementing agency.

5.2.3.8 Ordinary Least Squares Regression Results for the Factors Affecting the Quality of Public Service

The literature suggested that the quality of services provided by public organizations can be better if the implementing agency has sufficient capacity to implement policy and if policy objectives and standards are defined clear enough. In order to identify the factors determining the quality of foreign investment related to public service, two factors were included in the multiple regression model.

Hypothesis VII: The clarity of policy objectives and standards and the capacity of the implementing agency positively affect the quality of public service.

Table 5.29 OLS Regression Results for the Quality of Public Service and Determining Factors

Predicting Variables	**Unstandardized Coefficients**	**Standardized Coefficients**	**t**	**Sig.**
	B	Beta		
(Constant)	-.014		-.194	.847
Clarity of policy objectives and standards	.096	.098	1.144	.254
Capacity of implementing agency	.340	.346	4.047	.000

Note: N=180; ***p<.001; R = .400, R^2 = .160, Adjusted R^2 = .149; F = 13.835, p<.001; Durbin Watson Statistics = 2.163

The OLS regression used for testing Hypothesis VII which was to check for the proximity of the two variables—clarity of policy objective and standards and the capacity of the implementing agency—in order to predict the quality of public service. The model summary shows that the Adjusted R-square value was .149, which meant that the clarity of policy objectives and standards and the capacity of the implementing agency all together accounted for only 14.9 percent of the variation in the quality of public service with $F(2,147)=13.835$ at a significant level of $p<.001$. The remaining 85.1 percent of the variation could be accounted for by other predictors which were not studied in this research. Among the predicting factors, only the capacity of the implementing agency had a positive moderate influence on the quality of public service ($\beta = .346$, $t = 4.047$, $p<.001$). This implies that if the implementing agency has sufficient resources and capacity to implement foreign investment policy, better-quality public service will be provided. However, the clarity of policy objective and standards was not significant.

5.2.4 Revised Model of the Factors Affecting Foreign Investment Policy Implementation Effectiveness

Based on the empirical results of the analysis of the independent variables' effect on foreign investment policy implementation effectiveness as a single dependent variable, the following conceptual frameworks (Figure 5.2) have been developed to make this clearer.

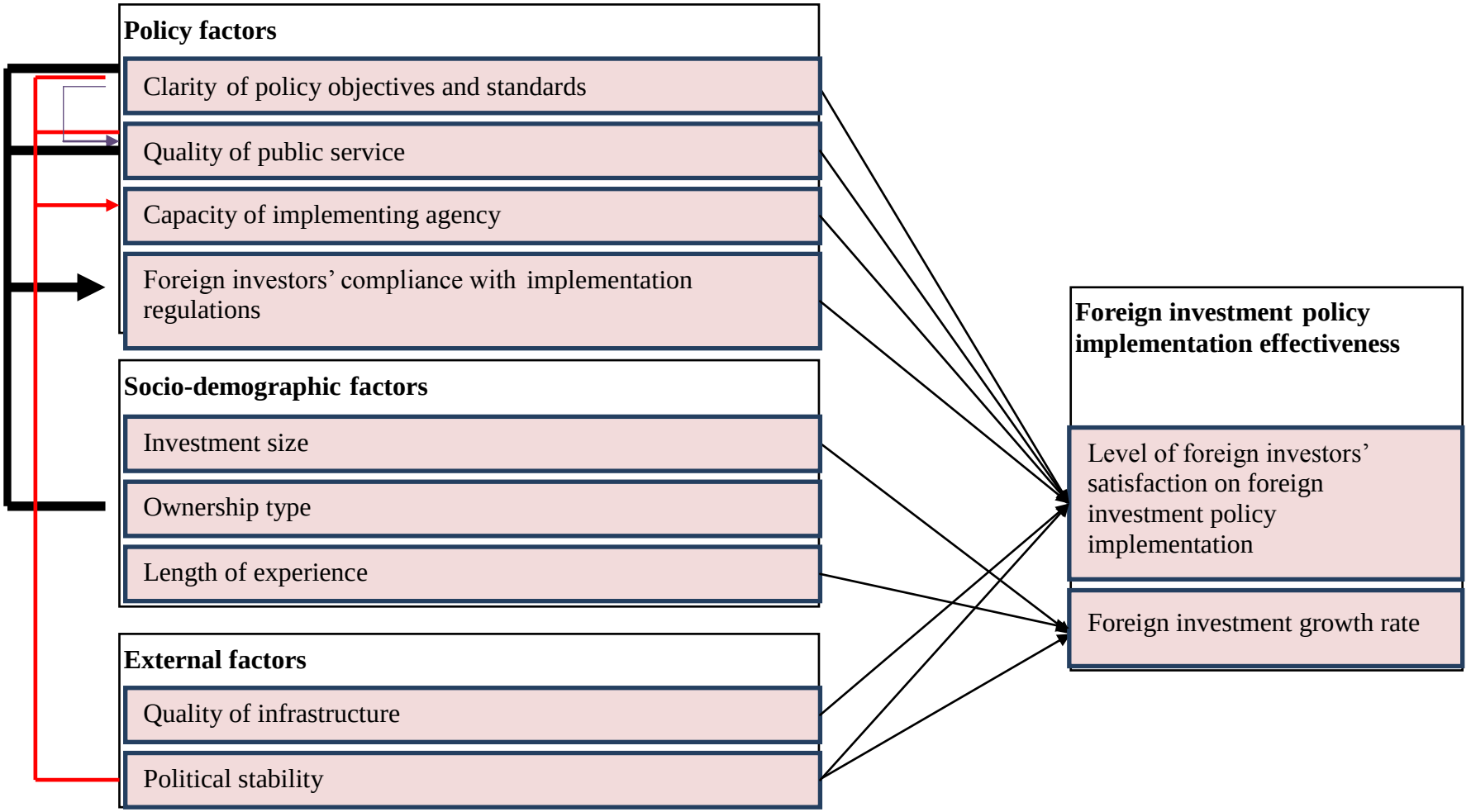

Figure 5.2 Revised Model of Foreign Investment Policy Implementation Effectiveness

5.3 Qualitative Data Analysis and Research Findings

The qualitative data analysis of the present study involved semi-structured face-to-face interviews and documentary review, which were already presented in Chapter 2, and structured telephone interviews, which are discussed in this chapter. The structured telephone interviews were conducted for supporting the quantitative analysis results and explaining the phenomena that could not be measured by the quantitative indicators.

5.3.1 Characteristics of Interviewees

Policy implemented effectively means that the level of the target group's satisfaction should be high. In order to improve implementation effectiveness, it was required to conduct structured telephone interviews with less-satisfied foreign-invested companies in order to find out the reason behind their reported low satisfaction ratings.

In this study, the interviewees for the structured telephone interviews were selected based on their willingness to respond to the mail survey, their satisfaction score regarding foreign investment policy implementation as reported in the survey, the operating sector, and investment size. Interviews were conducted with foreign-invested companies that reported less or a medium level of satisfaction score on their mail survey responses.

A total of 80 participants (CEO or foreign investors) were contacted to take part in a structured telephone interview (a list of interviewees is available in Appendix E.3). Half of the total number of participants (40 interviewees) from the foreign-invested companies had 3 to 8 years of experience in doing business in Mongolia. Twenty participants represented foreign-invested companies with less than 3 years of experience. Among these participants, a few of them were representing foreign-invested companies with 8 to 13 years of experience and very few had more than 13 years of experience.

In terms of the operating sectors, many of the foreign-invested companies that participated in a structured telephone interview were operating their business across at least 2 sectors and up to 8 sectors at the same time. This means that many interviewees

represented foreign-invested companies that had experience in conducting business in different sectors. More specifically, the number of interviewees from foreign-invested companies in the mining sector was 38, for international trade it was 20, construction and engineering 16, for bank and finance it was 8, livestock it was 6, agriculture 5, service 4, manufacturing 3, transportation 3, light industry 3, education 3, information and communication 2, tourism 2, and for health it was 1. This indicated that a structured telephone interviews covered all sectors.

For the ownership type, individuals from two kinds of foreign-invested companies were interviewed, and the majority of them were from wholly foreign-owned companies (55 interviewees) and others were from joint ventures (25 interviewees).

5.3.2 Data Analysis of Structured Telephone Interviews

The structured telephone interview was conducted in order to support the findings of the multiple regression analysis for assessing the factors affecting foreign investment policy implementation effectiveness in Mongolia. The expected sample size was 70, but the study expanded an extra ten interviews in order to cover the variety of sectors and lengths of work experience. Based on the results of these telephone interviews it was revealed that foreign investors' satisfaction with foreign investment policy implementation and the major factors affecting foreign investment policy implementation effectiveness in the Mongolia were as follows.

5.3.2.1 Foreign Investors' Satisfaction with Foreign Investment Policy Implementation

All 80 participants reported that a less and moderate satisfaction level in their email survey responses, which led to contacting them by telephone to elicit the reason behind their unsatisfactory rating of the country's foreign investment policy implementation. The interview responses from the interviewees varied depending on their operating sectors, their experience, and the percentage of share in the foreign-invested company. The common reasons identified through the structured telephone interviews are listed as follows.

1) Difference between legal statements and implementation practices

One of the most common reasons for the dissatisfaction with foreign investment policy implementation was the significant difference between legal statements, implementation standards, and practice. For example, an investor from the UK and a wholly foreign-invested company in the service sector (2011) said the following:

> The reality of policy objectives on the ground seems to be different to what the laws state. It approves that foreign investment policy implementation should be improved and should follow policy objective's directives.

Foreign Investment Law provides protection of foreign investments, similar treatment for both local and foreign investors and regulation issues related with foreign investment. However, the interviewees mentioned that the implementation was not for providing protection of foreign investment or the same treatment for both local and foreign investors. Rather, it was for giving their meaning of the law and changing the actual legal statements. According to the law, there are a few documents required for permitting foreign investment and extending foreign investment certificates. However, implementing agencies create and add their document requirements.

The reason behind the huge gap between the legal statements and implementation practices could be that the implementation standards were not developed by the policy-makers themselves and the implementing agency is allowed to make its own implementation standards, which are more in line with organizational goals than policy goals.

2) Lack of a systematic policy for supporting foreign investment

The second common reason for the participants' dissatisfaction with foreign investment policy implementation was the lack of promotion policy for foreign investment. The majority of the interviewees claimed that there was no clear or systematic policy for promoting foreign investment for certain types of investment,

investors, and sectors. Many of them underlined the need for tax incentive policy for reducing their investment risks and costs. At the same time, several of them were not satisfied with current promotion policy which is stability agreement. Stability agreements and investment agreements are designed for only big foreign investors because foreign investors are required to the investment a minimum amount in order to sign these agreements. With these agreements, foreign investors are provided a tax-stable environment, and tax deductions and exemptions. Some interviewees mentioned that the tax incentives should not be only for big investors. For instance, a CEO of a 45% joint venture (1998) in the light industry sector mentioned the following:

> Some big investment agreements provided tax incentives for contractors. However, some foreign-invested companies tried to count both tangible and intangible investment in their total property in order to get tax incentives or compensation of some cases. But right now, Mongolia does not have a good system for assessing intangible foreign investment or know-how, management skills, benchmark and so on.

Moreover, many interviewees stated that some sectors needed to attract foreign investment and that tax incentive policy could be implemented with those sectors. For example, a general manager of a wholly-owned, foreign-invested company in the manufacturing sector (2005) stated the following:

> There is no tax incentive policy for foreign investment in some sectors that required lots of expenses such as health, construction, education, manufacturing, and infrastructure. Government should support foreign investors in these sectors using promotion policies. For example, foreign investment for mining exploration should be supported by government. Because Mongolia doesn't have sufficient technology and professions in this kind of field. So Mongolia should attract leading foreign companies in this kind of investment. After exploration, the exploitation can be done by local companies. If our company receives tax incentives, it will increase our future investment a lot.

The tax incentive policy was suitable for only some sectors. However, some other interviewees expressed the notion that tax incentives should be provided based on foreign-invested companies' performance. An investor from the USA that was from a wholly-owned foreign-invested company (2001) operating in various sectors (i.e. Mining, Bank and finance, construction and engineering, and tourism sector) reported the following:

> I think tax incentives are not suitable approach for attracting foreign investment in Mongolia. Based on foreign-invested companies' performance, some tax deductions or exemption can be applied, but it must not be recommended in foreign investor's first arrival.

Based on the above-mentioned evidence, tax incentive policies should be applied in some specific sectors for promoting foreign investment and reducing foreign investors' costs. For other sectors, tax incentive policies or other types of investment promotion policies must be applied based on their performance but should not be based on the size of the investment.

3) Unstable legal and political environment

The third biggest reason for interviewees' dissatisfaction was the instability of the legal and political environment. Many of the interviewees stated that the stability of laws and policies for the foreign investment environment are very important. They argued that politics causes instability in the foreign investment legal environment, and it always negatively influences the investment climate. The foreign investment legal environment changes with every new government and this always makes foreign investment policy unpredictable.

The level of political stability was very different in various sectors. It strongly influenced foreign-invested companies in the mining sector for example. In order to solve the problem of the unstable political and legal environment, a CEO from the Canadian and Australian jointly and wholly foreign-owned company (2010) in the mining sector suggested solutions for reducing political intervention in the foreign investment environment in the mining sector. He stated that:

> Without politicians changing their attitude and understanding that foreign investors are not Aid Organizations it is going to be difficult to have the necessary changes introduced into the legislation. So, politicians should accept that foreign investors require concise legislation, long-term stability of the legislation, efficient administration of the legislation and a fair return on their investment, competitive with that available in other locations.

Because of political intervention, the foreign investment legal environment always changes and this makes foreign investors confused and the foreign investment climate unpredictable, which leads foreign investors to be unsatisfied.

4) Discrimination between foreign and local investors

Several interviewees said that public organizations discriminate against foreign investors in many cases, including issuing permissions, applying for government projects, extending certificates, and so on. Some public organizations see foreign investors as harmful business individuals in Mongolia. For example, an investor from the USA who represents a wholly-owned foreign-invested company (2001) operating in various sectors (i.e. Mining, bank and finance, construction and engineering, and tourism sector) stated the following:

> Discrimination is a big issue in Mongolian foreign investment environment. Selecting executive companies for public projects and programs should not be discriminated based on either foreign or local invested company. Only local investors tend to select for performing public projects. It must be selected based on competing company's ability to implement the project or not. In the case of our company, we would like to help or participate in any public or private investment projects than ask tax incentives from the government.

Similarly, the CEO of the Canadian wholly-owned trade company (2005) specified the following:

> Fair and equitable treatment should be accordance with international law. Any difference in treatment should be due to company's size, legal form, or commercial activity, not the nationality of its shareholders.

The interviewees' response indicated that foreign investors are not happy when they are discriminated against by public organizations.

5) Corruption and red tape at all levels of public organizations

The next common reason for dissatisfaction was related to the civil servants' red tape and corruption. Interviewees from most sectors, especially the sectors that require licenses for operating a business in Mongolia, specified corruption in the public sector. For example, the CEO of a 65% joint venture (2008) in the construction sector mentioned the following: I would say that corruption appears at all level of every public organization. Especially, it occurs when investors want licenses.

On the other hand, the interviewees stated that all public organizations tend to have bureaucracy in their work. A CEO and an investor from Germany of a 43% joint venture in the manufacturing and agriculture sector offered the following opinion:

> Many civil servants in various public organizations have a lack of communication skill and huge red tape, also tend to be corrupted. Civil servant tends to implement public policy based on their attitudes rather than what law states. Every public organization issue several permissions and require many documents.

Problems of red tape were usually discussed based on the many steps in communicating with public organizations. The CEO of the Canadian wholly foreign-invested company (2007) in the education and mining sector specified the following:

> Multiple permissions must be decreased. It delays our work and reduces profits. It can be due to, public organizations changes meaning of the law by own version and implement it which is not same what law intended to say.

Based on these interviews, it can be seen that foreign investors were not satisfied with foreign investment policy implementation due to corruption and red tape being a common issue in public organizations. Several steps in public organizations make them bureaucratic, and this leads to corruption.

6) Negative information about foreign investors in the media

Several interviewees mentioned that the social media try to specify only the bad experiences of foreign-invested companies and provide negative information about foreign investors to the public. Many other foreign-invested companies can be good examples for the host country. However, those companies are rarely admired or appreciated by the social media. For example, the same CEO of the Canadian company mentioned above stated the following:

> Positive information about foreign investors should be in the media. Rather than showing good performances of foreign-invested companies, media companies tend to publish bad news.

Due to the negative information about foreign investors, many of them faced several problems, especially in the mining sector. For instance, the CEO of the Canadian and Australian wholly foreign-owned mining company (2010) offered the following opinion:

> Because of bad news about foreign investors in media, we faced many problems. Not only media, but also NGOs announced negative information too. Various environmentally focused NGOs are a constant problem for us. They frequently attempt to stir up opposition among local residents and the local administration often by disseminating inaccurate information.

In order to solve this issue, some of the interviewees said that the implementing agency should be concerned about it. For example, a CEO and an investor from Germany of a 43% joint venture in the manufacturing and agriculture sector said the following:

> The main implementing agency should provide positive information about foreign investors to the public, also not only work with big investors, they should support small and middle investors too.

Based on the interviews, the reason why the social media distributes negative information about foreign investors is that the majority of foreign investors are in the mining sector and they are always associated with bad experiences of environmental damage and remediation. Because of the wide reach of social media in the country, this creates a stereotype across investors even from other sectors. Henceforth, social media companies in Mongolia should not only focus on the negative information emerging from the mining companies but should also provide information about other sectors' positive achievements and good performances.

5.3.2.2 Policy Factors

The policy factors in the present study were the clarity of policy objectives and standards, the quality of public service, the capacity of the implementing agency, and foreign investors' compliance with implementation regulations.

1) Clarity of policy objectives

The interviewees were asked for their opinions regarding the clarity of foreign investment policy objectives and standards in different ways. In terms of the clarity of policy, the interviewees were asked about following aspects: clarity of policy objectives, clarity of standards, and consistency of policy objectives and standards. First of all, most of the interviewees agreed that if policy objectives and standards were very clear, they would be satisfied more with foreign investment policy and have a greater possibility of reinvesting.

The first question asked of the interviewees was how they would define Foreign Investment Law in Mongolia. In terms of the purpose of the

policy, three different ideas were mentioned. The majority of the interviewees defined it as a law for regulating foreign investment in Mongolia. Some of them defined it as a law for protecting foreign investment, whereas very few interviewees perceived this law as a promotion policy for foreign investment in Mongolia. However, none of them defined Foreign Investment Law as having all 3 features (i.e. regulating, protecting, and promoting foreign investment). Therefore, this shows that from the foreign investors' perspective, policy objectives are not clearly defined as regulating, protecting, or promoting foreign investments in Mongolia. The general manager of a 70% foreign-owned company (2003) in the education sector said the following:

> Foreign investment policy should mention about control and monitoring mechanism of foreign-invested companies and projects if this law is regulating foreign investment in Mongolia. If this law is promoting foreign investment, it must be linked with tax policy. But these characteristics do not appear in Foreign Investment Law. So, I could not define what the purpose of this law is.

Regarding the clarity or understanding of the law, the majority of interviewees perceived foreign investment policy as not clearly defined, ambiguous, and too broad. The CEO of the Canadian and Australian wholly-owned foreign investment company (2010) in the mining sector mentioned the following: Law is very ambiguous. It must be unambiguous. Regulations also need to be clearly defined and properly administered.

Also, due to the ambiguous policy objectives, the legal objectives and standards were different. The CEO of a wholly foreign-owned mining company which was established in 2006 stated the following: Law definitions are usually explained differently and documentation are required differently by governmental agencies and staffs.

Various examples were discussed the investors' problems they faced due to the ambiguity of the objectives and standards. In terms of standards, the documents required were seen to be not clear. For example, a CEO of a 99% foreign-owned mining company (2003) said the following:

> It is very ambiguous – the conditions for rejecting foreign investment or extend foreign investment certificate or cancel their re-investment during registration. These things must be clearly defined in Foreign Investment Law.

Therefore, based on these answers, it can be seen that most of the foreign investors defined Mongolian Foreign Investment Law as more ambiguous than clear and as more regulating foreign investment than promoting it. However, these answers appeared differently in various sectors. For example, the mining, banking, foreign trade, and construction sectors tended to define foreign investment as regulating and not clear, while the light industry sector defined it as protecting foreign investor's interests and as clear. Also, the agriculture sector defined it as promoting foreign investment in Mongolia.

In the case of the relevance to the investors' interests, many of the interviewees defined it as a protection policy for foreign investors' interests, whereas some of them perceived it in the opposite way—that it is an adverting policy for foreign investors' interests However, several interviewees ignored this question, and several interviewees said that foreign investment policy did not match with investors' demands. For example, a general manager of a 50% foreign-owned transportation company (2008) stated the following:

> The most important is that Foreign Investment Law does not clearly define foreign investor's legal status, rights and duties. For example, foreign investor's rights are not well issued in Foreign Investment Law. Investors need clearly defined rights for extending their investment and receiving condition of legal stability. Also, foreign investors should have duties that must be stated in this law for protecting the environment, supporting local development, and creating new jobs for local employees.

