Foreign Investment Policy Implementation Effectiveness: A Case Study from Mongolia

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Abstract: Developing countries would like to attract foreign investment for the many benefits it provides, such as 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 benefits and decrease side effects of foreign investment in the host country.

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.

The statistical data for this paper was collected through mail surveys and telephone interviews, while SPSS statistical analysis package was used for data analysis. Four factors that determine foreign investment policy implementation effectiveness are considered in this study. The findings of this study suggest that foreign investment policy would be implemented effectively if either foreign investment policy’s objectives and standards were clearly defined or related agencies’ capacities were improved for implementing foreign investment policy or foreign investors were received better quality of public services or foreign investors were ready accept or follow rules and regulations for implementing foreign investment policy. Also, the findings of the current study suggest that the higher quality of public service and foreign investors’ willingness for following rules and regulations of foreign investment policy. Furthermore, the findings of the study revealed that the most important factor for increasing effective implementation is capacity of implementing agency, followed by clarity of policy objectives and standards which also increases foreign investors’ compliance with implementation regulation.

1. “Introduction” Few studies have been conducted in the area of foreign investment policy implementation. Most researchers have paid attention to factors affecting policy implementation in the case of common policies, such as education, health, housing, urban development, and air pollution. However, little is known about foreign investment policy implementation.

Every policy is implemented very differently based on characteristics such as nature of policy, duration, stakeholders, and resources. For example, foreign investment policy is very different from other policies, as implementation success is highly dependent on the target group’s (i.e., foreign investors’) perception. Most countries have formulated foreign investment policy so as to attract greater foreign investment inflows and for effective use in their societies; however, regardless of the policy developed and implemented by a government, if foreign-invested companies are not satisfied with their business environment in the host country, they will rescind or stop their investment. Foreign investment implementation effectiveness is therefore measured in this study by satisfaction level of the target group, which has received little attention by scholars.

The study of factors affecting foreign investment policy implementation effectiveness is very important for Mongolia. At the very beginning of the country’s transition in the early 1990s, the government undertook a series of initiatives to promote foreign investment. Foreign investment inflow increased dramatically until 2011, but it remains at a low level compared to other countries in the region (UNCTAD 2010). A large reason behind the greater foreign investment inflow was major investment in mining sector. However, mining investment is not only an issue of rational and effective use of limited natural resources; rather, it is related to promotion of sustainable, long-term economic development in the country. Compared with other sectors, the mining sector creates few
new jobs and does not increase national productivity if the country has a weak industrial sector. Furthermore, GDP growth has become highly dependent on foreign investment inflow because the percentage of foreign investment inflow in GDP is now very high, as it was approximately 8% of the country’s GDP before 2009 and increased to nearly 40% by 2011 (NSO 2012). In addition, the government of Mongolia sought to derive benefits from foreign investment inflow, for example to accelerate economic growth, increase employment, extend export; adopt foreign modern technology; and improve national productivity (GoM 2009). However, in the past, these economic indicators had not improved while foreign investment inflow has increased significantly.

Empirical evidence has proven that foreign investment policy should be implemented well, and that the factors of effective implementation should be determined and managed by policymakers and implementers to increase the positive effects of foreign investment while reducing its demerits. This study will therefore assist policymakers in reviewing current foreign investment policy and modifying its implementation in Mongolia when necessary.

Against this backdrop, the purpose of this research is to study the factors affecting foreign investment policy implementation effectiveness. In other words, this research attempts to develop an effective implementation model of foreign investment policy and identify the key factors of foreign investment policy implementation effectiveness. The findings of this research are expected to be utilised in improving foreign investment policy implementation in Mongolia.

This paper is divided into four parts. First, it reviews the extant literature relevant to policy implementation effectiveness and foreign investment policy. The research methodology is then discussed. Next, the findings are discussed and summarised. The paper concludes with a theoretical and practical contribution and directions for further research.

2. “Literature Review”

Several scholars have defined policy implementation based on such arguments as implementation being goal-oriented for all activities (Van Horn and Van Meter, 1975; Anderson, 2011), or carrying out policy decisions and directives (Nakamura and Smallwood, 1980; Mazmanian and Sabatier, 1983), or coordinating the actions of public and private organisations (Van Horn and Van Meter, 1975). Based on these common features, the concept of policy implementation was modified as policy goal-oriented activities or actions which are performed by cooperating and coordinating public and private organisations under conscious conditions for a specific period. More so, it has been observed by many scholars that measuring implementation effectiveness using the target group’s satisfaction when implementation success depends very much on their compliance (Nakamura & Smallwood 1980; Voradej 1984; Vedung 1997).

Furthermore, discussions on the aforementioned concept have noted that policies are implemented differently based on their characteristics, such as nature of policy, duration, stakeholders, and resources. Nevertheless, the quest to make meaningful contributions to this field, have led several scholars to conduct studies that analyse factors affecting policy implementation. For example, Van Horn and Van Meter (1975) suggested that policy standards and objectives; policy resources; inter-organisational communication and enforcement activities; characteristics of the implementing agencies; economic, social, and political conditions; and the disposition of implementers have been responsible for this trend. Edwards (1980) identified four implementation success factors, including communication, resources, dispositions and bureaucratic structures. Mazmanian and Sabatier (1983) developed three sets of factors including factors related to the problem being addressed, the ability of policy decision being converted into an implementation process, and non-policy factors. Also, Goggin et al. (1987) proposed implementation at three different government levels. However, these implementation models have common limitations:

i) The models proposed many variables, and the one that is most crucial in influencing effective or ineffective implementation is not specified;  
ii) The concepts of factors are not clearly defined;  
iii) The frameworks capture only the particular time of the implementation process but not longitudinally;  
iv) Measurement of each independent variable is not clearly defined;  
v) Most of the models are developed based on one case study of policy implementation rather than testing it on different types of policy implementation.

Moreover, no general implementation theory covering a common agreement has emerged, because, as mentioned above, policies are very differently implemented based on their characteristics.

Moreover, the modified definition of foreign investment in this study is “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 local business
entities of host countries for the purpose of future profit within partial or total control on management of that invested company under receiving treatment” (UNCTAD 2003; OECD 2008; Dunning 1988; Sornarajah 2010). Similarly, the concept of foreign investment policy can be defined based on Dye (1998) as “a sum of a government’s purposeful actions or inactions on matters related to foreign investment issues”.

In terms of determinant factors of policy implementation, clearly defined policy objectives and standards increase the quality of implementation. Hogwood and Gunn (1984) prove that a perfect implementation requires a complete understanding of agreement on the objectives to be achieved, and this condition should persist throughout the implementation process. Previous studies such as Sylvester and Ferrara (2003), Cohen et al. (2005), McCreadie et al. (2007) and Howard et al. (2010) have reported positive effects of clarity of policy objectives and standards on policy implementation effectiveness. These authors argued that if policy is not clear, each implementing institution interprets or explains policy objectives based on its perceptions, interests, and values. Unclear policy objectives and standards lead to problems in implementation, such as an ambiguous target group, uncertain measurement of policy outcome and vague guideline for implementers.

Many scholars support the importance of capacity of an implementing agency in terms of implementation performance (Nakamura & Smallwood, 1980; Van Horn & Van Meter, 1975), especially when implementation is carried out by multiple agencies (Goggin et al., 1990). The capacity of an implementing agency concerns having sufficient resources – financial, human, power, time and information – as well as good coordination and communication with other implementing agencies for effective policy implementation and achieving desired outcomes. In terms of foreign investment policy, the importance of the implementing agency on implementation has been studied by Morisset and Johnson (2003). This study observed a positive association between the capacity of a foreign investment agency and policy implementation effectiveness.

Likewise, the quality of public service is critical in determining and enhancing customer satisfaction or policy outcome. It has been noted that quality of service is always connected with customer satisfaction. Customers will be satisfied with the quality of service if the service received equals or exceeds the receiver’s expectations; otherwise, they will be unsatisfied (Liljander & Strandvik 1995). Concepts of quality of public service concern the difference between what a government should offer the target group and what it actually does offer (Parasuraman at al., 1988). Previous studies, including Disney (1999), Lewis and Pattinasarany (2008) and Danjuma and Rasli (2012), have reported positive effects of the quality of public service on policy implementation effectiveness.