The investors mentioned that many of the foreign investors of other countries take responsibility for transferring advanced and high technology,

train local employees, remediate environmental damage, fulfill initial foreign investment projects and so on. Also, foreign investors have the right to provide a stable investment climate, to increase investment, receive information about legal changes related to their business, request compensation from the government if they lose their property due to legal changes and so on. But rights and responsibilities are not well covered in Foreign Investment Law in Mongolia. For example, the CEO of the Canadian and Australian wholly foreign-owned mining company (2010) stated the following:

> In my view Foreign Investment Law should states following rights such as right to freely remit invested capital and profits; right to freely choose which consultants and contractors will carry out work based on their technical competence and price without having to consider the local ownership content; and right to dispose of an asset to the highest offer with compensation if a transfer is blocked.

Moreover, according to the respondents' opinions, the government intervention in foreign investment is too extensive. For instance, it was felt that foreign investment certificates should be extended yearly, and they require several documents and involve a long time for the process.

The investors mentioned that foreign investment policy did not have enough statements to match the solution to problems. For example, one of the objectives of foreign investment policy is to promote foreign investment inflow. However, Foreign Investment Law is not linked with taxation law, which could be a good way to promote foreign investment inflow. Also, the government encourages the investment in some sectors, but investment policy does not promote investment in those sectors. Moreover, the threshold of the initial investment amount for the foreign-invested company is too low since the Mongolian government wants to attract qualified foreign investment.

Some of the interviewees mentioned that the main reason for the inconsistency of foreign investment policy was a lack of transparency at the policy formulation stage. For instance, a South Korean investor of an 80% foreign-invested mining company (2006) mentioned the following:

> Foreign investment policy seems to be not consisted with problems, for example, it must be formulated based on first, to define important sectors which need foreign investment, then develop investment promotion policy for those sectors. This policy too general and nothing specified at the implementation level.

Although some of the interviewees said that the current Foreign Investment Law was fine, engagement with all stakeholders during the policy development phase to promote the clarity and understanding of any issues was highly recommended.

2) Capacity of implementing agency

Investors were asked about the capacity of the implementing agency, especially regarding sufficient resources, communication with investors, front-line implementers' ethics and capability, and the capacity to communicate with other public organizations. First, the interviewees were asked about how they would define the implementing agency and how the capacity of the implementing agency could affect the foreign-invested company's business. The interviewees gave various explanations and verifications. For example, an American investor of a wholly foreign-owned company (2001) which operates in the mining, banking, construction and tourism sectors mentioned the following:

> Implementing agencies create several barriers to our business such as time planning in public organizations is very weak which always create uncertainty to our business. For example, duration for receiving documents and replying and duration for decision making in implementing agency is not clear, which badly affects foreign-invested companies business. Civil servants are weak in helping foreign investors and providing information. In terms of the information, implementing agency not well in exchange information among public organizations and provide information to foreign investors. Lack of capacity for exchanging information between public organizations, it always creates decision delay among them.

> Several laws are so broad, and implementing agencies develop standards, rules and regulations by themselves for implementing these broad laws and at the same time, they never inform us about these new laws, rules and regulations. Also, they require different and additional documents than what the law required. Website works not sufficient enough.

There was a broad idea expressed about how some of the interviewees perceived the implementing agency. With regards to sufficient resources, the interviewees specified the notion that the implementing agency did not have sufficient financial and power resources to make decisions. The agency could organize several meetings and activities for foreign investors, but they always lack the necessary budget. Moreover, the agency holds no authority for making decisions that cause a longer process for providing public services. Also, because of a lack of authority for issuing permission for investment, extending investment certificates and investors' cards, and registering changes in foreign investors' ownership and foreign-invested-companies' business activities, foreign investors have to send required documents not only to the Foreign Investment Agency, but also to the Ministry of Economic Development. The CEO of a construction company which was 65% owned by Germany (2008) said the following:

> Implementing agency seems to lack of authority in making decision, providing permission and controlling foreign investment companies' activities. More authorities should be given to them.

In terms of human resources, the interviewees also felt that the implementing agency needed a larger staff. For instance, the general manager of a 70% foreign-owned education sector company (2004) specified the following:

> Implementing agency of foreign investment policy should have enough number of staffs who can audit foreign-invested companies' performance.

In the case of information resources, many of them received information about foreign investment from multimedia channels. A few investors obtained information at a one-stop center at the agency. Several interviewees said that the main purpose of the implementing agency should be providing sufficient and quality information for foreign investors. The companies' representatives specified the importance of information. According to them, the agency's website was an important tool for distributing information about new laws and amendments, events and announcements, and so on. A CEO of a 45% foreign-owned manufacturing company (2010) offered the following opinion:

> Information is most important for foreign investors. They must provide sufficient and quality of information about new laws and standards, changes in a legal environment. This information can be distributed via online, but they should improve their website because it doesn't work well.

Many of the interviewees claimed that the agency's website worked inefficiently as well. Hence, it was felt that the agency should improve its online communication with all foreign investors, especially the investors that received information through email or websites.

About the front-line officers' capability and ethics, some of the interviewees had a bad experience in communication. They argued that the officers were bureaucratic, corrupt, and did not know about all of the laws and standards relating to foreign investment. The general manager of the Canadian wholly foreign-owned company (2006) in the foreign trade and mining sector stated the following:

> Civil servants at implementing agency should follow or abide the laws and regulations for documents. Either they intentionally change the meaning of the law or don't know what the law says.

Also, the CEO of the Canadian company quoted above offered the following opinion:

> The staffs at the implementing agency tend to corrupt. So, international consultant should involve in the review, supervise and watch dog for corrupted behavior.

In the case of communication with foreign investors, most of them wanted the agency to be more open, transparent, and responsible. The foreign investment agency, according to them, should have closer cooperation with foreign investors. For instance, a CEO of wholly foreign-owned mining company (2007) said the following in this connection:

> The implementing agency must be serving and monitoring organization for foreign-invested companies. They should have very good communication and cooperation with foreign investors and provide new information on time.

It shows that the foreign investment agency should closely work with foreign investors. Regarding the implementing agency's cooperation with other public agencies, it was felt that the agency does not have sufficient communication and cooperation with other public organizations. For instance, sharing information among them was considered to be very low and sometimes decisions conflicted with each other. Some of the interviewees mentioned that the public organization must improve its cooperation. For example, an investor from the USA that represented a wholly-owned foreign-invested company (2001) operating in various sectors (i.e. mining, bank and finance, construction and engineering, and tourism sector) reported the following:

> If Mongolia wants to attract good foreign investors, governmental organizations not only have good cooperation and communication with foreign investors, but also they must cooperate and coordinate between themselves well.

Others argue that implementing agencies should have united laws and regulations. The CEO of a wholly foreign-owned mining company (2010) urged the following:

> Implementing agency and other departments should have unified regulations and improve consistency between government departments. When the government changes after the election, there is no consistency between government departments and it's always like a surprise for us.

Finally, the interviewees were asked for suggestions on how to improve the agency. All of their responses implied that the information should be distributed faster and more correctly, agency's communication with investors should be improved regarding Internet methods and control implementation of investment projects and officers should improve their communication skills. Also, the interviewees suggested that standards should be more clear and detailed, the agency should promote investments through advertising opportunities, more meetings and conferences should be organized, authority for faster decision making should be increased, more research about the investment climate in Mongolia should be conducted, and so on.

3) Quality of public service

Overall, the interviewees agreed that more qualified public services increase the satisfaction level of foreign investors. However, this was not considered a factor that affects investors' reinvestment. Most of the interviewees were dissatisfied with the services provided by the foreign investment agency, especially concerning the timing and diversity of the service. It was felt that the range of services provided by the implementing agency should be more diversified. In the context of timing, its biggest problem lies in providing quality services. Because of the bureaucracy and ambiguous standards, investors need to visit the implementing agency many times in order to avail themselves of the service and to complete the process. The accountability of officers was also discussed by some of the interviewees. For example, the officers make mistakes in the documents and certificates.

In terms of the quality of each service, there was an equal number of interviewees were satisfied and dissatisfied with the registration of foreign investment. However, most of them particularly mentioned that registration takes a very long time. Also, other services such as providing consultations and references, organizing meetings and conferences, advertising the legal environment and investment opportunities, and other possible services were not seen to match the investors' expectations. Each of these services is discussed more specifically below.

The first question asked about the interviewees' satisfaction with the services for advertising the foreign investment environment and opportunities. The majority of the interviewees were dissatisfied with these services. They said that in order to advertise foreign investment environment and opportunities, the government should formulate or implement certain policies, and that there are many foreign investors waiting to make decisions on where to invest because they do have not enough information about Mongolia; on the other hand, few interviewees perceived the advertisement of the foreign investment environment and opportunities as a service that was good enough.

The second question elicited information on the interviewees' satisfaction with the service of providing information related to foreign investment, law and the legal environment, and other important information for foreign investors. The majority or almost half of the interviewees were dissatisfied with the public services, especially the consultation services and those that provide information. For example, a Turkish investor of a wholly foreign-owned company (2009) in the energy sector stated the following:

> Foreign investors must be able to access the Canadian that the government and state organizations provided, but our company tries to find information from social media or friends. If the government provides information faster, it will be more accurate and qualified. Also, advisory and consulting services must be provided especially for a beginner. This service can be chargeable in showing them how to start, where to go, to whom they meet, etc. with regards of starting a company.

The next question was about the quality of registering foreign investment services. Many of the interviewees were dissatisfied, while also many of them were satisfied. However, the interviewees mentioned that the registration process took a long time and involved several steps. For example, a CEO of wholly foreign-owned company (2006) in the service sector mentioned the following:

> In a registration process, there are lots of steps, many kinds of permissions that are complicated. It's not the same with what the law states, but also it depends on the front-line implementers' attitudes.

In terms of providing after-care public service or services after foreign investment was made, the interviewees were asked about how the public services were distributed for the investors. More than half of the interviewees were dissatisfied with the after-care services. For instance, a general manager of Chinese wholly foreign-owned company (2006) in the mining and construction sector said the following:

> Should not only focus on pre-investment period, also should have after investment services. Once they allowed the issuing of foreign investment certificate, they should also provide a favorable environment to do business.

The last question concerned the promotional activities for foreign investment. More than half of the interviewees were dissatisfied with the public services, especially organizing meetings, seminars, and conferences for foreign investors.

Based on the interview, it was revealed that public services such as after-care service, organizing meetings and conferences, etc. should be provided in less duration of time and a more diversified manner.

4) Investors' compliance with implementation regulation

The majority of investors stated that if the government regulated foreign investment too much, they would feel uncomfortable, and this could

affect their reinvestment negatively. However, they mentioned that a certain level of regulation was acceptable. For example, most of the interviewees agreed that they were willing to register their new investment and reinvestment at the foreign investment agency. However, the interviewees also mentioned that enforcement of the regulations must be applied to registering reinvestment because, in practice, some investors have no intention to register their reinvestment.

It was also mentioned that investment approval should not only be based on the investment threshold but also on the number of new work places, new technology transfers, and exports and the number of shareholders. Furthermore, the investors agreed to report the implementation of investment project performance yearly as this could improve not only the implementing agency's control over investors and investment performance, but also create a closer relation between investors and public officers. Finally, the investors stated that standards for violation of the Foreign Investment Law were not issued; the officers made decision based on their view when the investors received a penalty. For example, the CEO of wholly foreign-owned mining company (2006) said the following:

> We would like to comply with investment policy implementation regulations, but cooperation between public organizations is so weak and we had several experiences difficulties due to inconsistencies in approach and application of regulations with several departments which have made it difficult from time to time.

5.3.2.3 External Factors

The interviewees strongly agreed that external factors not only affected their business and investment decisions, but also their satisfaction with foreign investment policy. The first question was about the factors that could attract foreign investors in making decisions to invest in Mongolia. The interviewees expressed several factors based on their experience, and their most common answer was political stability, followed by natural resources and the tax environment. Also, many of the interviewees mentioned the labor force, infrastructure, the capability of the market, and cheap property. The interviewees defined different factors that could attract foreign investment in Mongolia based on their operating sector.

Political stability was the most important factor in attracting foreign investment in every sector. Natural resources were as an important factor in the mining sector, but the interviewees from that sector specified that without political stability, natural resources could not attract foreign investment well. They explained that foreign investors never make decisions based only on the availability of natural resources, because even with a huge amount of natural resources, without political stability, a safe investment climate, and a favorable tax environment, foreign investors would consider it as a very risky move.

The second question concerned the factors that could affect business operations in Mongolia. The investors specified political instability, the tax environment, the quality of labor and the infrastructure as the main factors for this question. However, these factors were different in diverse sectors. For example, the importance of political instability was more crucial than natural resources for investors in the mining sector. This is because the laws on the mining sector changed with every new government. Several interviewees mentioned that the quality of the infrastructure negatively affected their business in Mongolia. Also, most of the investors agreed that labor costs in Mongolia were cheap, and laborers were easily trainable.

The study selected four factors that could affect every sector in Mongolia. In terms of the market size or capability of customers in Mongolia, half of the interviewees evaluated the market as belonging to a moderate level. Many of the interviewees said that accessing neighboring countries' big market by exporting their product was easy, and several mentioned that although there was only a small market size in Mongolia, foreign investors still have a chance to export their products into the markets of neighboring countries because the cost of export taxes is low in Mongolia.

Many of the interviewees ensured that it might be difficult to find qualified labor, but overall the labor force is trainable. Consequently, they tended to organize training for their employees, especially in sectors that require high technology. For example, an American investor of a wholly foreign-owned company, which was established in 2001 and was operating in the mining, banking, construction and tourism sectors said the following:

> The mining and manufacturing sectors use high technology but the quality of the labor force in Mongolia is not good enough to work in these sectors. So we need to train them, and it takes a long time. But not all professions can be learned at workplace training, they need to study at university that is always expensive and programs are not available in Mongolia. Because of these reasons, we have to hire foreign labor in some workplaces but department of immigration and ministry of labor created lots of problem to us.

With regards to the labor cost, almost half of the interviewees agreed that the labor force in Mongolia was cheap. However, the interviewees from sectors that require highly-skilled labor tended to see labor as costly. This is because they spend lots of money on training employees. Also, several interviewees from the construction sector mentioned the ethical problems of local employees because usually less-educated people work in this sector. For instance, a general manager of a Chinese wholly foreign-owned company (2006) offered the following opinion:

> It's difficult to work with local employees at lower level. This is because they are less educated and tend to consume alcohols a lot. It's very common that they do not show up to work for up to two days after they receive their salary. Also, they steal construction materials and equipment very often. It's difficult to find a worker who doesn't consume alcohol. Our company spends lots of money to bring Chinese labors because they are more responsible and faster.

In terms of infrastructure, the majority of interviewees were dissatisfied with it: transportation, energy and water supply, and communication and IT were seen to be very weak in Mongolia. As a matter of fact, almost all of the interviewees were dissatisfied with the quality of transportation and roads. For example, a CEO of wholly foreign-owned mining company (2010) stated the following:

> Transport and electronic infrastructure is vital to the development. Government should build the railway on times than to argue about which gauge they should be. Rather than spending a huge amount of money from big mining project into infrastructure development, government distributed as a handout to every Mongolian for their next election champion. But that money from big investments should be spent for infrastructure development that foreign investors wanted.

Regarding political stability, the majority of interviewees said that it was unstable. For example, an investor from the UK that represented a wholly foreign-owned company that had had two years of experience in the service sector expressed the following idea:

> I truly believe that Mongolia will have a great future and we invested our life savings in our business, so we do believe that!! However without political stability, a strong rule of law and a healthy environment Mongolia will never achieve the level of success that it could have. If Foreign investors are targeted and made to be seen as the countries problems Mongolia will just encourage the bad behavior they are trying to avoid, not reinvesting in the country, getting money out of Mongolia ASAP, leaving as soon as possible while trying to make quick money and not building sustainable businesses.

5.3.2.4 Socio-demographic Factors

The satisfaction level of foreign investors with foreign investment policy was based on their operating sector, investment size, ownership type, length of experience, and firm size. This section enumerates different socio-demographic variables of foreign-invested companies.

In terms of operating sectors, less, moderate, and high satisfaction results were differently distributed across the different sectors. All of the interviewees from different sectors except light industry were dissatisfied with the investment policy implementation. In the light industry, the majority of interviewees were

moderately satisfied, whereas, in the service and transportation sectors, the majority of interviewees were dissatisfied.

With regards to ownership type, the interviewees from joint venture foreign-invested companies were more dissatisfied with foreign investment policy implementation than were the interviewees from wholly foreign-owned companies. The majority of the interviewees from joint ventures were less satisfied with foreign investment policy implementation, while others were moderately satisfied.

In the case of the length of experience, the interviewees from foreign-invested companies that had 4 to 7 years of experience in conducting business in Mongolia were less satisfied than other companies; more than half were less satisfied. Also, the majority of interviewees with 8 to 13 years of experience in foreign-invested companies were moderately satisfied with foreign investment policy implementation.

Regarding investment size, big, medium, and small investors tended to be moderately satisfied with foreign investment policy implementation, and many of them were at a low level. Moreover, with regards to firm size, the majority of the medium-sized firms were dissatisfied with foreign investment policy implementation, and the majority of big- and small-sized firms were satisfied at a moderate level.

CHAPTER 6

DISCUSSION AND CONCLUSION

This chapter presents a discussion of the results, the summary of the major findings, and conclusions and recommendations. The findings and results of the study are discussed in section 6.1. A brief summary of the major findings of the study is described, and conclusions of the study are drawn in section 6.2. Section 6.3 presents the policy recommendations of the study and 6.4 discusses the practical and theoretical contributions. Lastly, section 6.5 states the direction for future research.

6.1 Discussion of Results

Foreign investment inflow is a very important tool for economic growth, especially in the developing world. However, it creates a new workplace, brings advantages and new technology, improves local companies' competitiveness and productivity, extends exports and markets, and increases government income from taxes only if the host country manages foreign investment inflow in an effective way. In contrast, if the host country does not handle foreign investment effectively, unequal market competition will increase, the environment can be damaged due to mining exploration, and the national economy could be dependent on the external market.

In the context of Mongolia, the first Foreign Investment Law was introduced in the early 1990s. Until now, as the output of open policy for foreign investment, foreign direct investment inflow has covered almost 40% of the GDP and 65% of the total investment in the country in last two decades. By the end of 2012, around 12,500 foreign-invested companies were registered at the implementing agency.

Many developing countries' foreign investment policies proposed to not only create a legal foreign investment environment, but also aimed to increase legal benefits of foreign investment in their country and to support national economic development. For example, countries wish to increase their employment, exports,

government revenue, and high technology or national competitiveness. However, the intention of Mongolian foreign investment policy was only to create a legal environment for foreign investors and to settle actions related to foreign investment. Since foreign investment policy has been implemented in the country, positive and negative socio-economic and environmental changes have emerged.

The effectiveness of foreign investment policy is usually measured based on how policy implementation brings about positive effects for economic and social development. It can be measured based on the foreign investors' satisfaction with how policy creates a fair legal environment for foreign investment and how policy settles actions related to foreign investment. For this reason, it is very important to know the causes of why some foreign investors are satisfied with foreign investment policy and why others are not. Similarly, it is critical to know the causes of why some foreign-invested companies re-invest and why others do not. If foreign investors are satisfied with the foreign investment legal environment, they tend to bring greater benefits to the host country.

Very few studies, however, have been conducted in the field of foreign investment policy in Mongolia. Most of the studies have focused on assessing the factors determining foreign investment inflow, but only a few studies have been conducted concerning foreign investment policy, especially its implementation.

With the objective of exploring the potential factors associated with foreign investment policy implementation effectiveness, an extensive review of the literature was carried out. The literature discusses the factors associated with foreign investment policy implementation effectiveness (i.e. level of foreign investors' satisfaction on foreign investment policy implementation and foreign investment growth rate), with socio-demographic factors (i.e. investment size, length of experience, firm size, operating sector and ownership type), external factors (i.e. market size, quality of infrastructure, quality of labor market and political stability), and policy factors (i.e. clarity of policy objectives and standards, quality of public service, capacity of implementing agency and foreign investors' compliance with implementation regulation).

In this context, using the primary data collected by employing a structured survey with 180 foreign-invested companies across 14 sectors, the factors affecting

foreign investment policy implementation effectiveness in Mongolia, including the level of foreign investors' satisfaction with foreign investment policy implementation and foreign investment growth rate, were assessed. The major results of the study are discussed below.

6.1.1 Foreign Investment Policy Implementation Effectiveness

The foreign investment policy implementation effectiveness was primarily assessed through the level of foreign investors' satisfaction with foreign investment policy implementation and foreign investment growth rate. In terms of the level of foreign investors' satisfaction with foreign investment policy implementation, the results revealed that 50.5 percent of foreign-invested companies were moderately satisfied with foreign investment policy implementation. This was followed by investors that were less satisfied, accounting for 37.8 percent. The investors that were highly satisfied, however, accounted for only 11.7 of the total sample. This means that very few foreign investors are satisfied with foreign investment policy implementation. In the case of foreign investment growth rate, the results revealed that almost half of foreign-invested companies had low growth, and 24.2% of them had high growth. However, 26.8 percent of foreign investment companies were in the group had not re-invested since their first investment.

Aside from the quantitative analysis, with the objective of triangulating the findings and supporting the quantitative results with much richer information and evidence, structured telephone interviews were conducted. In order to increase implementation effectiveness, the structured telephone interviews should be focused on the investors that are less satisfied with foreign investment policy implementation. Overall, 80 telephone structured interviews were conducted with moderately satisfied and less satisfied investors in order to elicit the factors that made them report their dissatisfaction in the email survey. Based on the interviewees' responses, there were six common reasons why the foreign investors were moderately or less satisfied with foreign investment policy implementation.

The first reason was the difference between legal statements, implementation standards, and practices. The majority of interviewees ensured that what Foreign Investment Law stated was different from the implementation standards and practice.

The implementation agency develops rules and regulations by themselves due to very broadly-defined law. Also, they formulate many regulations and standards which are not stated in the law, such as required documents and important dates (registering reinvestment within a specific limited date or announcing changes in ownership shares), the amount of charges that should be imposed on investors when they violate the law, and many other important regulations and standards. However, these rules and standards conflict with what the law states. For instance, a CEO of wholly foreign-owned company which was established in 2006 and was operating its business in the service sector mentioned the following:

> Implementation of foreign investment policy should be improved because law and practice are not always in the same way. Implementing agency implements it based on their way that is very far from what the law stated.

Also, it seems that the implementing agency developed implementation regulations and standards for their organizational interest rather than implementing Foreign Investment Law effectively. For this reason, implementation regulations and standards must be developed with Foreign Investment Law at the same time, and they should be in line with the law.

The second reason for why foreign investors were less or moderately satisfied with foreign investment policy implementation was the lack of systematic promotion policy for foreign investment. Several interviewees said that there was no promotion policy for foreign investment. For example, tax incentives or non-tax incentive policies, including tax deductions and exemptions, land support, technical support, infrastructure development, and financial aid were not available for them. In some sectors or important projects, foreign investors need a lot of supports from the government in order to reduce risks and to increase profits. Many interviewees from the sectors that require huge investment confirmed that if the government implements promotion policies for some sectors, foreign investors will be greatly satisfied. However, tax incentive policies are applied for only big investors in Mongolia. Also, some interviewees mentioned that tax incentive policies should be applied based on the foreign-invested companies' performances.

The third biggest reason for dissatisfaction was the instability of the legal and political environment. Many of the interviewees said that the legal and political environment always changes with every new administration because politicians have strong interventions in the foreign investment legal environment. This causes a great deal of confusion for foreign investors. However, the level of political stability varies in different sectors. Political instability in the mining sector was highest among the other sectors. For example, a CEO from the Canadian and Australian joint wholly foreign-owned company which was established in 2010 and was operating in the mining sector clarified his reasons for dissatisfaction with foreign investment policy implementation as follows.

> At the moment the actions of many politicians have created an extremely bad impression of the country as a favorable destination for foreign investors who are now either freezing their investments or withdrawing to more favorable jurisdictions. Until the attitude of the politicians' changes and some sensible changes are made to the legislation under which foreign investors operate Mongolia will continue to be regarded as an unattractive and unreliable place to invest. Even if these changes were to occur in the near future, an immediate improvement in foreign investor's perception of Mongolia will not take place. Stability is not demonstrated by changing the legislation alone. Once changed it then has to be administered efficiently for some considerable time before stability is demonstrated and the politicians have to not only demonstrate to investors that they are welcome but also convince the public that foreign investment is necessary if Mongolia is going to advance its living standards.

The interviewees recommended solutions for stabilizing the foreign investment legal environment: reducing political interventions in the foreign investment legal environment, creating good attitudes on the part of citizens toward foreign investors, and respecting the decisions of previous governments.

The fourth reason was discrimination between foreign and local investors. Several interviewees said that the public organizations and civil servants tend to discriminate against foreign investors when they provide public services and make decisions. For example, public servants tend to discriminate when they issuing permission for investment, extend certificates and licenses, select executors of government projects, and so on. Foreign investors want to have the same treatment as local companies.

The fifth reason was the corruption and red tape of the civil servants and public organizations. Corruption usually occurs in issuing licenses, and extending certificates and visas. Red tape occurs in every public organization due to a lack of public servants' ethics, weak cooperation between public organizations and ambiguous policy standards. In order to get permission to invest, foreign investors are required to submit several documents and visit various public organizations.

The last common reason was negative information about foreign investors in the media. Such information circulating in the social media negatively affects foreign investors' satisfaction with foreign investment policy implementation. The mining sector's investment is usually related to environmental damages and the biggest investors are foreign. The interviewees reflected that the foreign investment agency should be concerned about this issue and provide positive information.

6.1.2 Socio-demographic Factors Determining Foreign Investment Policy Implementation Effectiveness

The socio-demographic factors in this study refer to the foreign-invested companies' characteristics, including investment size, length of experience, firm size, operating sector, and ownership type. It was hypothesized that the socio-demographic factors tend to have a variety of effects on foreign investment policy implementation effectiveness: level of foreign investor's satisfaction with foreign investment policy and foreign investment growth rate.

In terms of foreign investors' satisfaction level with foreign investment policy implementation, the foreign investors in different sectors were satisfied differently. For example, the foreign investors in the food industry sector were satisfied more than the average; however, the foreign investors in the transportation sector were satisfied

much lower than the mean. This implies that foreign investors in the food industry sector tend to be satisfied more, while the investors in the transportation sector tend to be satisfied less with foreign investment policy implementation. Regarding the foreign investors from firms of different investment sizes, ownership types, number of employees, and length of experience, the foreign investors were satisfied similarly with the foreign investment policy implementation. With regards to foreign investment growth rate, foreign-invested companies had significantly different growth rates. The lowest foreign investment growth rates were observed in the education sector, while the highest foreign investment growth rates were observed in the construction sector, followed by the food industry. For the other socio-demographic factors, the foreign investment growth rates were quite similar.

In the case of the effects of socio-demographic factors on foreign investment policy implementation effectiveness, which were examined through OLS regression, the results revealed that only investment size had weak positive relationship with foreign investment growth rate, followed by the length of experience, which had weak negative relationship. This means that bigger and new investors tend to have more re-investment than others. However, none of the socio-demographic factors had a significant effect on the level of foreign investors' satisfaction with foreign investment policy implementation.

For the purpose of this study, the investment size was hypothesized to have positive effects on foreign investment policy implementation effectiveness. The results revealed that investment size had a weak positive relationship with foreign investment policy implementation effectiveness, especially on the foreign investment growth rate. This confirmed the proposed hypothesis. Also, the length of experience was hypothesized to have positive effects on the foreign investment policy implementation effectiveness. The results revealed that the length of experience had a weak negative relationship with foreign investment policy implementation effectiveness, especially on the foreign investment growth rate. This rejected the proposed hypothesis and the findings of Stinchcombe (1965) Majumdar (1997) and Gao et al. (2008). Moreover, firm size was hypothesized to have positive effects on foreign investment policy implementation effectiveness. The results revealed that firm size had no effect on foreign investment policy implementation effectiveness. This

rejected the proposed hypothesis and the findings of Kinnberly (1976) and Penrose, (1959). In other words, it confirmed the findings of Blau (1972). Furthermore, foreign ownership percentage was hypothesized to have negative effects on foreign investment policy implementation effectiveness. The results reveal that foreign ownership percentage had no effect on foreign investment policy implementation effectiveness. This rejected the proposed hypothesis and the findings from Kyaw and Theingi (2009) and Chowdhury, (1992). Regarding the operating sector, the study hypothesized that it has an influence on foreign investment policy implementation effectiveness. The results revealed that the operating sector had no effect on foreign investment policy implementation effectiveness. This rejected the proposed hypothesis and the findings of Liedholm and Mead (1998), Lidholm (2002), Gebreeyesus (2009) and Masakure et al. (2009).

6.1.3 External Factors Determining Foreign Investment Policy Implementation Effectiveness

The external factors in this study refer to market size, quality of labor, quality of infrastructure, and political stability. The effects of these factors on foreign investment policy implementation effectiveness (the level of foreign investors' satisfaction with foreign investment policy implementation and foreign investment growth rate) were examined through OLS regression. The external factors—bigger market size, better quality of labor, improved quality of infrastructure, and greater political stability—were hypothesized to have positive effects on foreign investment policy implementation effectiveness.

The study revealed that among the external factors included in the study, only political stability and the quality of infrastructure appeared to have a positive significant effect on foreign investment policy implementation effectiveness. However, the quality of labor and market size did not appear to have a significant effect on it. All of the external factors are discussed below.

6.1.3.1 Political Stability as a Determinant of Foreign Investment Policy Implementation Effectiveness

Political stability in this study refers to the longevity of government policy and the frequency of changes in the foreign investment climate and the legal

environment. It is possible that a country with a less risky investment legal environment will be more attractive to foreign investors, and foreign investors will tend to be more satisfied (Schneider & Frey, 1985).

Previous studies have reported that political stability has positive effects on foreign investment policy implementation effectiveness, particularly the level of the foreign investor's satisfaction with foreign investment policy implementation. For instance, Deichman et al. (2003) and Chan and Gemayel (2004) observed a positive association between political stability and foreign investors' attitudes. However, some previous scholars such as Bennett and Green (1972) and Kobrin (1976) did not find a significant association between them.

For the purpose of this study, political stability was hypothesized to have positive effects on the level of the foreign investor's satisfaction with foreign investment policy implementation. The results confirmed the proposed hypothesis and the findings from Deichman et al. (2003) and Chan and Gemayel (2004). In other words, it rejected the findings of Bennett and Green (1972) and Kobrin (1976). It implies that if the legal and political environment is more stable, foreign investors will tend to have a significantly higher level of satisfaction with foreign investment policy implementation and are encouraged to do good business and to re-invest.

With regards to the foreign investment growth rate, previous studies have reported positive effects of political stability on it. For instance, Root and Ahmed (1979), Jensen (2005), Naude and Krugell (2007), and Quazi (2007) observed a positive association between political stability and foreign investment growth rate. However, some previous scholars such as Kobrin (1976) did not find a significant association between them.

For the purpose of this study, political stability was hypothesized to have positive effects on foreign investment growth rate. The results confirmed the proposed hypothesis and the findings of Root and Ahmed (1979), Jensen (2005), Naude and Krugell (2007), and Quazi (2007). In other words, it rejected the findings of Kobrin (1976). This study revealed that political stability has a significant positive effect on foreign investment growth rate. This implies that if the legal and political environment is more stable, it reduces the risk of foreign investors' investment, and foreign investors will tend to have a significantly higher investment growth rate.

In terms of qualitative analysis, the level of political stability was very different in various sectors. Higher legal environmental instability occurred in the mining sector. Main cause of political instability is high-ranking politicians' influences in foreign investment legal environment.

6.1.3.2 Quality of Infrastructure as a Determinant of Foreign Investment Policy Implementation Effectiveness

The quality of infrastructure in this study refers to the physical structures, facilities, and networks that provide essential services to foreign investors for conducting business in Mongolia. Infrastructure assets include transportation structures (roads, bridges, tunnels, railways, airports, and seaports), energy and water supply, communication entities (land line telephone, mobile phone, post, and Internet), and social services such as educational facilities and hospitals (Chambers, 2007).

Previous studies have reported both positive and negative effects of the quality of infrastructure on the foreign investment policy implementation effectiveness, especially regarding the level of the foreign investor's satisfaction with foreign investment policy implementation. For instance, Wheeler and Mody (1992), Cheng and Kwan (2000), Asiedu (2006), and Rehman et al. (2011) observed that there was a positive association between the quality of infrastructure and foreign investors' attitudes. These authors argued that a good infrastructure is a necessary condition for foreign investors to operate their business successfully because foreign-invested companies tend to minimize their cost of doing business abroad and to increase their profits. However, poor infrastructure within the host country increases foreign investors' costs of investing abroad. Because good infrastructure increases the investment climate, enhances foreign investment inflow, and raises the foreign investors' rate of return, the host countries should improve the quality of the infrastructure or subsidize the cost of foreign investors' total investment. In contrast, the research of Pradhan (2008) observed a negative association between the quality of infrastructure and foreign investment or foreign investors' attitudes.

For the purpose of this study, the quality of infrastructure was hypothesized to have positive effects on the level of the foreign investor's satisfaction with foreign investment policy implementation. The results of this study confirmed

the proposed hypothesis and the findings of Wheeler and Mody (1992), Cheng and Kwan (2000), Asiedu (2006), and Rehman et al. (2011). In other words, it rejected the findings of Pradhan (2008). This study revealed that the quality of infrastructure had a significant positive effect on the level of the foreign investor's satisfaction with foreign investment policy implementation. This implies that if a country provides better-quality infrastructure, foreign investors will tend to have a significantly higher level of satisfaction with foreign investment policy implementation and will be encouraged to do good business and to re-invest.

Regarding foreign investment growth rate, previous studies have reported both positive and negative effects of the quality of infrastructure on the foreign investment growth rate. For instance, Asiedy (2001), Aw and Tang (2010), and Hailu (2010) observed a positive association between the quality of infrastructure and foreign investment growth rate. For the purpose of this study, the quality of infrastructure was hypothesized to have positive effects on the foreign investment growth rate. The results of this study revealed that the quality of infrastructure did not have a significant effect on foreign investment growth rate. The proposed hypothesis was rejected, and the study confirmed the findings of Pradhan (2008). In other words, it rejected the findings of Asiedy (2001), Aw and Tang (2010), and Hailu (2010), revealing that the quality of infrastructure had no significant effect on the foreign investment growth rate. This implies that the quality of infrastructures does not influence the foreign investment growth rate.

In terms of the qualitative analysis, the majority of interviewees specified the weak quality of transportation. For other types of infrastructure, no problems were mentioned.

6.1.3.3 Market Size as a Determinant Foreign Investment Policy Implementation Effectiveness

Market size refers mainly to the number of buyers and sellers in the host country. The previous empirical studies on the role of market size on foreign investment have been mixed. It means that studies have different reports on the effects of market size on foreign investment policy implementation effectiveness. For instance, Schneider and Fray (1985), Wheeler and Mody (1992), and Chakraborti (2001) reported market size to be significant and positive, while research by Grosse

and Trevino (1996) and Kyrkilis and Pantelidis (2003) found the effect to be inconclusive on foreign investors' attitudes. Also, the previous empirical studies exhibit different reports on the effects of market size on the foreign investment growth rate. For instance, Rameriz (2006), and Hakro and Ghumro (2008) reported market size to be significant and positive, while research by Tallman (1988) found the effects to be inconclusive.

The results of this study did not support the hypothesis that market size tends to have a positive significant effect on foreign investment policy implementation effectiveness. This means that the results of this study rejected the findings of Schneider and Fray (1985), Wheeler and Mody (1992), Chakraborti (2001), Rameriz (2006), and Hakro and Ghumro (2008). However, this study confirmed the findings of Grosse and Trevino (1996), Kyrkilis and Pantelidis (2003), and Tallman (1988). These researchers argued that the market size of developing and less-developed countries is not important for foreign investors; they are mainly seeking the natural resources of these countries. This study revealed that market size has no effect on the level of the foreign investor's satisfaction with foreign investment policy implementation and foreign investment growth rate. The reason behind such results could be due to the fact that foreign investors invested in Mongolia not because of its relatively small market size; the majority of foreign investors in Mongolia invested in the mining sector, which does not require any market for selling their products. This is because foreign investors tend to export their raw natural products rather than produce final products.

In the case of the qualitative analysis, the interviewees mentioned that market size was not big. However, foreign investors have a chance to export their products into the market of neighboring countries because the cost of export taxes is low in Mongolia.

6.1.3.4 Quality of Labor as a Determinant of Foreign Investment Policy Implementation Effectiveness

The quality of labor in this study refers to the capacity, cost, and the skill of labor. Qualified workers usually get a higher salary, attend more training and bear more responsibilities than unskilled workers (Schwartz, 1997) Blomstrom and Kokko (2003) argued for the importance of the quality of labor in foreign-invested

companies, saying that foreign-owned firms tended to conduct morn workplace training programs than local firms. Also, foreign-owned companies pay higher wages to local employees than domestic firms because the technologies and know-how could spill-over to domestic firms, if employees move to local companies (Sarkar & Lai, 2009).

The previous empirical studies on the effect of the quality of labor on foreign investment policy implementation effectiveness have been mixed. For instance, Schneider and Frey (1985), Porcano (1993), Hanson (1996), Noorbakhsh et al. (2001), and Jeon and Rhee (2008) reported the quality of labor to have a significant and positive effect on the foreign investment environment, while the research of Root and Ahmed (1979), and Narula (1996) found the effect to be inconclusive.

The results of this study did not support the hypothesis that the quality of labor has a positive significant effect on foreign investment policy implementation effectiveness. It means that the results of this study rejected the findings of Schneider and Frey (1985), Porcano (1993), Hanson (1996), Noorbakhsh et al. (2001), and Jeon and Rhee (2008). However, this study confirmed the findings of Root and Ahmed (1979) and Narula (1996). This study revealed that the quality of labor has no effect on foreign investment policy implementation effectiveness. The reason behind such results could be that foreign investors in Mongolia invested in the mining sector, which does not create many new jobs, rather than manufacturing, light industry, service, construction and other sectors, which require many employees. So, the purpose of most foreign investors' investment in Mongolia is natural resource-seeking investments but not cost-seeking or efficiency-seeking investment.

With regards to the qualitative analysis, the labor in Mongolia is not qualified but trainable. Only some interviewees from the sectors that require high technology mentioned that the labor was costly because it is necessary to spend a lot of money on the training of employees. However, some work of some professions cannot be learned in the workplace; it requires study at a university, which is always expensive, and programs are not available in Mongolia.

6.1.4 Policy Factors Determining Foreign Investment Policy Implementation Effectiveness

The effect of policy factors seemed to be the most important factor in the foreign investment policy implementation effectiveness. The literature reported that the clarity of policy objectives and standards, the quality of services, the capacity of the implementing agency, and the target groups' compliance with implementation regulations were some of the key policy factors influencing policy implementation effectiveness. For the purpose of this study, the policy factors—having greater clarity of policy objectives and standards, greater quality of public service, better capacity of the implementing agency, and foreign investors' stronger compliance with foreign investment policy implementation regulations were hypothesized to have positive effects on policy implementation effectiveness, which was measured by the level of foreign investors' satisfaction with foreign investment policy implementation and foreign investment growth rate.

In terms of the level of the foreign investors' satisfaction with foreign investment policy implementation, the results of the study revealed that among the policy factors included in the study, the clarity of policy objectives and standards, the quality of services, the capacity of the implementing agency, and foreign investors' compliance with implementation regulations were found to have significant positive effects on the level of foreign investors' satisfaction with foreign investment policy implementation. However, these factors did not appear to have a significant effect on the foreign investment growth rate. The results of these factors on the level of foreign investors' satisfaction with foreign investment policy implementation observed in this study are discussed below.

6.1.4.1 Clarity of Policy Objectives and Standards as a Determinant of Foreign Investment Policy Implementation Effectiveness

The clarity of policy objectives and standards in this study refers to the clarity of policy goals or objectives that are intended to be achieved, the clarity of policy regulations, the rules and standards used for the implementers' guideline, and the consistency of policy standards with objectives.

Previous studies have reported positive effects of the clarity of policy objectives and standards on policy implementation effectiveness. For instance,

Sylvester and Ferrara (2003), Cohen et al. (2005), McCreadie et al. (2007) and Howard et al. (2010) observed a positive association between the clarity of policy objectives and standards and policy implementation effectiveness. These authors argued that if the policy is more ambiguous, each implementing institution will interpret or explain policy objectives based on its perceptions, interests, and values. It not only affects implementers, but also the measurement of policy outcomes. Unclear policy leads to problems in implementation in terms of ambiguous target groups and outcomes.

For the purpose of this study, the clarity of policy objectives and standards was hypothesized to have positive effects on foreign investment policy implementation effectiveness. The results of this study also confirmed the proposed hypothesis and the findings of Sylvester and Ferrara (2003), Cohen et al. (2005), McCreadie et al. (2007), and Howard et al. (2010), revealing that clearer policy objectives and standards have a significant positive effect on the level of the foreign investor's satisfaction with foreign investment policy implementation. This implies that if policy objectives and standards are more clear and specific, implementation directions and the measurement of policy outcomes will be more accurate and foreign investors will have a significantly higher level of satisfaction with foreign investment policy implementation and they will be more likely to conduct good business and to re-invest. Additionally, the findings revealed that if policy objectives and standards are more clearly defined, it will not only affect foreign investment policy implementation effectiveness but also foreign investors' compliance with implementation regulations and the capacity of the implementing agency.

In terms of the qualitative analysis, foreign investors defined the objectives of foreign investment policy differently based on their experiences. However, the majority of them defined it as regulatory policy for foreign investment rather than promotion or protection policy. Also, the interviewees mentioned that implementation standards and practices are very different from what the Foreign Investment Law has stated. The reason for this could be that the law itself is very broad, objectives and standards are not clearly defined, and several regulations have not been issued, including enforcement mechanisms, rights, obligations, the duties of foreign investors, the expected the outcomes of policies, and the treatment of foreign

investors. On the other hand, implementation regulations are very ambiguous and are not in line with the objectives of the law. For example, there are no standards with conditions for rejecting foreign investment or extending foreign investment certificates, specific dates, and a list of documents, and penalties if foreign investors violate the law. Moreover, the objective of foreign investment policy does not match currently-addressed problems. For example, policy should promote foreign investment in specific sectors and qualified foreign investors.

6.1.4.2 Capacity of Implementing Agency as a Determinant of Foreign Investment Policy Implementation Effectiveness

The next factor that affected policy implementation was the capacity of the implementing agency. The capacity of the implementing agency should include sufficient resources—financial, human, power, time, and information—and good a communication and coordination system for effective policy implementation and achieving desired outcomes. In terms of foreign investment policy implementation effectiveness, previous studies have reported positive effects of the clarity of policy objectives and standards on it. For instance, Morisset and Johnson (2003) and Djokoto (2012) observed a positive association between the capacity of the foreign investment agency and policy implementation effectiveness.

For the purpose of this study, the capacity of the implementing agency was hypothesized to have positive effects on foreign investment policy implementation effectiveness, including the level of the foreign investor's satisfaction with foreign investment policy implementation and foreign investment growth rate. In terms of the level of the foreign investor's satisfaction with foreign investment policy implementation, the results in this study confirmed the proposed hypothesis and the findings of Morisset and Johnson (2003) and Djokoto (2012). This study revealed that the great capacity of the implementing agency has a significant positive effect on the level of the foreign investor's satisfaction with foreign investment policy implementation. This implies that if more resources—financial, human, power, time, and information—are allocated to the implementing agency and if the implementing agency itself creates a better communication and coordination system, foreign investors will have a significantly higher level of satisfaction with foreign investment policy implementation. However, in the case of foreign investment growth rate, the study found that the capacity of the implementing agency had no significant effect on it.

In the case of the qualitative analysis, all of the interviewees agreed that the capacity of the implementing agency was a crucial factor for their business in Mongolia. The interviewees mentioned that they lacked resources, including financial, power, and human resources. Due to the lack of financial resources, they organized few activities for foreign investors. This is because of the lack of the authority of the Foreign Investment Agency, some decisions related to foreign investment issues take a long time. Also, due to a lack of human resources, foreign investment projects cannot be evaluated.

Moreover, according to the interviewees' opinion, the implementing agency does not have sufficient communication or cooperation with other public organizations and foreign investors. Also, the interviewees mentioned that the officers at the implementing agency tended to have red tape problems.

6.1.4.3 Quality of Services as a Determinant of Foreign Investment Policy Implementation Effectiveness

The quality of public service in this study refers to the services provided by the foreign investment agency to foreign-invested companies and foreign investors. The public services in foreign investment policy implementation were measured in a subjective and objective way. The objective measurement revealed the difference between what a governmental agency should offer in terms of services for foreign investors and what the target group or foreign investors received. On the other hand, the subjective measurement revealed the difference between the foreign investor's expectations concerning public services and what they actually received. The quality of service was always connected with the customers' satisfaction. Customers will be satisfied with the quality of service if the received service equals or exceeds the service receiver's expectations; otherwise, he/she will be dissatisfied (Liljander & Strandvik, 1995). Satisfaction is influenced by the perceptions of service quality, product quality, and price, as well as personal and situational factors (Murugan, 2012).

In the case of policy implementation effectiveness, previous studies have reported positive effects of quality of public service on policy implementation effectiveness. For instance, Disney (1999), Howat et al. (1999), Lewis and Pattinasarany (2008), and Danjuma and Rasli (2012) observed a positive association between the

quality of public service and policy implementation effectiveness, including the level of the foreign investor's satisfaction with foreign investment policy implementation and foreign investment growth rate.

For the purpose of this study, the quality of public service was hypothesized to have positive effects on foreign investment policy implementation effectiveness. In terms of the level of the foreign investor's satisfaction with foreign investment policy implementation, the results confirmed the proposed hypothesis and the findings of Disney (1999), Howat et al. (1999), Lewis and Pattinasarany (2008), and Danjuma and Rasli (2012). This study revealed that better-quality public service has a significant positive effect on the level of the foreign investor's satisfaction with foreign investment policy implementation. This implies that if foreign investors receive faster and more varied public services, and if the received services match their expectations, they will tend to have a significantly higher level of satisfaction with foreign investment policy implementation and will be more likely to re-invest. However, in the case of the foreign investment growth rate, the study found that the quality of public service had no significant effect on it.

Regarding the qualitative analysis, more than half of the interviewees were dissatisfied with public services for organizing meetings, seminars, and conferences for foreign investors, aftercare services and the registration process. This reveals that faster and more diversified public services of better quality should be provided.

6.1.4.4 Foreign Investors' Compliance with Implementation Regulations as a Determinant of Foreign Investment Policy Implementation Effectiveness

The foreign investors' compliance with implementation regulations in this study refers to how investors complied with registering each of their investments, announcing changes with their company, and reporting their performance.

With regards to foreign investment policy implementation effectiveness, previous studies have reported positive effects of foreign investors' compliance with implementation regulations on foreign investment policy implementation effectiveness. For instance, Giles and Gatlin (1980) and Halperin and Rigotti (2003) observed a

positive association between the foreign investors' compliance with implementation regulations and policy implementation effectiveness.

For the purpose of this study, the foreign investors' compliance with implementation regulations was hypothesized to have positive effects on foreign investment policy implementation effectiveness. The results confirmed the proposed hypothesis and the findings of Giles and Gatlin (1980) and Halperin and Rigotti (2003). This study revealed that foreign investors that complied more with foreign investment policy implementations had a significant positive effect on foreign investment policy implementation effectiveness, particularly regarding the level of the foreign investor's satisfaction with foreign investment policy implementation. This implies that if foreign investors comply more in terms of registering each of their re-investments and informing the proper person of any changes related to their ownership, operating sector, number of employees, and so on, and report their performance, foreign investors will tend to have a significantly higher level of satisfaction with foreign investment policy implementation. However, in the case of foreign investment growth rate, the study found that foreign investors' compliance with implementation regulations had no significant effect on it.

In the case of the qualitative analysis, the interviewees mentioned that they were willing to comply with implementation regulations if standards, penalties, processes, and required documents are clearly stated.

6.2 Summary of the Major Findings and Conclusion

The purpose of this study was to analyze the factors affecting foreign investment policy implementation effectiveness. An integrated conceptual framework was developed after reviewing the related theories and findings of different empirical studies across the world. Also, this study utilized both quantitative and qualitative methods in analyzing the factors affecting foreign investment policy implementation effectiveness (i.e. level of foreign investors' satisfaction with foreign investment policy implementation and foreign investment growth rate). The determinant factors included the socio-demographic factors (i.e. investment size, length of experience, firm size, operating sector and ownership type), external factors (i.e. market size,

quality of infrastructure, quality of labor market, and political stability), and policy factors (i.e. clarity of policy objectives and standards, quality of public service, capacity of implementing agency, and foreign investors' compliance with implementation regulations).

The quantitative method was the main method of this study. Data were collected by conducting a mail survey across 180 foreign-invested companies in Mongolia. These data were assessed using descriptive analysis, Pearson correlation, ordinary least squares regression, and hierarchical regression. Moreover, the qualitative method was used as a supplementary method for identifying the determinant factors and discussing the quantitative findings with much richer contextual information. The qualitative study involved a structured telephone interview, a semi-structured face-to-face interview, and documentary-review.

The main objective of this study was to analyze the factors affecting foreign investment policy implementation effectiveness in Mongolia. To draw the inferences for this main objective, the study had several other specific objectives:

1) To explore the nature of foreign investment policy in modern Mongolia;

2) To describe foreign investment policy implementation in Mongolia;

3) To evaluate the foreign investment policy implementation effectiveness in Mongolia according to the target group's satisfaction level and foreign investment growth rate;

4) To examine the effect of socio-demographic, external, and policy factors on foreign investment policy implementation effectiveness;

5) To recommend appropriate policy intervention necessary for effective implementation of foreign investment policy based on this study.

The major findings of the study with reference to the respective objectives of the study are presented below.

With reference to the first objective of the study, "To explore foreign investment policy in Mongolia," the study found the following:

1) Foreign investment policy in Mongolia consists of specific laws and general laws. The specific laws are only matters related to foreign investment activities. They include "foreign investment laws" and "sector importance foreign

investment laws" (this is also referred to as the regulation of foreign investment in business entities operating in sectors of strategic importance). The general include tax laws, mineral laws, and other resolutions of the parliament and government related to foreign investment issues.

2) Foreign investment law concerns matters of foreign investment activities, protects foreign investment, regulates the registration, determines investors' rights and obligations, and controls related issues.

3) Sector importance foreign investment law controls foreign investments in specific sectors, activities, and entities. The strategic importance sectors are the mineral, food, agriculture, energy, transportation, information and communication sectors.

4) Tax, land, and labor policies are important for foreign investors' activities in Mongolia.

5) Sectorial policies, especially in the mining sector, are crucial for foreign-invested companies in conducting their business.

With reference to the second objective of the study, "To describe foreign investment policy implementation in Mongolia," the study found the following:

1) In Terms of Statistical Data:

(1) By 2012, Mongolia had received $5 billion foreign investment inflow since 1990.

(2) By the end of 2012, there were around 12,500 foreign-invested entities registered at the main implementing agency since 1990.

(3) In terms of the amount of foreign investment inflow, China was by far the largest source of total foreign investment inflows with a 49 percent share in 1990-2012.

(4) Over 5,500 Chinese firms registered in Mongolia, which accounted for half of all registered foreign enterprises in the country.

(5) In terms of sector, the mining sector accounted 74 percent of total foreign investment inflows in 1990-2011. The second largest sector was the foreign trade sector.

2) In Terms of Documentary Review:

(1) In order to promote foreign investment, the Government of Mongolia organized foreign investors' forums in 1996, 2002, 2006, 2009 and 2010. The Mongolian Mining Association has organized the Discovery Mongolia forum for investors in the mining sector annually since 2002. The purpose of forums is to ascertain foreign investors' problems and solutions and to introduce investment opportunities.

(2) The Government of Mongolia declared 2002 as "Investment Promotion Year" for promoting investment and the improvement of the legal environment. Several amendments were added to various laws that were related to foreign investment.

(3) Since 1993, tax incentive policies were implemented. Consequently, 496 foreign firms, a considerably overwhelming number, saved 8.4 billion tugriks (Mongolian currency) by tax exemption and 41.1 billion tugriks by tax credit. This tax promotion policy, however, was annulled in 2007 for it was perceived as discriminatory against local investors.

(4) To reduce foreign investors' risks, the Government of Mongolia introduced the Stability Agreement and Investment Agreement. The purpose of the stability agreement was to provide tax deductions or tax holidays and to guarantee legally stabilizing the business environment for big investors. More than ten foreign-invested companies signed up for this stability agreement. The purpose of the investment agreement was to provide a stable environment for operations among mining license holders at the license holder's request. Only Oyu Tolgoi signed up for this agreement.

(5) The Government of Mongolia has implemented a promotion policy for targeting some sectors in order to increase foreign investment in for example the agriculture, industrial, construction, tourism, transportation, communication, light industry, education, and health sectors since 2000. However, there has been no significant increase of foreign investment inflow in these sectors since the implementation of this policy.

With reference to the third objective of the study, "To evaluate the foreign investment policy implementation effectiveness in Mongolia based on the target group's satisfaction level and investment growth rate," the study found the following:

3) In terms of the Quantitative Analysis:

(1) About half of the foreign-invested companies were satisfied with foreign investment policy implementation at a moderate level (50.5 percent), followed by a low satisfaction level (37.8 percent) and a high satisfaction level (11.7 percent)

(2) In total, the average score for the level of foreign investors' satisfaction with foreign investment policy implementation was 5.11 from a total score of 10.

(3) About half of the foreign-invested companies had less than a 100 percent growth rate for foreign investment every year (49%), while some of them had more than doubled their investment growth rate (24.2%). However, many of them also had no investment growth (26.8%).

(4) Overall, the average growth rate of foreign investment in foreign-invested companies was 128.57.

4) Regarding the Qualitative Analysis:

(1) The structured telephone interviews with the foreign-invested companies specified why the foreign investors were satisfied with foreign investment policy implementation. The findings revealed that this was because the implementation practice and foreign investment law statements were different, there was a lack of promotion policy for foreign investment, the political and legal foreign investment environment was unstable, foreign investors were discriminated against more by public organizations than local investors, there was corruption and red tape at every level of all public organizations, and media news about foreign investors tended to be negative.

(2) In the case of the semi-structured face-to-face interview with front-line implementers, the study investigated why foreign investment policy could not be implemented. The findings revealed that this was because the main implementing agency lacked authority to implement policy effectively, only a few staff members participated in the implementation process, policy objectives and standards which are supposed to guide implementation and measure performance were ambiguous, and there was no data system among the public organizations, which created problems of cooperation and coordination among the public organizations and increased red tape in the public organizations.

With reference to the fourth objective of the study, “To examine the effect of the socio-demographic, external and policy factors on foreign investment policy implementation effectiveness,” the study found the following:

Among the Socio-demographic Factors Included in the Study:

(1) All of the socio-demographic factors were able to predict only 10.9% of the foreign investment growth rate.

(2) The foreign-invested companies which had a bigger investment size tended to re-invest more.

(3) New foreign investors in Mongolia tended to exhibit greater re-investment.

Among the External Factors Included in the Study:

5) Regarding the Quantitative Analysis:

(1) All of the external factors were able to predict 39.6% of the total variance in the level of foreign investors’ satisfaction with foreign investment policy implementation.

(2) All of the external factors were able to predict 4.6% of the total variance in the foreign investment growth rate.

(3) A higher quality of infrastructure increased the foreign investors’ satisfaction level regarding foreign investment policy implementation.

(4) A more stable political and legal foreign investment environment positively influenced the foreign investors’ satisfaction with foreign investment policy implementation and foreign investment growth rate.

(5) Better-quality infrastructure and more political stability positively affected the foreign investors’ satisfaction with foreign investment policy implementation after being controlled by the socio-demographic factors.

(6) Greater political stability and a more stable legal environment positively affected the foreign investment growth rate after being controlled by the socio-demographic factors.

(7) A more stable political and legal foreign investment environment positively affected the capacity of the implementing agency.

6) Regarding the Qualitative Analysis:

(1) The most important factor for attracting foreign investment in Mongolia was political stability, followed by natural resources and tax policy. Also, labor force, infrastructure, the capability of the market, and cheap property were important but it depended on the sector.

(2) Political stability, tax environment, quality of labor, and the quality of infrastructure were common factors affecting foreign investment companies' business in Mongolia.

(3) Half of the interviewees evaluated mentioned that it was difficult to access qualified labor in Mongolia. However, they mentioned that a labor in Mongolia was trainable.

(4) Almost half of the interviewees agreed that the labor force in Mongolia was cheap. However, the labor costs were expensive in the sectors that require high technology because foreign investors have to spend a lot of money for training.

(5) The majority of interviewees said that transportation, energy and water supply, and communication and IT were very weak in Mongolia. Especially a transportation was considered to be very weak.

(6) The majority of interviewees said that the political and legal environment was unstable. However, the level of political stability varied in different sectors.

Among the Policy Factors Included in the Study:

7) Regarding Quantitative Analysis:

(1) All of the policy factors were able to predict 66.2% of the total variance in the level of foreign investors' satisfaction with foreign investment policy implementation.

(2) All of the policy factors accounted for 72% of the total variance in the level of foreign investors' satisfaction with foreign investment policy implementation after being controlled by the socio-demographic and external factors.

(3) More clearly defined policy objectives and standards increased the foreign investors' satisfaction with foreign investment policy implementation.

(4) Better-quality public service positively affected the foreign investors' satisfaction with foreign investment policy implementation.

(5) The greater capacity of the implementing agency made the foreign investors more satisfied with foreign investment policy implementation.

(6) Higher compliance with implementation regulations increased their satisfaction with foreign investment policy implementation.

(7) Greater clarity of policy objectives and standards, and better quality of public service, the improved capacity of the implementing agency, foreign investors' higher compliance with implementation regulations positively affected foreign investors' satisfaction with foreign investment policy implementation after having been controlled by the socio-demographic and external factors.

(8) Greater clarity of policy objectives and standards predicted more compliance on the part of the foreign investors' with implementation regulations.

(9) Better-quality public service positively influenced the foreign investors' compliance with implementation regulations.

(10) The greater was the percentage of foreign ownership, the greater was the degree of compliance with implementation regulations.

(11) Greater clarity of policy objectives and standards predicted better capacity of the implementing agency.

(12) Better-quality public service positively influenced the capacity of the implementing agency and vice versa.

(13) Greater clarity of policy objectives and standards increased the quality of public service.

8) Regarding the Qualitative Analysis:

(1) Based on the structured telephone interview, the majority of foreign-invested companies defined foreign investment policy as a law with the purpose of regulating. They likewise mentioned that objectives and standards were not clearly defined, and were ambiguous and too broad. Also, these objectives and standards were not considered to be in line with solving foreign investment problems or matching foreign investors' demands. The definition of foreign investment policy was very different in various operating sectors.

(2) With regards to the capacity of the implementing agency, many of the foreign investors said that the implementing agency does not have enough authority to make decisions, lacks staff capacity, and has no financial resources for organizing activities for foreign investors and a very weak system for distributing information.

(3) Regarding the quality of public service, the majority of the foreign-invested companies were dissatisfied with the timing, service standards and rules, and diversity of services.

(4) With reference to compliance with foreign investment policy implementation, many of the foreign investors could not comply with the implementation regulations because they were very ambiguous and complicated.

The responses to the fifth objective of the study, "To recommend policy interventions necessary for effective implementation of foreign investment policy based on this study," are presented in section 6.4 of this chapter.

In conclusion, using both quantitative and qualitative methods, the study analysed the measurements of foreign investment policy implementation effectiveness, and examined the effects of socio-demographic, external, and policy factors on the foreign investment policy implementation effectiveness. The study revealed that the majority of foreign investors were less or moderately satisfied with foreign investment policy implementation. Also, almost half of the foreign-invested companies exhibited an investment growth rate of up to 100 percent per year. Around 27 percent of them had no investment since they invested, and the remaining companies had a 200 percent increase in their investment.

The study further revealed that among all of the factors included in the model, the external factors (political stability and quality of infrastructure) and policy factors (clarity of policy objective and standards, the capacity of the implementing agency, the quality of public service, and foreign investors' compliance with implementation regulations) were the key factors determining the level of foreign investors' satisfaction with foreign investment policy implementation in Mongolia. Also, among the many factors included in the model, the socio-demographic factors (investment size and length of experience) the external factors (political stability) were the key factors determining the foreign investment growth rate in Mongolia.

Based on the interviews, among the determinant factors of the level of foreign investors' satisfaction with foreign investment policy implementation, the most crucial factor was the clarity of policy objectives and standards. This factor affected not only the investors' satisfaction but also influenced the foreign investors' compliance with implementation regulations and the capacity of the implementing agency. Moreover, among all of the listed determinant factors in the foreign investment growth rate, political stability was the most important. This factor influenced the capacity of the implementing agency and the level of foreign investors' satisfaction with foreign investment policy implementation. The foreign investment growth rate was mainly determined by internal factors such as goals, plans, strategies, profit of the company, the mother company's policy and so on. However, the current study did not cover internal factors, which resulted in low predictive power.

6.3 Recommendations of the Study

Based on the above discussions and conclusions, the study developed the following recommendations and suggestions.

1) Foreign investment should be promoted in Mongolia with special laws and strategies

Foreign investment in developing countries has been considered as one of the essential sources for growth, including transfer of high technology, increased government revenues, the creation of new jobs, enlargement of exports, and enhancement of the local producers' productivity. In addition, it brings improved competition among the local investors. However, compared with other countries in the region, Mongolia remains among the lowest recipients of foreign investment inflow. Also, foreign investment inflow has been dramatically decreasing there since 2012 due to the passage of "Sector Importance Foreign Investment Law" in May 2012. Foreign investment inflow dropped by 22% in 2012 compared with 2011, and 51% in 2013 compared with 2012. Also, it was mostly the mining sector received foreign investment inflow accounting for almost 70% of the total foreign investment.

Policy makers need to focus on formulating strategic plans such as tax incentives for some specific sectors to promote foreign investment in the country. A

strategic plans for attracting foreign investment inflow should be developed based on the advantages and opportunities of the Mongolian investment climate. The objective of strategic plans must be in line with the national development plan. If a development plan is proposed to acquire advanced technology, Mongolia should focus on attracting foreign-invested companies that can transfer high technology to Mongolia. Also, each sector should be accurately promoted and regulated foreign investment in different ways based on their features.

2) Foreign investment must be regulated in Mongolia by laws and regulations

Foreign investment inflow has increased very rapidly in the last decade as the percentage of foreign investment in the GDP also increased. This implies that the Mongolian economy is becoming more dependent on foreign investment inflow. Also, the majority of foreign investment inflow was invested only in the mining sector, which is limited in natural resources and does not promote long-term sustainable development for the economy. Compared with other sectors, the mining sector has created only a few new jobs and does not affect national productivity. Moreover, in the past, the main economic indicators (i.e. employment, exports, and tax revenue) except for the GDP were not affected by foreign investment inflow. This implies that an effective usage of foreign investment inflow is missing.

It is better if foreign investment law sets which sector promotes foreign investment and which one controls it. The sectors that are strategically important for the Mongolian economy or local investors should be controlled by the Government of Mongolia, for example, the mining, service, construction, and communication sector. On the other hand, the sectors that need foreign investors and those where the local investors perform weak should be promoted with incentive policies. These sectors are infrastructure, manufacturing, and industry.

Overall, the foreign-invested company’s performance should be one of the criteria for extending its foreign investment certificate. Performance evaluation should consider a number of new work places, tax payment, and expenditure on high technology and so on, and the criteria should be different for each sector and different size investors.

3) Policy objectives and standards should be clearly defined

Ambiguous policy objectives and standards lead to foreign investors' dissatisfaction with policy implementation, instability of the legal environment, red tape with implementers, low-quality public services, and non-compliance with implementation regulations. Hence, foreign investment policy objectives and standards must be defined very clearly and should be measurable. This means that all of the statements and articles in foreign investment law must be unambiguous, accurate, and more detailed. The following aspects should be defined clearly and issued according to laws or standards:

(1) Foreign investors' rights: receive stable and favorable investment environment, extend their investment, and provide the same treatment as local investors

(2) Foreign investors' obligations: organize training for local employees, transfer new technology, be responsible for environmental damage and local citizens' dissatisfaction

(3) Articles about how to promote foreign investment in certain sectors

(4) Conditions about rejection or confirmation of investment permission

(5) Penalty for non-compliance with the law

(6) A list of all required documents for foreign investment and re-investment registration, extension of certification, provision of investors' cards, bankruptcy and many others

Also, all stakeholders including policy-makers, implementers, foreign investors, and other related organizations should be involved in formulating foreign investment laws and standards.

4) Implementing agency should be stronger

The implementing agency holds less power among other public organizations and has a lack of resources, including human and financial. Coordination and cooperating among the main implementing agency and other participating agencies are weak and underdeveloped. Introducing an online system would solve the problem of a weak implementing agency. Foreign investors should be able to submit their required information or get information through the website, and public organizations should be able to use one online system for exchanging information.

5) Better public service should be provided

Foreign investors are dissatisfied with the services provided by the foreign investment agency, especially concerning the timing and diversity of the service. Because of bureaucracy and ambiguous standards, public service provision tends to take a longer time to function and involves many processes. Also, rather than registering foreign investment, other services such as providing consultations and references, organizing meetings and conferences, advertising legal environment and investment opportunities, and other possible services do not match the investors' expectations.

6) The political and legal environment for foreign investment should be stable

Legal changes and political influences in the foreign investment environment are common problems in Mongolia. Government intervention in the sectors that promote foreign investment should be decreased. Also, political parties should respect previous governments' policies. In order to improve the political stability in the foreign investment climate, related stakeholders' (representatives of foreign investors, local citizens, implementers, policy-makers, and so on) participation must be increased in the stages of agenda setting, policy formulation, and evaluation.

7) Better-quality infrastructure should be provided

Many foreign investors complained about the quality of the infrastructure in Mongolia. Also, several prospective investors preferred to invest in other countries rather than investing in Mongolia due to the low quality of infrastructure. Infrastructure-oriented foreign investment must be promoted by intensive policies. Also, the Foreign Investment Agency should promote and advertise investment opportunities to prospective foreign investors who would make infrastructure-oriented investment in Mongolia based on research and careful planning.

6.4 Contributions of the Study

The study has made some modest contributions to the foreign investment policy implementation debate and the body of foreign investment policy knowledge. The contributions of the study are discussed below.

6.4.1 Practical Contributions

From the perspective of the practical contributions of the study, its methodological strength is one of the practical contributions. For example, several policy implementation studies used qualitative method for analysis, whereas this study used both qualitative and quantitative methods. Also, this study has provided several determinant factors for analysing policy implementation effectiveness. This implies that not every policy implementation model fits every type of policy and in all socio-cultural environments because each policy is different in terms of its nature and environment.

The policy contribution also could be considered simultaneously one of the practical contributions of this study. The current study evaluated foreign investment policy implementation in Mongolia based on foreign investors' perceptions and provided recommendation for effective implementation of foreign investment policy. Also, the study explored the foreign investment policy environment and implementation procedures, and performance based on the statistical method, interviews, and documentary reviews.

Moreover, this study has added a modest value to foreign investment policy and policy implementation-related research. For the purpose of this study, an integrated conceptual framework was developed based on a rigorous review and discussion of foreign investment, organizational and policy analysis-related theories, and the findings of previous studies. Similarly, a study has also assessed policy implementation effectiveness from a multidimensional perspective. The integrated comprehensive framework and the multidimensional measures of policy implementation effectiveness used in this study may also help researchers in the field of policy implementation and foreign investment policy to design future research.

6.4.2 Theoretical Contributions of the Study

There is the lack of study of foreign investment policy implementation, especially the factors affecting foreign investment policy implementation effectiveness. This study has initially fulfilled this scarcity. To be precise, on the theoretical side, the key challenge was to develop an alternative model for studying policy implementation effectiveness. This study has succeeded in pointing out the

contextual limitations of the existing policy implementation models (Van Meter & Van Horn, 1975; Pressman & Wildavsky, 1979; Brever & Deleon, 1983; Mazmanian & Sabatier, 1983; Goggin et al., 1990) and has proposed a new causal model for bridging the gap. For example, the above-listed research focused on the clarity of policy objectives and standards, and the capacity of the implementing agency, compliance with the target group and external factors. Instead, the inquiries of this study revealed a new variable (i.e. quality of public service and socio-demographic factors for effective implementation of the intended policy). This finding further helps to claim a theoretical contribution—that the researcher has developed a new causal model to test and guide theory development and future research to confirm the predictive power of the hypothesized predictors for achieving the effective implementation of foreign investment policy.

6.5 Directions for Future Research

Based on the study results, it seems that a variety of factors could affect foreign investment policy implementation in different sectors. Thus, future research can be conducted in the area of foreign investment policy implementation effectiveness only in specific sectors. Also, the impact of foreign investment in the mining sector on the environment could be an interesting topic to study in the future.

The current study used foreign investors' satisfaction level and the growth rate of foreign investment on the part of foreign investment companies as a measurement of foreign investment policy implementation outcomes. In future research, policy outcomes can be measured using various indicators at the organizational level, such as number of employees, amount of tax paid, expenditure of technology transfer and profit, or at the national level (e.g. growth of foreign investment inflow on a yearly basis, the budget of the implementing agency, the number of registered and bankrupt foreign companies, etc.).

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APPENDICES

APPENDIX A

FDI INFLOW

Table A.1 FDI Inflow in Eastern Asian Economies

Countries	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
China	40715	46878	52743	53505	60630	72406	72715	83521	108312	95000	114734	123985
Hong Kong	61938	23776	9682	13653	34036	33625	45060	54341	59620	52394	71069	83156
South Korea	9004	4086	3399	4384	8997	7055	4881	2628	8409	7501	8511	4661
Macao	-0.8	160	378	410	485	1240	1608	2304	2591	858	2828	4365
Taiwan	4928	4109	1445	453	1898	1625	7424	7769	5432	2805	2492	-1962
Mongolia	53.7	63	77.8	131.5	92.9	187.6	245.5	373	845	624	1691.4	4714.6
North Korea	3.4	-3.8	-16.4	158.2	196.9	50.2	-104.6	66.7	43.8	1.97	37.6	55
Average	16663	11295	9673	10385	15191	16598	18833	21572	26465	22741	28766	31282

Source: UNCTAD, 2011.

(Billions of dollars)

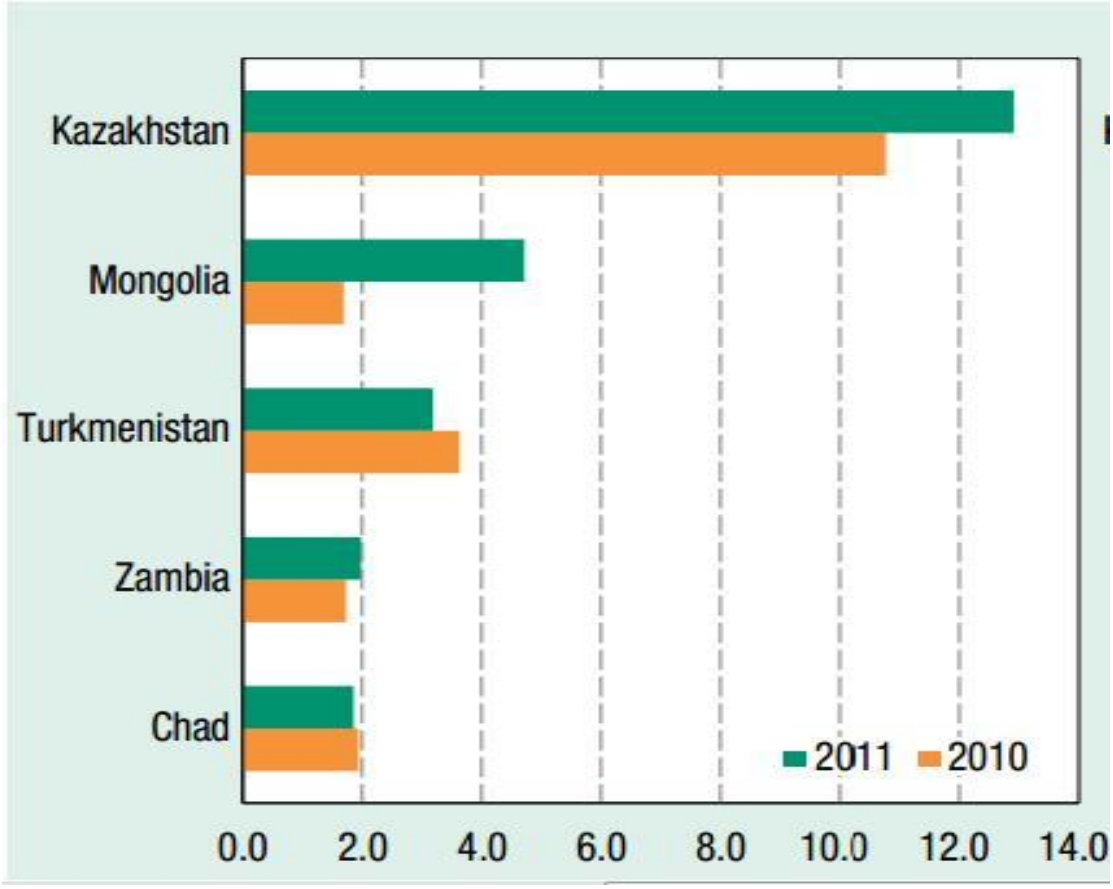


Figure A.1 FDI Inflow, Top 5 Host Countries 2010-2011

Source: UNCTAD, 2012.

Table A.2 Growth of Foreign Investment Inflow in Promoted Sectors

No	Sector	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1	Light industry	4,933.38	2,885.15	4,361	3,376	1,792.13	1,454.22	1,205.34	18,208.00	92.82	153.75
2	Construction and engineering	8,143.78	8,322.46	4,588	1,815	772.73	1,791.75	4,273.45	1,894.74	9,366.55	980.1
3	Livestock raw material	6,004.4	291.11	2,792	3,040	825.33	292.5	540			
4	Information technology	220.37	592.92	4,202	435	6,267.60	480.86	6,916.70	1,442.57	1,252.80	125
5	Transportation	582.2	1,116.9	2,256	37	933.33	24.6	657.15	174.13	2,406.20	2,892.00

Table A.3 Sample of Semi-Structured Face-to-Face Interview

Position	**Status**	**Number of planned interviewers**	**Number of conducted interviewers**
Directors			
Head officer	Head of FIRRD, Ministry of economic development	1	1
Former head officer and vice director of FIFTA	N/A	2	1
Department of administrative, FIRRD			
Senior officer	Working	1	1
Officer	Working	2	1
One-stop center, FIRRD			
Senior officer	Working	1	1
Senior officer and lawyer	Working	1	1
Officer	Working	2	1
Department of research			
Senior officer	Retired	1	1
Department of law, Ministry of Economic Development			
Lawyer	Working	1	1
Totally		12	9

APPENDIX B

QUESTIONS OF SEMI-STRUCTURED FACE-TO-FACE INTERVIEW

Introduction

I am a Doctoral candidate at National I am a Doctoral candidate (Doctor of Philosophy Program in Development Administration) at National Institute of Development Administration, Bangkok, Thailand, and am currently working on my dissertation. The topic of my research pertains to factors influencing foreign investment policy implementation in Mongolia.

This interview would typically last about 1 hour, and discussion will be general in nature. I would greatly appreciate have an opportunity to speak with you and will gladly send you and "Executive Summary" of the research findings. All information discussed will be for academic purposes and kept confidential. Thank you for your time and assistance

Sample of Survey Questions

Date Interviewed: Position in government:

1. In your opinion, how would you define foreign investment policy implementation in Mongolia?
2. What does it mean regulation, promotion and protection of foreign investment?
3. What outcomes or impacts of foreign investment policy should be achieved?
4. What changes should made in foreign investment policy? Why?
5. What guidelines do you use for implementing foreign investment policy? What standards and rules are used for implementation?
6. How foreign investment policy has been implemented? What are the problems occurred?

7. Is implementing agency provided enough resources to implement this policy?
8. Are criteria's on extension, changes, termination and registration of foreign investment certificate and foreign investor's card well defined or not?
9. In order to improve implementation, what should be done?
10. What are the foreign investment policy strategy and its goals?
11. How to control implementation of foreign investment projects?
12. Do you satisfied with public organizations cooperation and coordination?
13. How effective your cooperation with foreign investors after investment made?
14. Is there any penalty to if foreign-invested firms not complying laws, rules, and standards?
15. How would you define effective implementation of foreign investment policy?
16. In order to increase foreign investment effectiveness, what government should do?
17. Overall, what are the factors could affect implementation?

APPENDIX C

QUESTIONNAIRE SURVEY

QUESTIONNAIRE FOR ANALYSIS OF FOREIGN INVESTMENT POLICY IMPLEMENTATION AND ITS LEGAL ENVIRONMENT (2013)

First of all, we would like to convey our deepest appreciation for offering your valuable time in answering this questionnaire for our research. This research is being conducted by the Foreign Investment Regulations and Registration Department of the Ministry of Economic Development and academic researcher.

Purpose of the survey: The purpose of this survey is to get a feedback on the foreign investment policy framework of Government of Mongolia, to evaluate and to improve efficiency of their implementation, and to clarify determinant factors of effective implementation.

Tasks and scope of the survey: The survey has two fold tasks, first, it is aimed to analyze and evaluate the current framework of foreign investment policies and its implementation, and second, to determine the perception of foreign investors or foreign-invested companies' towards to the legal environment conducive to foreign investment in Mongolia. That is why it is crucial to be attended in this questionnaire either senior managers of the foreign-invested companies or foreign investors by themselves.

Significance of the survey: This survey, as we hope could help in identifying existing obstacles and formulate more favorable legislative framework for foreign investment, as well as, to explore required approaches to improve this environment, reflect and implement them on the ongoing activities. This is to assure you that the information you provide will be kept confidential and will only be used for research purposes. In that sense, we strongly urge you to answer the questionnaire as honestly as possible and in more details.

QUESTIONNAIRE

ONE: GENERAL INFORMATION

Please circle the applicable choice for each question that reflects information about your company.

1. Which function do you hold within your organization?
    a. CEO
    b. General Manager
    c. Investor (Please indicate which country _____)
2. What is the registration date of your organization within Mongolia as a foreign-invested company?
    (Year _____)
3. How much US$ have you invested in Mongolia?
    (Amount of total foreign investment _____
    /Amount of initial foreign investment _____)
4. What is the main interest of your organization for investing in Mongolia?
    a. Export seeking
    b. Domestic market seeking
    c. Natural resource seeking
    d. Efficiency seeking
    e. Cheap labor seeking
    f. Other _____
5. What is the form of your company?
    a. Wholly foreign owned company
    b. Joint venture (how many percent is foreign invested_____)
6. Which sector is your company operating in?
    a. Exploration & exploitation
    b. International trade
    c. Bank and finance
    d. Light industry
    e. Transport
    f. Construction & engineering

g. Tourism

h. Information & communication

i. Live stock

j. Education

k. Catering or food industry

l. Manufacturing

m. Agriculture

n. Health care

o. Other _____

7. What is the average projects duration?

(Months or years _____)

8. How much do you annually spend on buying, producing, creating new or advanced technology?

(Amount in US$ _____)

9. How many workers does your company have?

(Total number of workers / How many are local

_____)

TWO: MAIN STATEMENTS

Give a score to the following statements in how much you agree. (Please select your score ranging from 1 to 5 in each blank box on the right side column with the meaning: 1 = strongly disagree; 2 = Disagree; 3 = Moderate; 4 = Agree; 5 = Strongly agree)

1	The objectives of foreign investment policy in Mongolia are well defined	1	2	3	4	5
2	Foreign investment law consist with current problems	1	2	3	4	5
3	Foreign investment laws in Mongolia are a legal guarentee for foreign investment	1	2	3	4	5
4	Regulations and standards of foreign investment policy implementation are clearly defined	1	2	3	4	5

5	The rights of Foreign-invested companies are well defined in foreign investment laws	1	2	3	4	5
6	The responsibilities and obligations of foreign-invested companies are well described in foreign investment laws	1	2	3	4	5
7	New foreign investments of your company are to be registered at the administrative body in charge of foreign investments	1	2	3	4	5
8	The threshold (100’000$) for establishing foreign investment entity is adequate	1	2	3	4	5
9	I am fully informed of the responsibility regarding violation of the foreign investment laws	1	2	3	4	5
10	It is easy to comply with implementation regulations	1	2	3	4	5
11	Overall registration process is good	1	2	3	4	5
12	Variety of public services are provided for foreign investors	1	2	3	4	5
13	Public service is provided in short time	1	2	3	4	5
14	It is easy to access public service (language, online, location etc)	1	2	3	4	5
15	Quality of public service is match with foreign investors’ expectation	1	2	3	4	5
16	Quality of public service is good	1	2	3	4	5
17	Staffs at Foreign investment agency have enough capacity to implement foreign investment policy	1	2	3	4	5
18	Foreign investment agency has enough resources to implement policy effectively	1	2	3	4	5
19	Foreign-invested companies shall report implementations of their projects yearly	1	2	3	4	5
20	Foreign-invested companies shall report their reinvestment and shareholder changes	1	2	3	4	5
21	Public organizations are well cooperated in implementing foreign investment policies	1	2	3	4	5

22	Implementing agency given enough power to make decision	1	2	3	4	5
23	Foreign investment agency is well communicated with foreign investors	1	2	3	4	5
24	The government information are transparent and accessibility	1	2	3	4	5

1. To what extent is your company satisfied with the size of the market in Mongolia? Would you grade your satisfaction in 0-10 score? (0 – unsatisfied, 10 - satisfied)

_____

2. To what extent is your company satisfied with the quality of infrastructure in Mongolia? Would you grade your satisfaction in 0-10 score? (0 – unsatisfied, 10 - satisfied)

_____

3. To what extent is your company satisfied with the quality of labor in Mongolia? Would you grade your satisfaction in 0-10 score? (0 – unsatisfied, 10 - satisfied)

_____

4. To what extent is your company satisfied with the foreign investment policy implementation? Would you grade your satisfaction in 0-5 score? (0 – unsatisfied, 5 - satisfied)

_____

5. To what extent is your company satisfied with the foreign investment policy implementation? Would you grade your satisfaction in 0-10 score? (0 – unsatisfied, 10 - satisfied)

_____

Would you please indicate other factors influencing the effectiveness of foreign investment policy implementation in Mongolia?

Optional

_____

_____

_____

Thank you

APPENDIX D

RELIABILITY ANALYSIS OF POLICY FACTORS

Table D.1 Reliability Analysis of Clarity of Policy Objective and Standards

Scale **Cronbach's Alpha = .785**	**Cronbach's Alpha if Item Deleted**
Q1: Level of clarity of policy objective	.764
Q3: Level of consistency of policy objective	.762
Q4: Level of clarity of policy standards	.726
Q5: Level of understanding of investors' obligations	.735
Q6: Level of understanding of investors rights	.732

Table D.2 Reliability Analysis of Foreign Investors' Compliance of Implementation Regulation

Scale **Cronbach's Alpha = .632**	**Cronbach's Alpha if Item Deleted**
Q7: Compliance of registering reinvestment	.539
Q8: Compliance of regulation standards	.571
Q16: Overall regulation activities	.596
Q173: Regulation for registering new investor	.575
Q20: Regulation for controlling foreign investors' performance	.613

Table D.3 Reliability Analysis of Quality of Public Service

Scale **Cronbach's Alpha = .818**	**Cronbach's Alpha if Item Deleted**
Q171: Variety of public service	.777
Q172: Speed of public service	.760
Q174: Accessibility of public service	.779
Q175: Consistency of public service with investors demand	.757
Q176: Quality of public service	.813

Table D.4 Reliability Analysis of Capacity of Implementing Agency

Scale **Cronbach's Alpha = .745**	**Cronbach's Alpha if Item Deleted**
Q19: Capacity of front-line implementers	.732
Q21: Financial resources	.726
Q25: Cooperation with other implementing agencies	.681
Q26: Quality and accessibility of information	.647
Q27: Cooperation with target group	.711

APPENDIX E

SAMPLE SIZE OF STRUCTURED TELEPHONE INTERVIEW

Identification of interviewee	Establishment of year	Operating sector	Percentage of foreign shareholder
1	1973	A	49
2	1995	E	30
3	1996	A, F, M, O	100
4	1997	I	100
5	1997	A, J	100
6	1998	A	45
7	1998	A, F	100
8	2001	A, C, F, J	100
9	2002	A	100
10	2002	A	100
11	2003	A, B	100
12	2003	A	99
13	2003	C	95
14	2004	B, K	100
15	2004	F	100
16	2004	F	100
17	2004	J	50
18	2005	A	100
19	2005	A	100
20	2005	A	100
21	2005	A, B	100
22	2005	I	100
23	2005	L	100
24	2006	A	100
25	2006	A	100
26	2006	A, B, F	100
27	2006	C	100
28	2006	F, M	100
29	2006	S	100
30	2006	S	100
31	2006	A, B	80
32	2006	F	65
33	2006	B	49
34	2006	I N	43
35	2007	A	100
36	2007	A	100
37	2007	A	100
38	2007	A	100
39	2007	A	100
40	2007	A, B	100

Identification of interviewee	Establishment of year	Operating sector	Percentage of foreign shareholder
41	2007	B	100
42	2007	B	100
42	2007	H	100
43	2007	S	100
44	2007	A	51
45	2008	B	100
46	2008	B	100
47	2008	B, S	100
48	2008	F	100
49	2008	F	100
50	2008	H	100
51	2008	F	80
52	2008	G	75
53	2009	A	100
54	2009	A, B	100
55	2009	E, F	100
56	2009	F	100
57	2009	A, F	70
58	2009	B, E	50
59	2009	L	50
60	2010	A	100
61	2010	A	100
62	2010	A	100
63	2010	D, F, I, M	78
64	2010	A	55
65	2010	A	45
66	2010	B	30
67	2011	A	100
68	2011	A	100
69	2011	A, B	100
70	2011	C	100
71	2011	C	100
72	2011	D	100
73	2011	A	98
74	2011	B	51
75	2011	B, I, M	50
76	2012	C	100
77	2012	C	100
78	2012	C	100
79	2012	B	80
80	2012	B, D, F, G, I, L, M	80

Note: a. Exploration & exploitation**,** b. International trade, c. Bank and finance, d. Light industry, e. Transport, f. Construction & engineering, g. Tourism, h. Information & communication, i. Live stock, j. Education, k. Catering or food industry, l. Manufacturing, m. Agriculture, n. Health care

APPENDIX F

STRUCTURED TELEPHONE INTERVIEW QUESTIONS

Sample of Survey Questions

Date Interviewed:

Foreign investment firm:

Industry:

Person interviewed: (Nationality)

Introductory Questions

1. When did you made your first investment in Mongolia
2. What are the reasons behind you dissatisfied with foreign investment policy implementations? Could you elaborate more about reasons?
3. How would you define foreign investment law objectives and standards? Which part is not clear to you? Could you give some examples?
4. Which methods would improve foreign investment interest towards Mongolia, in your opinion?
5. What rights and obligations would you prefer to have for foreign investors?
6. Which amendments would you like to make in the current foreign investment laws of Mongolia?
7. Have you ever face problems with public organizations when you were investing into Mongolia? Which organizations?
8. Which legal issues have you faced during license acquisition and conducting business in Mongolia?
9. Which improvements would you suggest for the foreign investment agency?
10. In your opinion, what factors/reasons could affect the investment decisions into Mongolia?
11. What was the main factor/reason for your company to decision making investment in Mongolia?

APPENDIX G

HISTOGRAM AND Q-Q PLOT

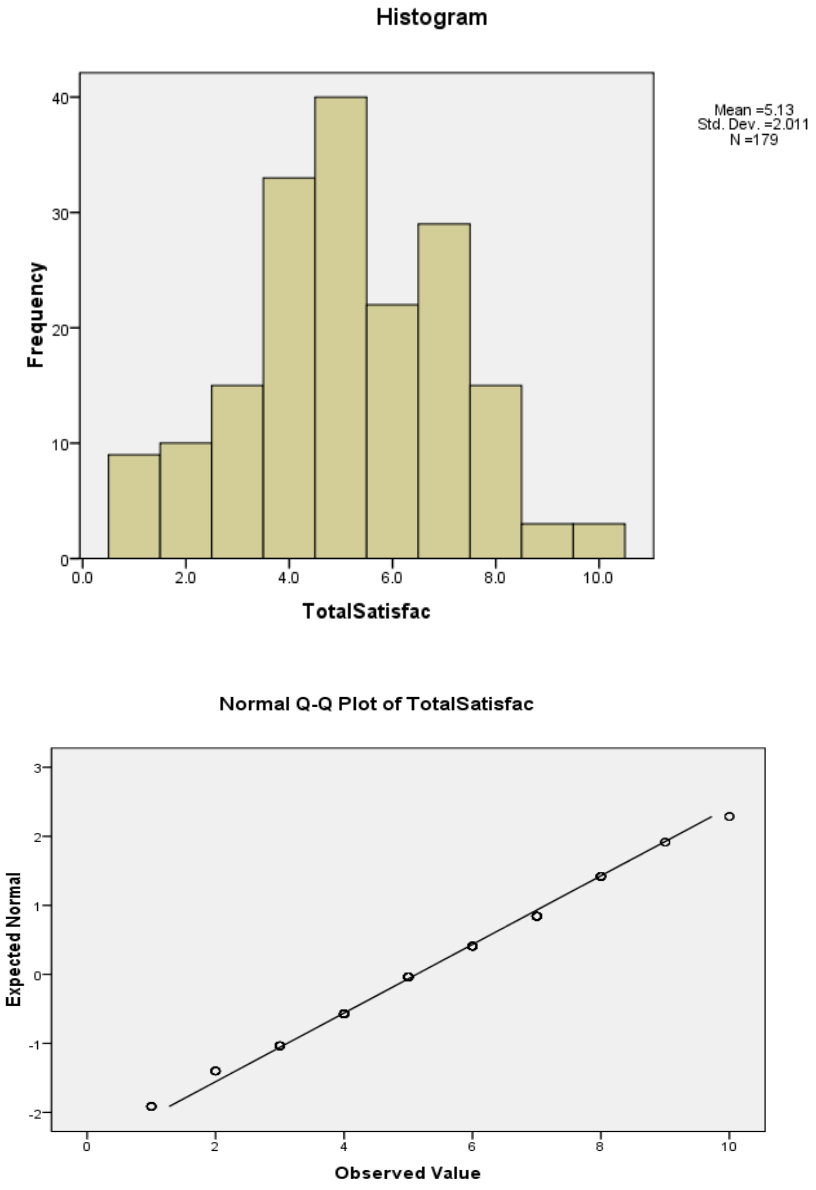


Figure G.1 Histogram and Q-Q Plot: The Level of Foreign Investors' Satisfaction on Foreign Investment Policy Implementation

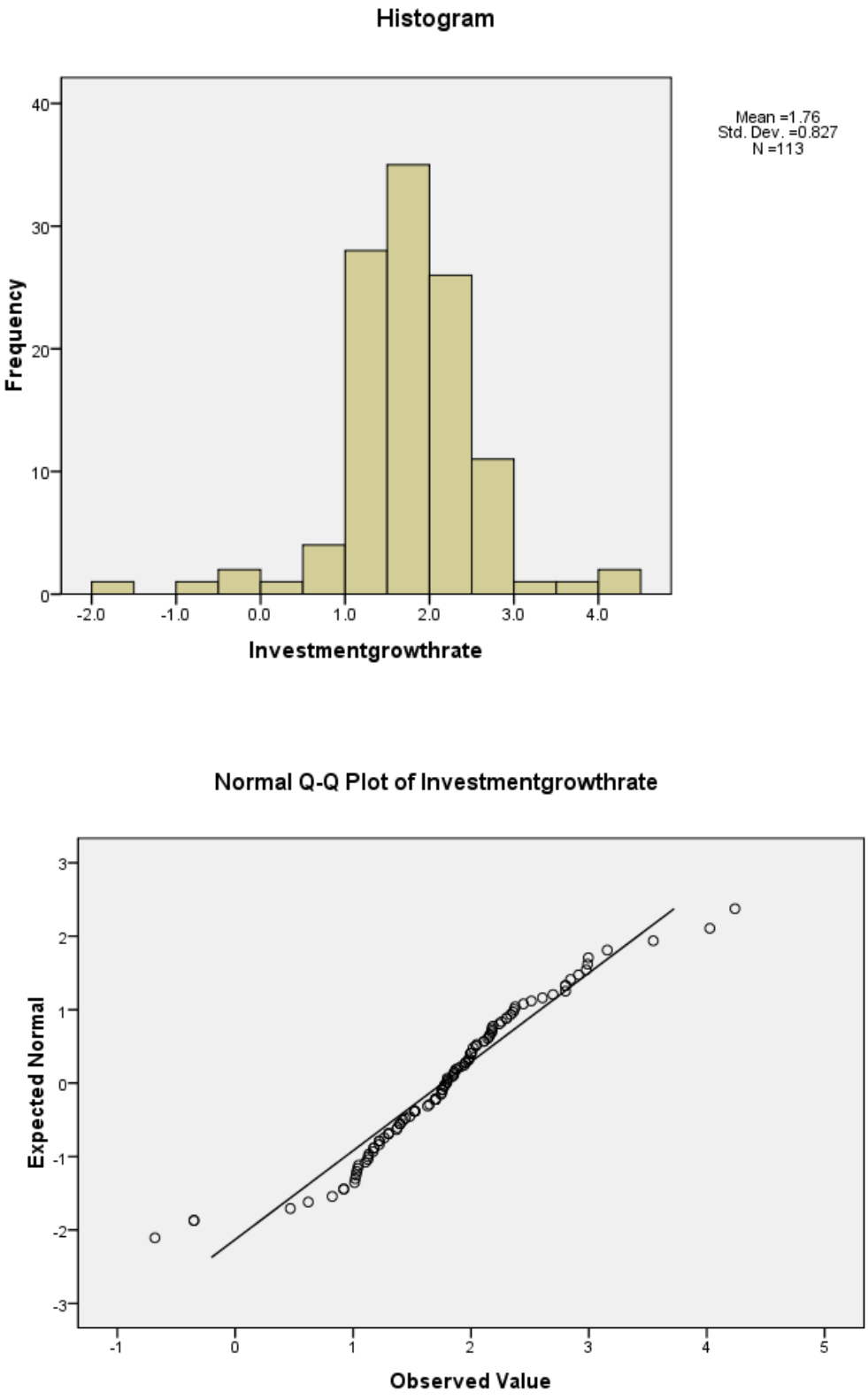


Figure G.2 Histogram and Q-Q Plot: Foreign Investment Growth Rate

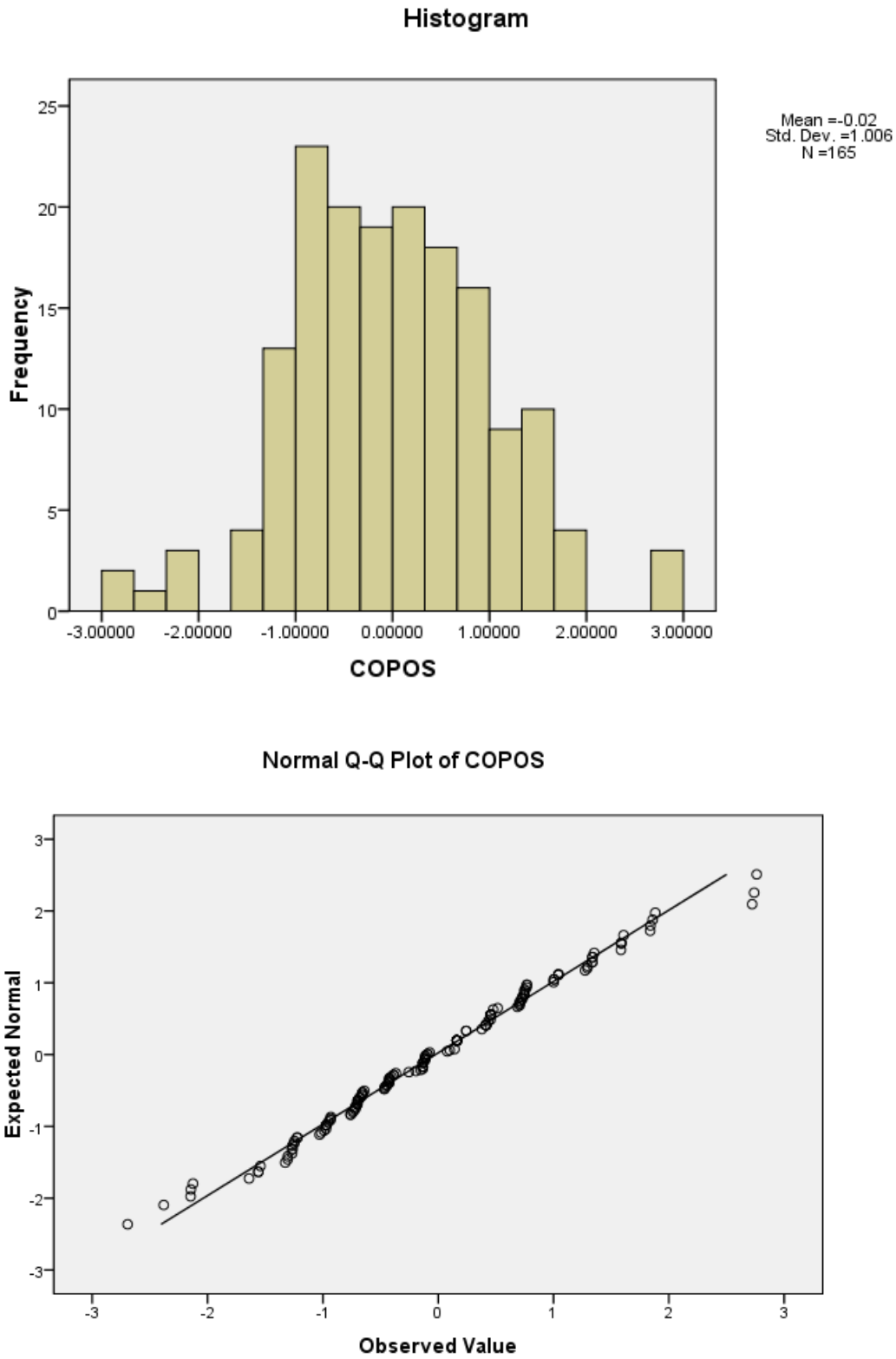


Figure G.3 Histogram and Q-Q Plot: Clarity of Policy Objectives and Standards

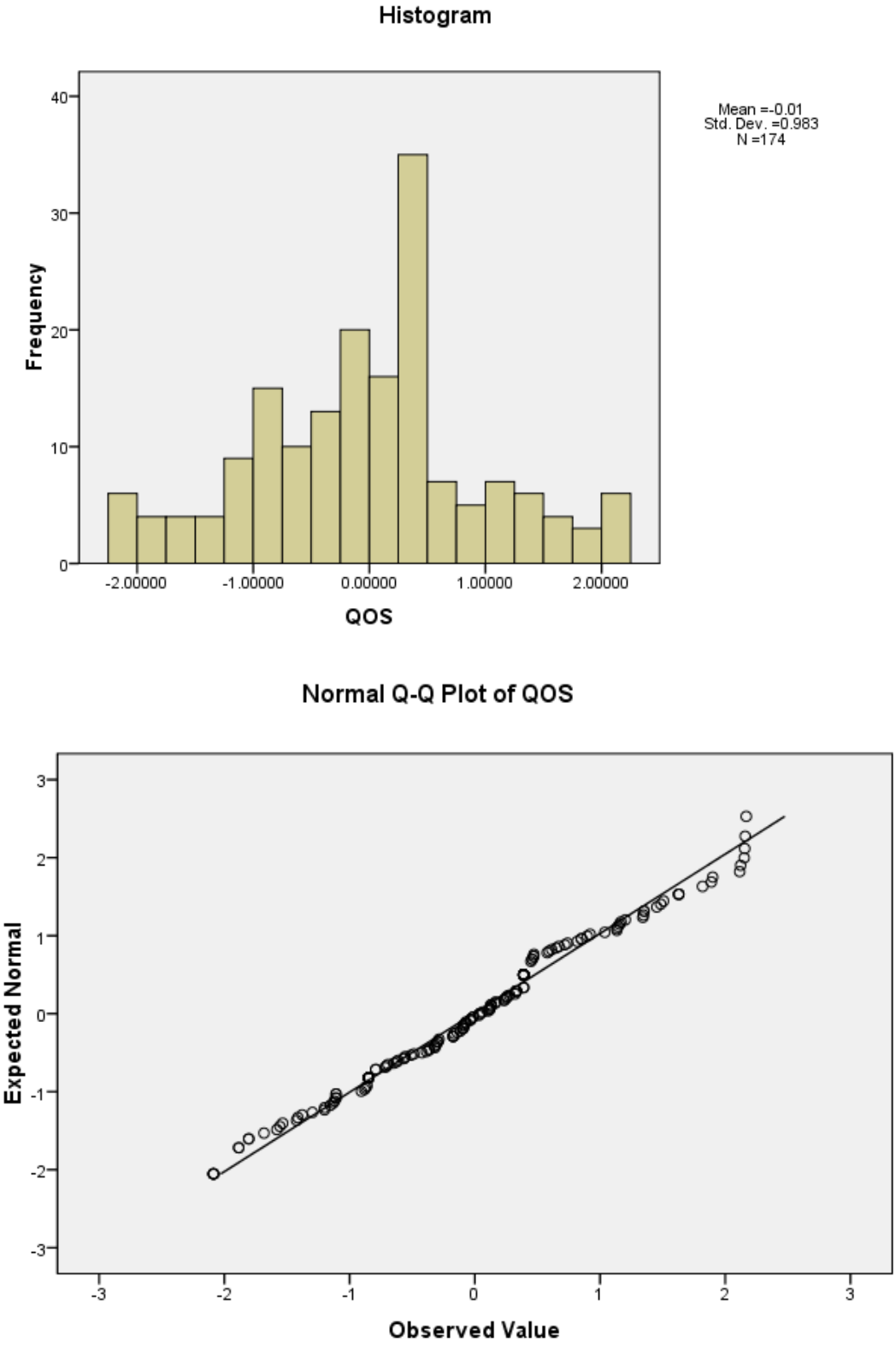


Figure G.4 Histogram and Q-Q Plot: Quality of Public Service

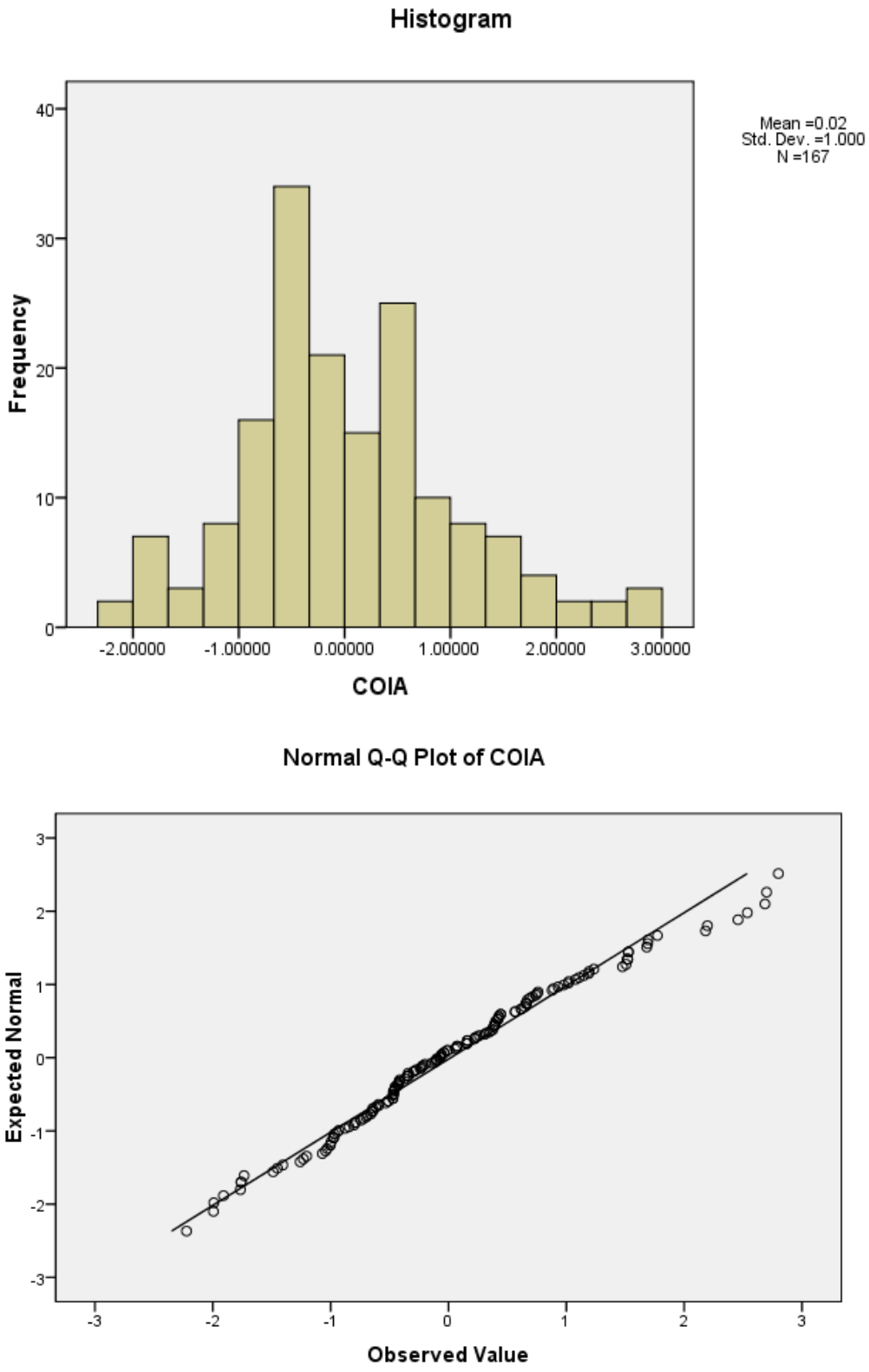


Figure G.5 Histogram and Q-Q Plot: Capacity of Implementing Agency

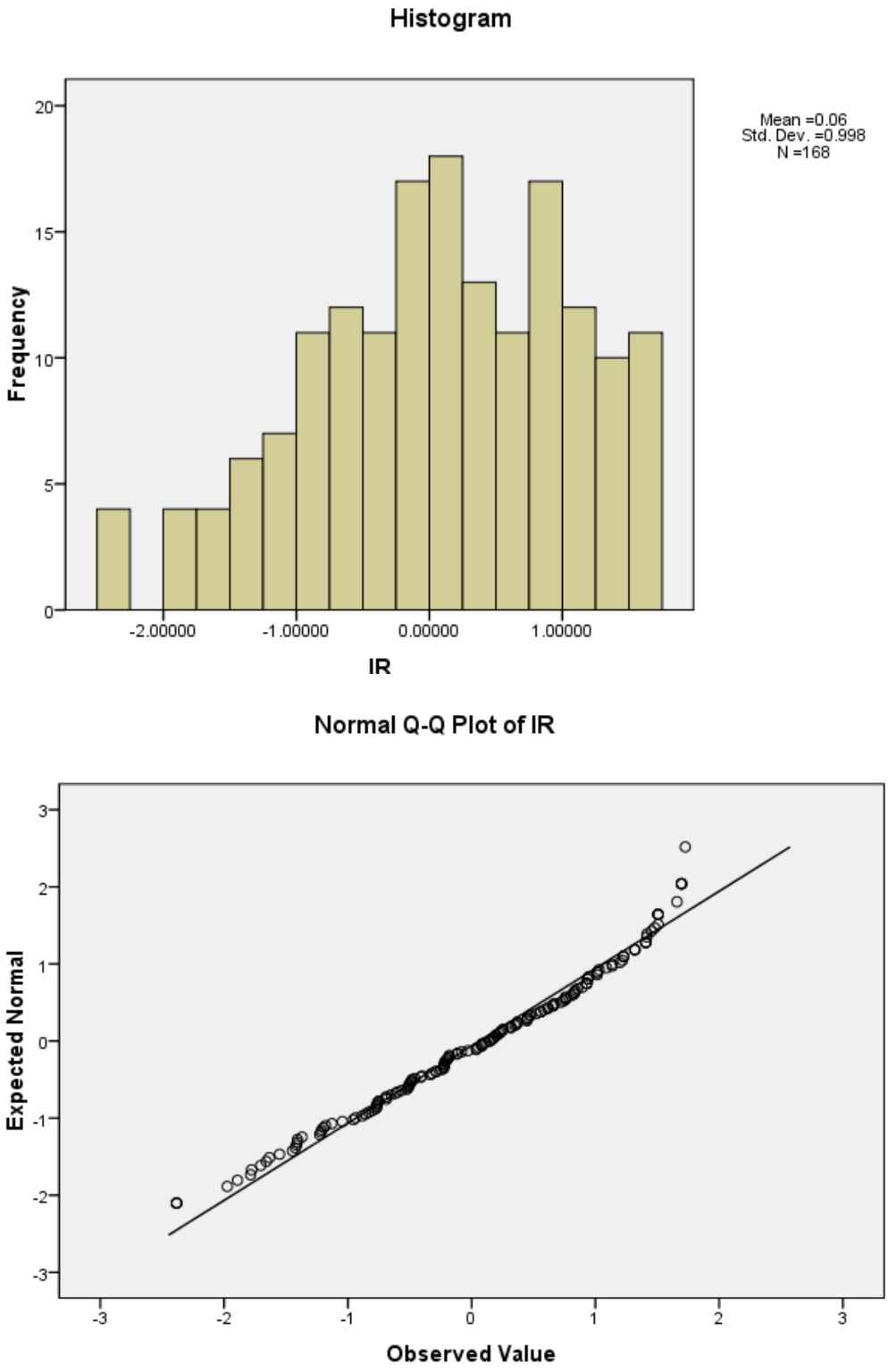


Figure G.6 Histogram and Q-Q Plot: Foreign Investors' Compliance of Implementation Regulation

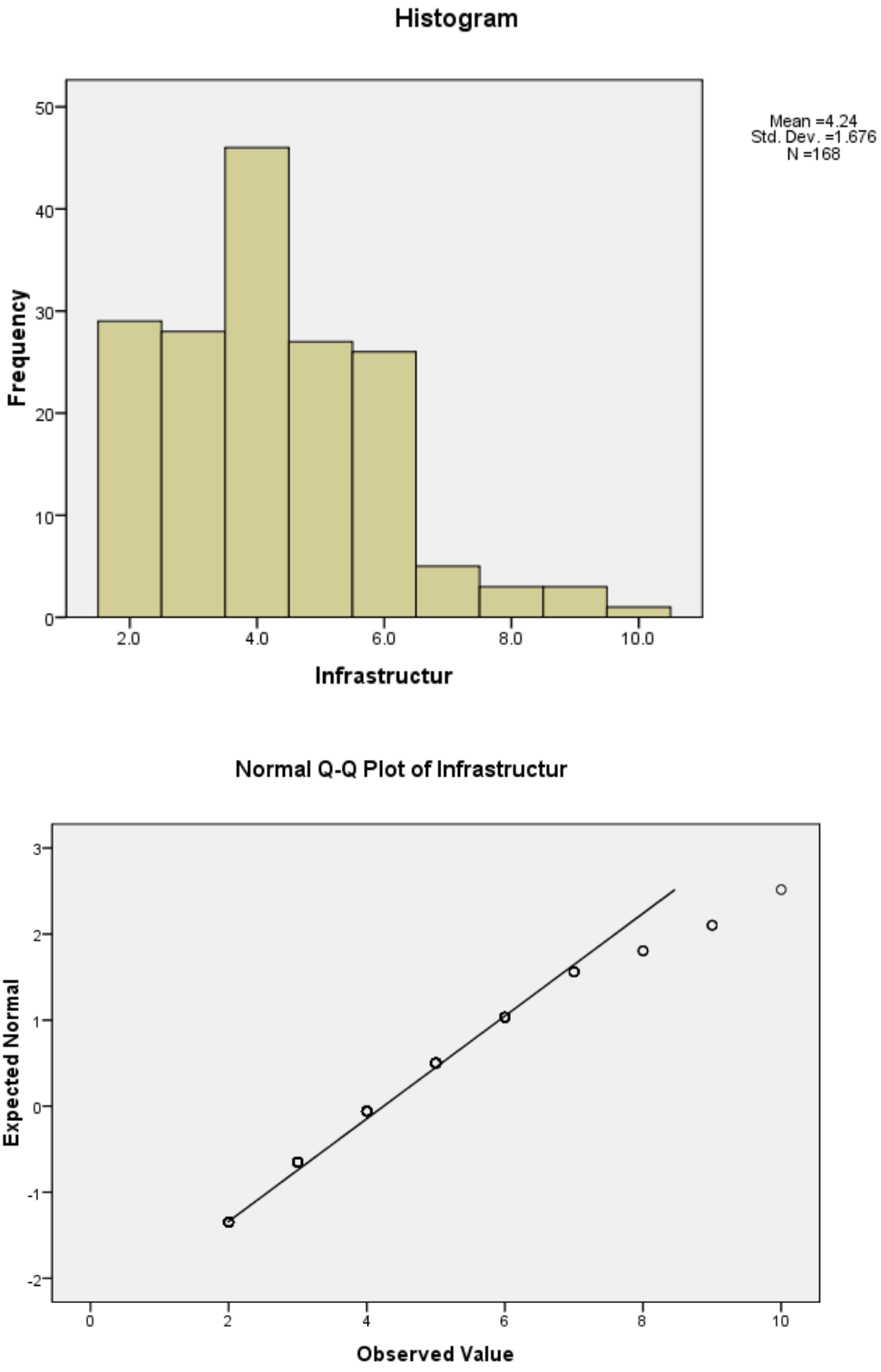


Figure G.7 Histogram and Q-Q Plot: Quality of Infrastructure

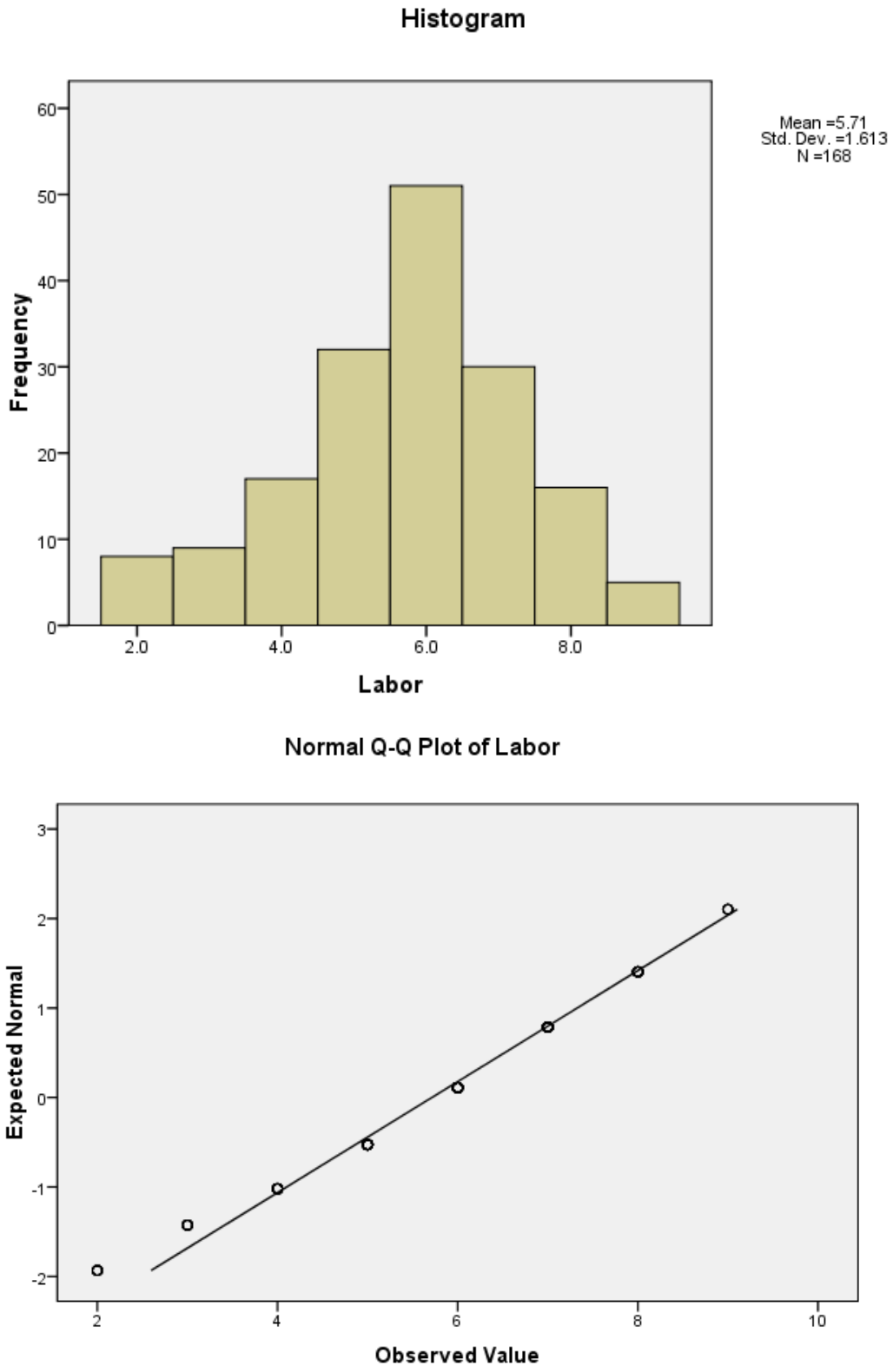


Figure G.8 Histogram and Q-Q Plot: Quality of Labor

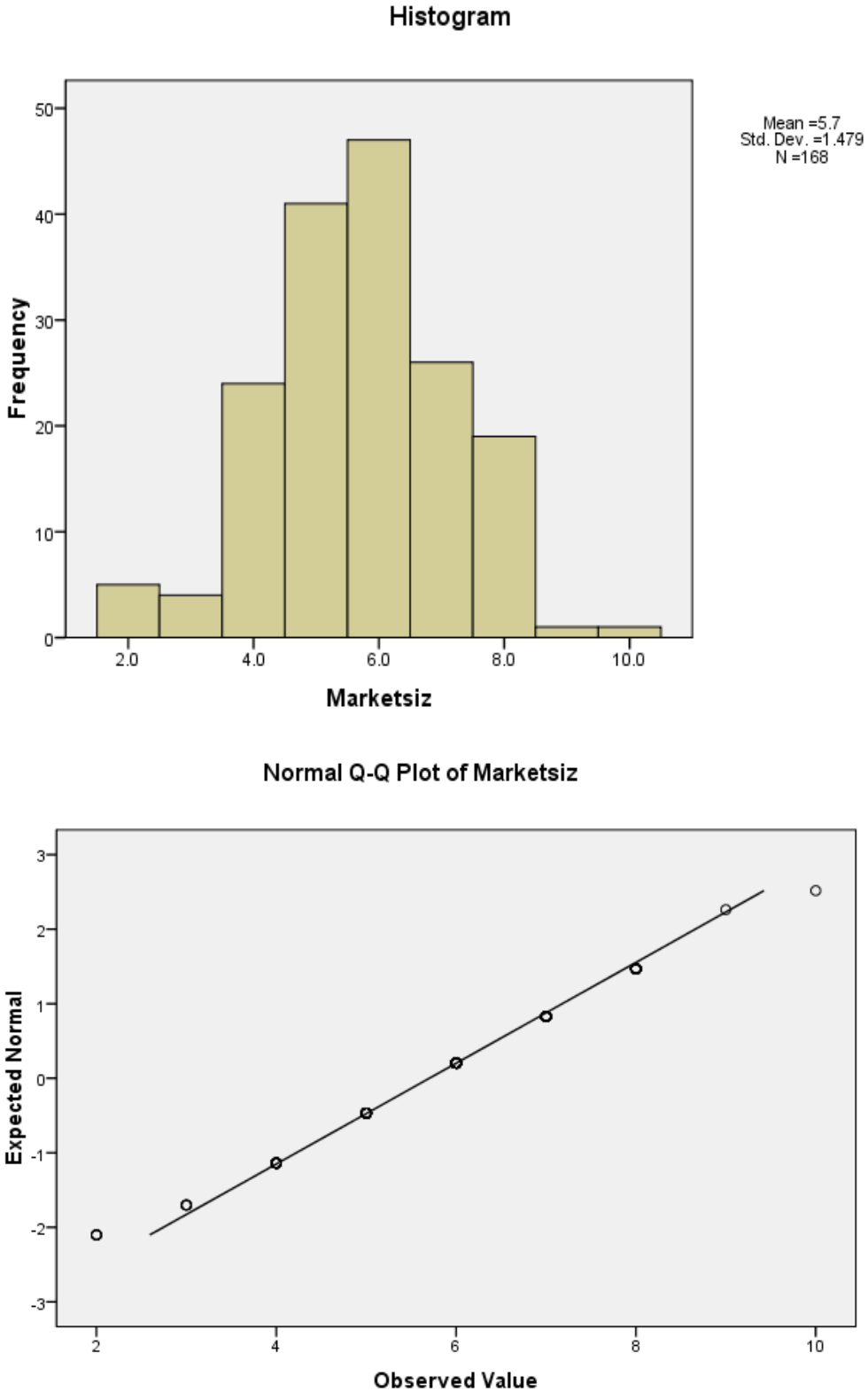


Figure G.9 Histogram and Q-Q Plot: Market Size

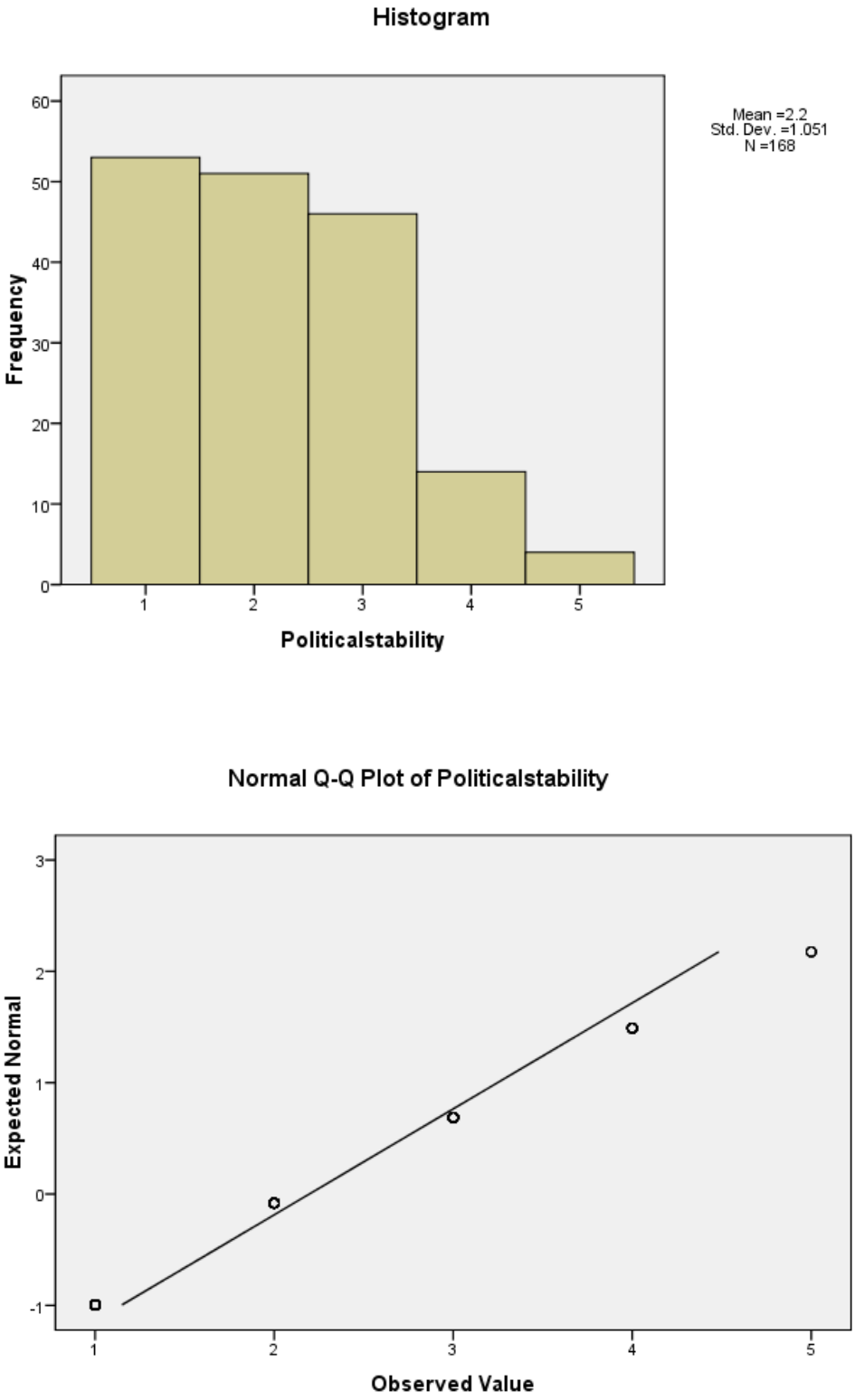


Figure G.10 Histogram and Q-Q Plot: Political Stability

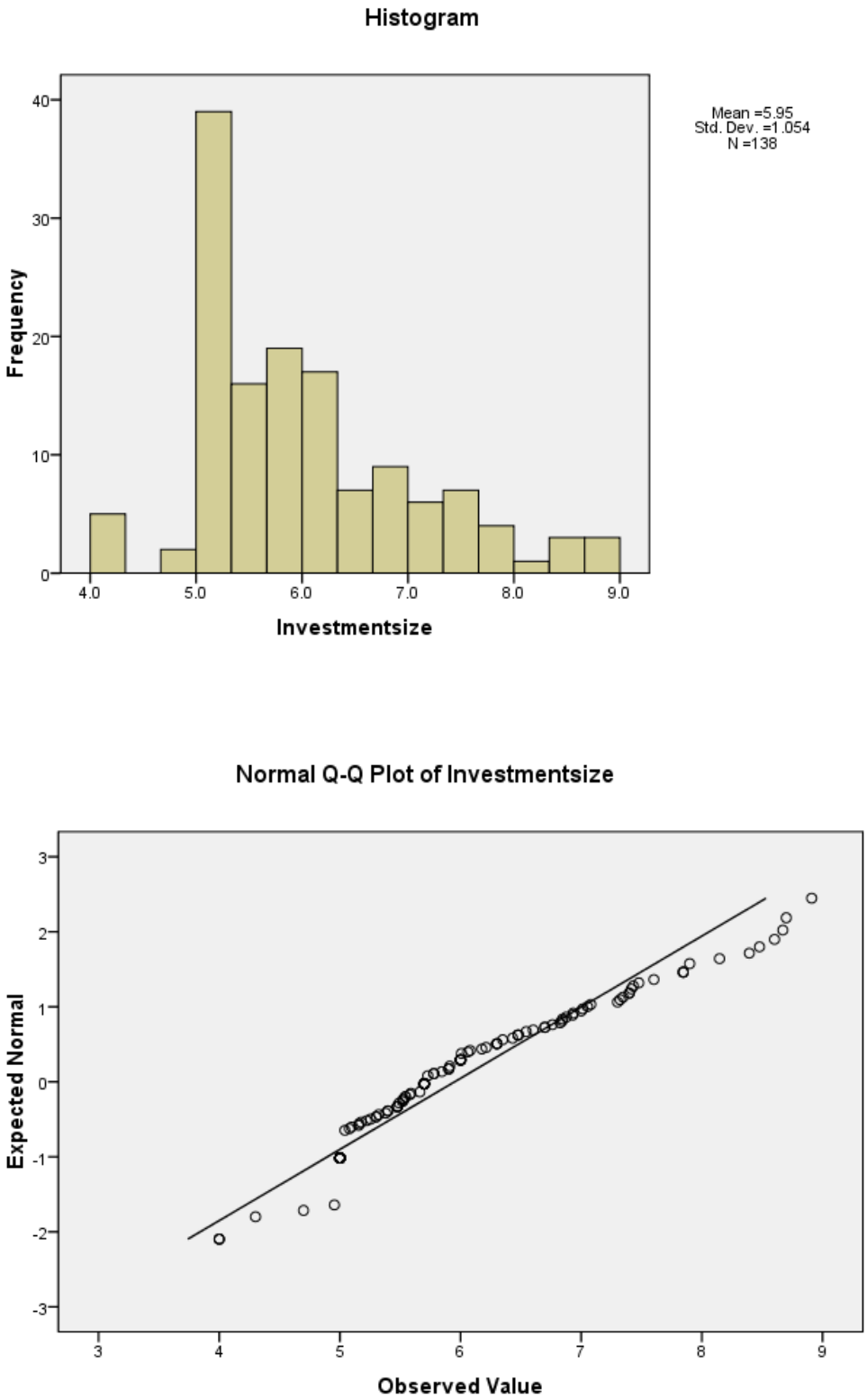


Figure G.11 Histogram and Q-Q Plot: Investment Size

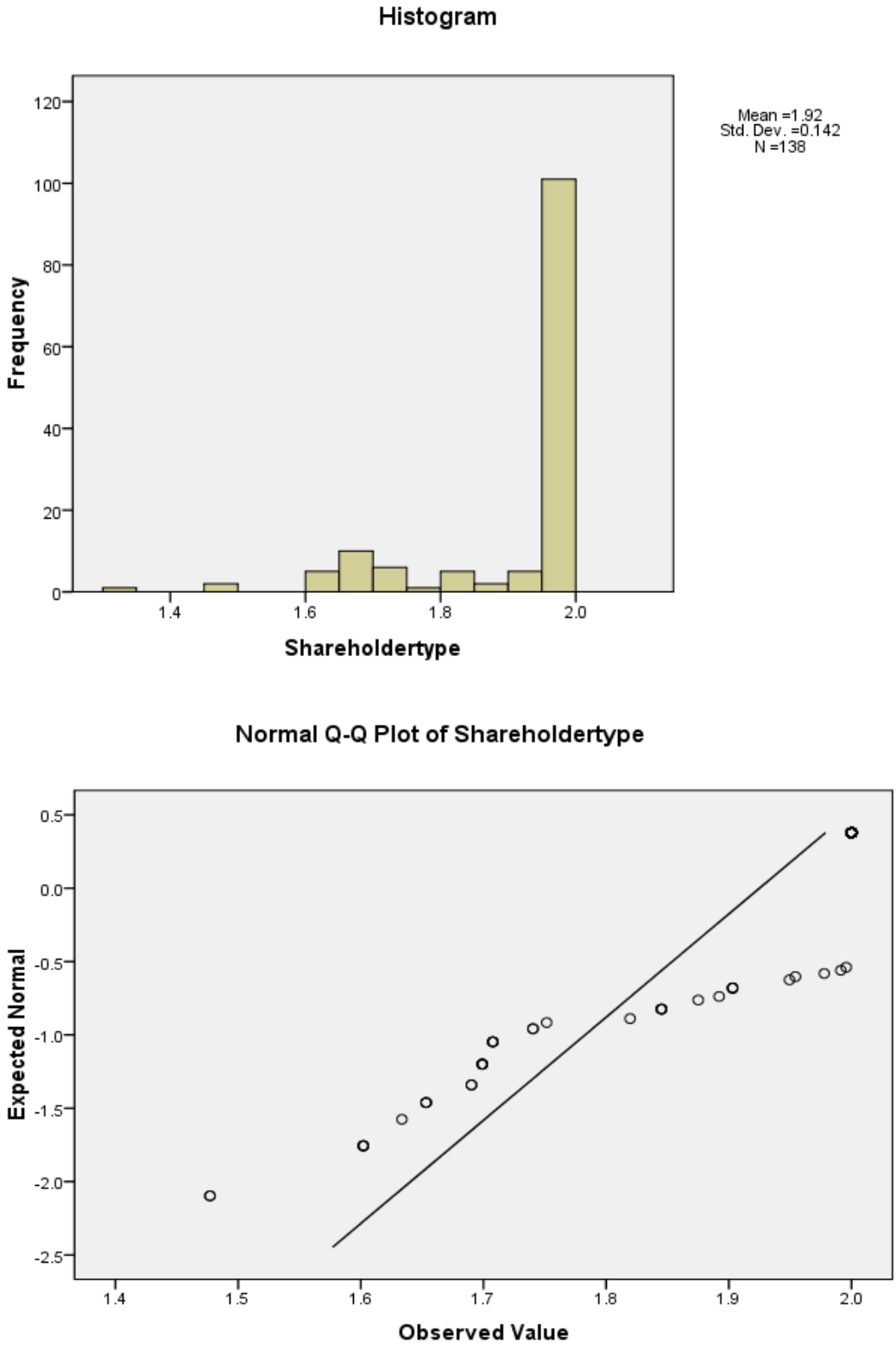


Figure G.12 Histogram and Q-Q Plot: Shareholder Type

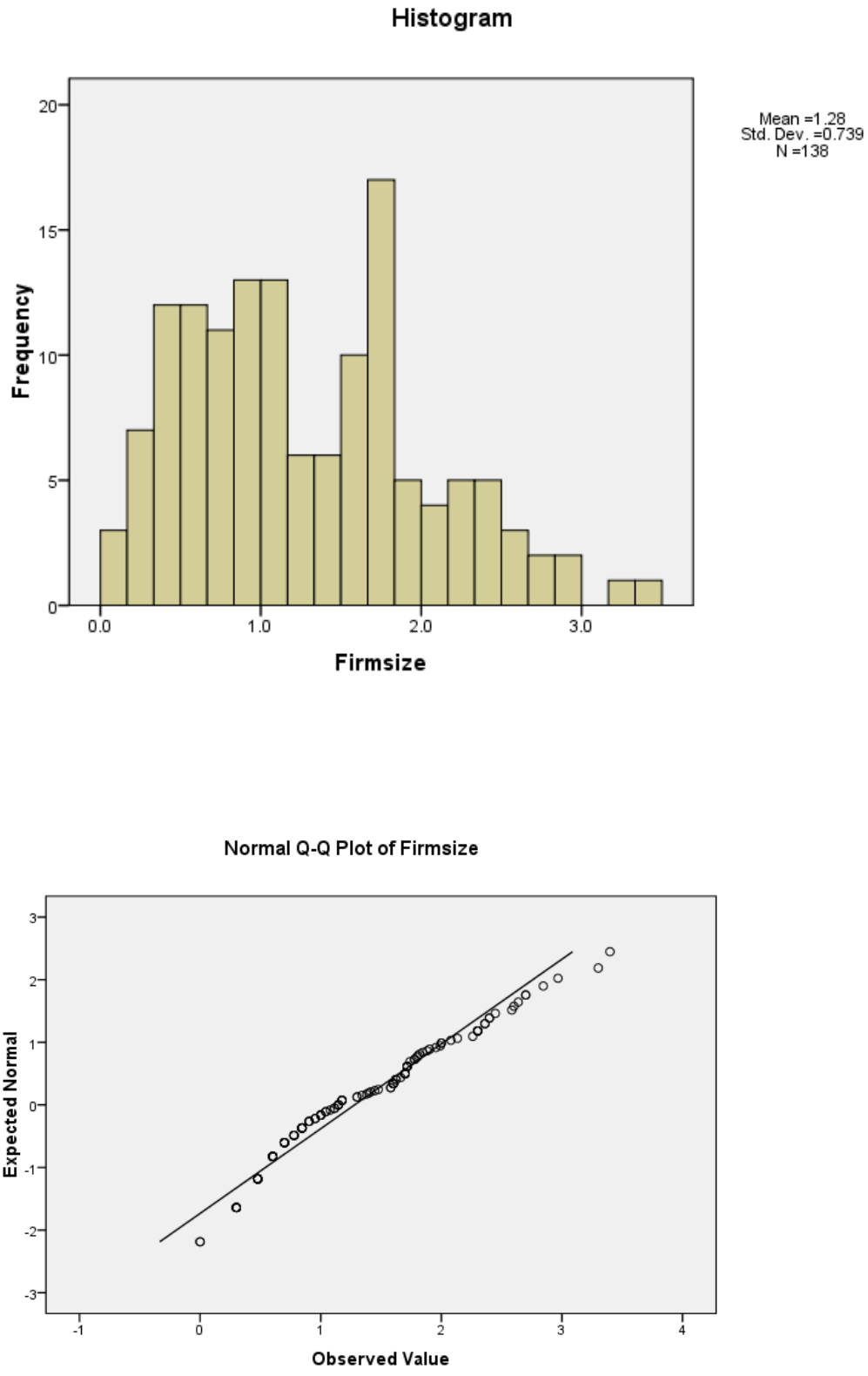


Figure G.13 Histogram and Q-Q Plot: Firm Size

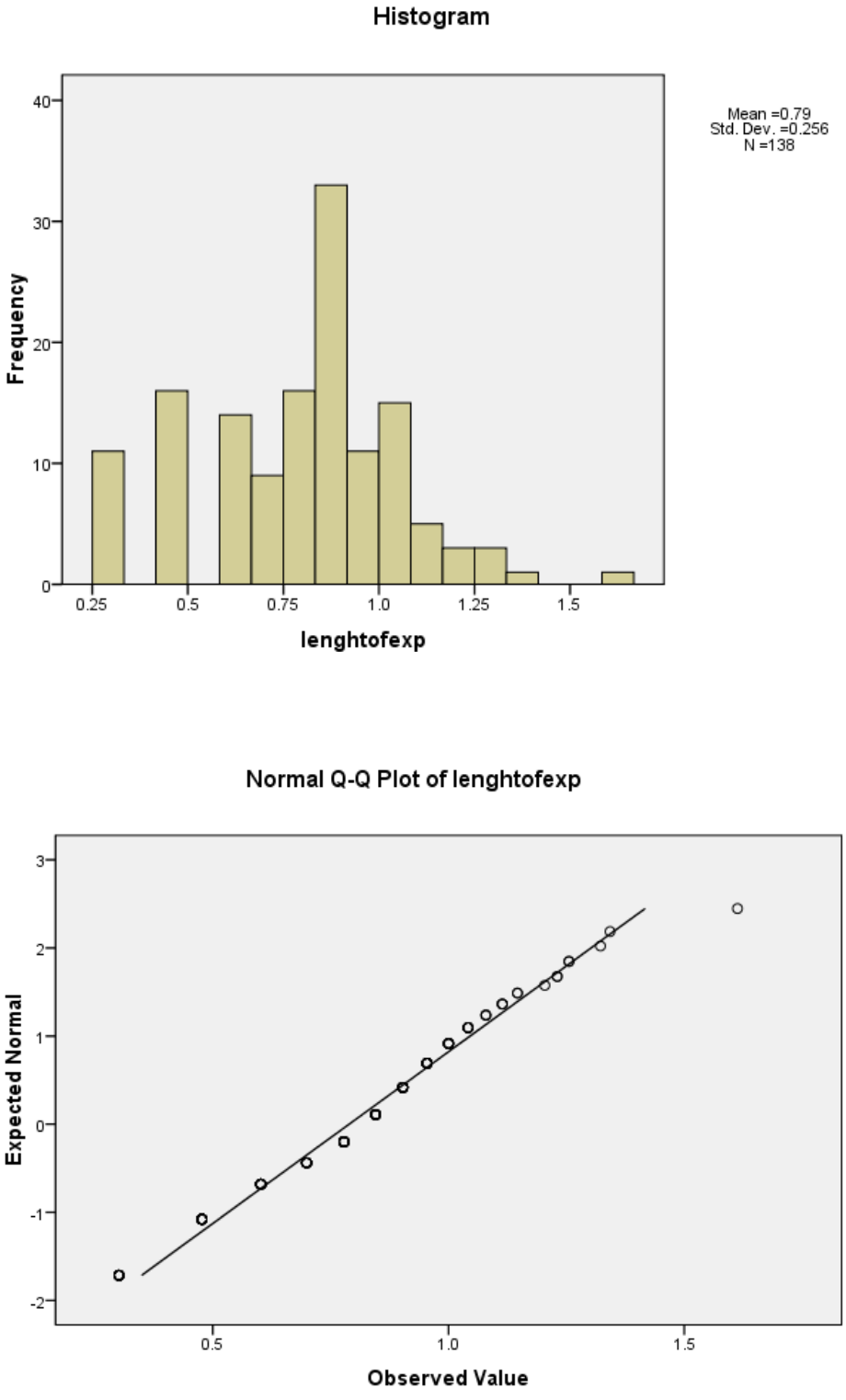
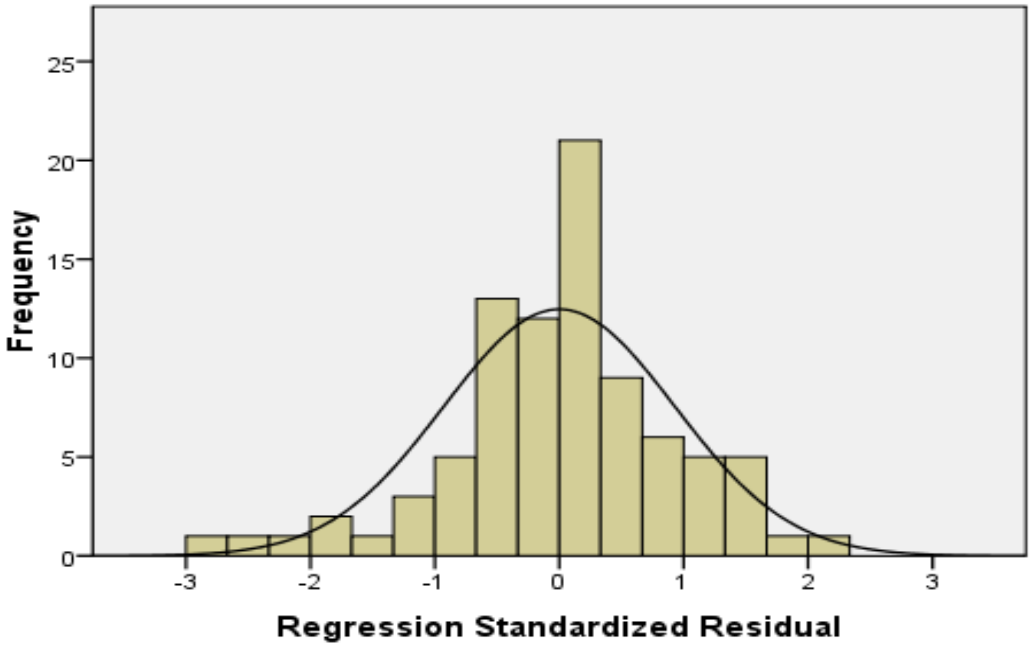


Figure G.14 Histogram and Q-Q Plot: Length of Experience



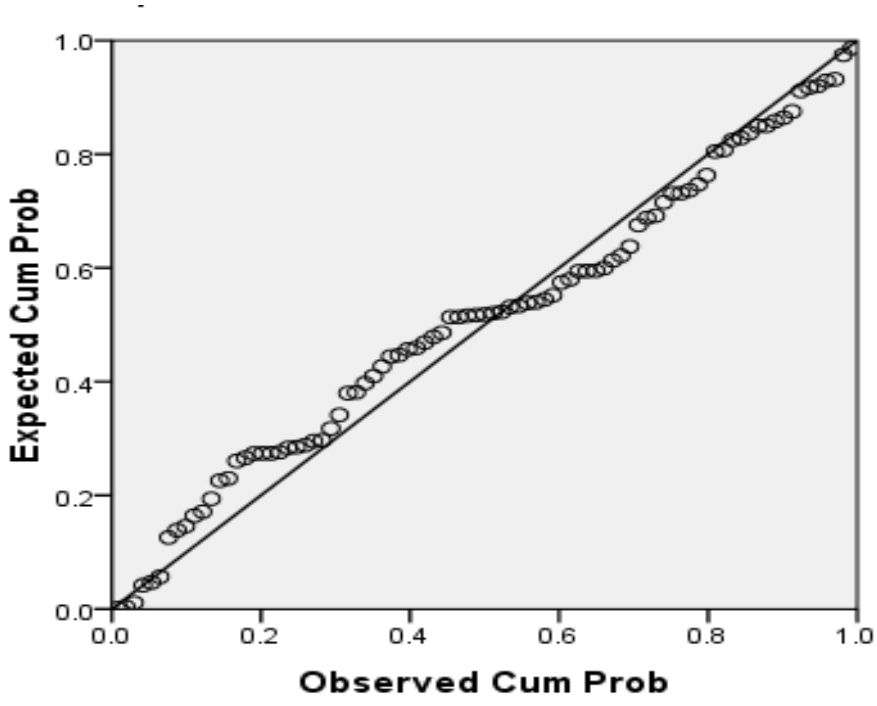


Figure G.15 Histogram and P-P Plot: The Level of Foreign Investor's Satisfaction on Policy Implementation (Multiple Regression)

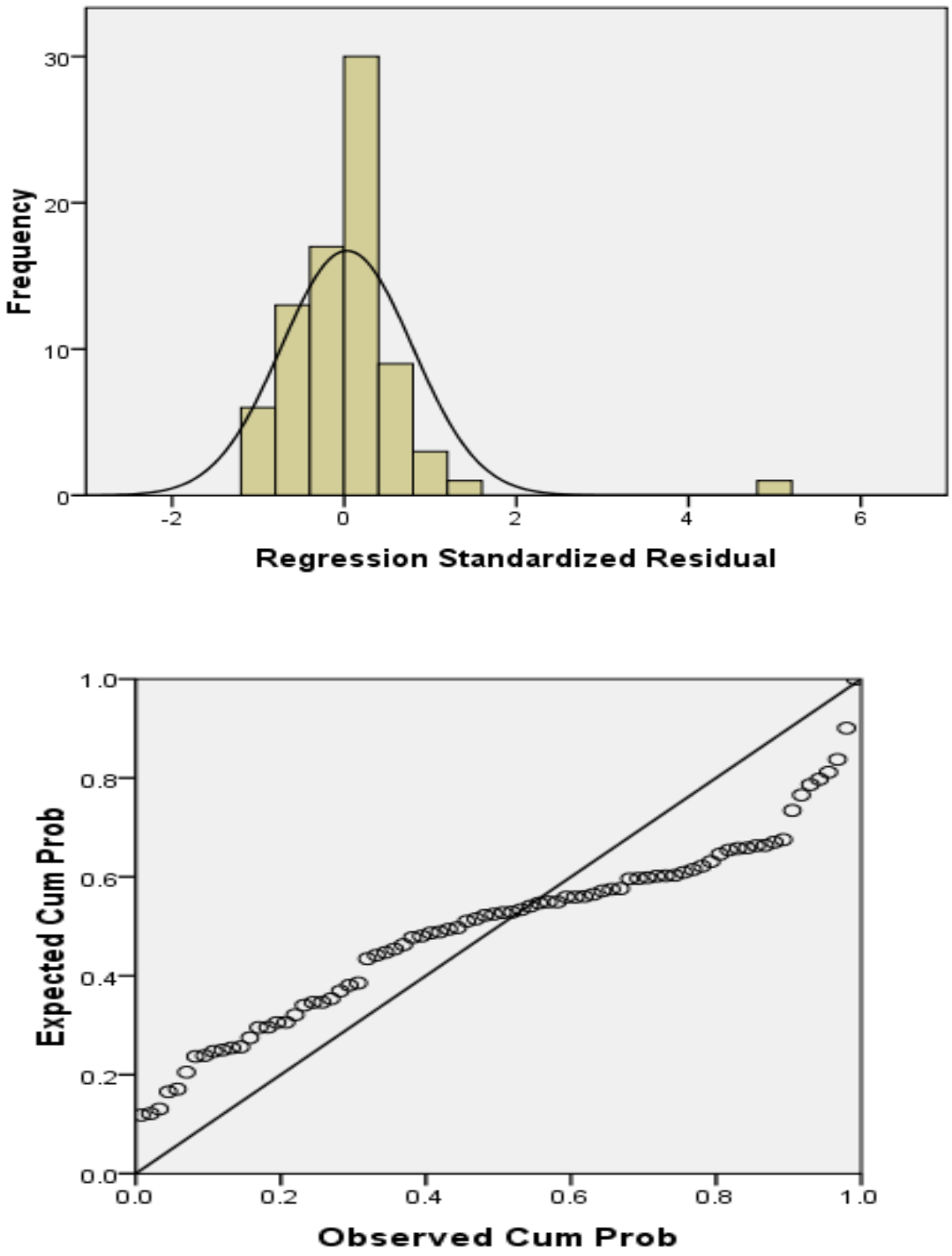


Figure G.16 Histogram and P-P Plot: Foreign Investment Growth Rate (Multiple Regression)

Table G.1 The Growth of Foreign Investment Inflow 1990-2012

	1990-2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Amount of FDI (by mln $)	1120.9	316.8	366.5	499.9	708.9	801.2	1,025.9	4,986.1	3907.5	1,996.5
Number of registered foreign-invested entities	3691	971	1505	1609	1551	613	769	933	774	635

Source: Statistic Bulletin of Investment Agency (former FIFTA), 2013.

BIOGRAPHY

NAME	Gunjidmaa Batsuuri
ACADEMIC BACKGROUND	Bachelor Degree in Business Administration, Khan-Uul institute, Ulaanbaatar, Mongolia, Academic year: 2000-2004 Master Dergee in Business Administration, Academy of Management, Ulaanbaatar, Mongolia, Academic year: 2004-2006
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