The target group’s compliance with regulation is also an important determinant factor for effective implementation. Certain policy outcomes, especially regulatory policy, are highly dependent on target group compliance. For instance, if no-alcohol campaigns failed to reach the public, they would not be implemented successfully. Previous studies have reported positive effects of foreign investors’ compliance with foreign investment policy implementation on policy implementation effectiveness. For instance, Gieles and Gatlin (1980) and Halperin and Rigotti (2003) observed a positive association between foreign investors’ compliance with foreign investment policy implementation and policy implementation effectiveness.

After a comprehensive review and discussion of the related concepts and findings of the previous studies on the factors determining foreign investment policy implementation effectiveness, the following integrated conceptual framework (Figure 1) is developed for the purpose of this study:

![Conceptual framework](Figure 1: Conceptual framework)

3. “Hypotheses”

Based on this conceptual framework, this study develops and analyses the following hypothesis.

H1: The clarity of policy objectives and standards, capacity of implementing agencies, quality of public services and foreign investors’ compliance with implementation regulation are able to predict foreign investment policy implementation effectiveness in Mongolia, i.e., the level of foreign investors’ satisfaction with foreign investment policy implementation.
H2: The clarity of policy objectives and standards, capacity of implementing agencies and the quality of public services have a positive effect on foreign investors’ compliance with implementation regulations.

4. “Research Methodology”

In order to answer the research questions and to test the hypotheses of this study, quantitative methodology is applied as the main method, with qualitative methodology used a secondary method to support the results gained through the quantitative study. This study demanded quantitative methodology for analysing relationships among foreign investment policy implementation effectiveness and predictive factors. Quantitative data were collected from a large number of foreign-invested companies through email survey for gaining data about the variables to test the hypotheses. Then, qualitative data were collected through telephone interview for understanding and supporting the results of the quantitative analysis.

About quantitative data, the target population of this study consisted of foreign-invested companies in Mongolia that hold valid foreign investment certificates issued by a government agency and that had more than one year of experience by early 2013. Based on these two criteria, the population of this study is 2,991 foreign-invested companies. The unit of analysis was the organisation level (foreign-invested companies). Systematic sampling was employed to select samples of foreign-invested companies from different sectors and of different sizes with respect to foreign investment amount. According to Tabachnick & Fidel (2007), to calculate the required sample size, the formula given is \[ n = \frac{50 + 8m}{m} \] where \( m \) is the number of variables in the study. Given five variables, a minimum of 90 cases were required for this study. Once the sample of foreign-invested companies in different sectors and their share of investment were represented, questionnaires were distributed to 228 foreign-invested companies by email. This was done to achieve a large enough sample for the use of regression analysis based on the recommendations by Tabachnick & Fidel (2007). The final sample achieved included a total of 180 usable questionnaires, representing a 79% response rate. All 180 questionnaires were analysed.

The data collected through the email survey were assessed in descriptive and regression analysis. The data from this study were analyzed using SPSS program version 17.0.

For qualitative data, the purpose of the telephone interviews was to interpret and support the quantitative research results. The interviews were conducted with foreign-invested companies’ executive members or foreign investors in order to clarify reasons they less satisfied with foreign investment policy and to interpret respondent’s opinions about each predictive variable after the quantitative survey responses were completed. One hundred and eighty foreign-invested companies responded to the mail survey and the study conducted structured telephone interviews with 80 that reported a low and medium satisfaction score in their response.

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.

5. “Results”

The respondents provided a reasonably representative profile of foreign-invested companies in Mongolia. Replies were obtained from foreign-invested companies in 14 different sectors, with varying amounts of investment, level of experience and number of employees. Companies had two types of structure: wholly foreign-owned companies and joint ventures. The demographic characteristics of respondents indicated that 71% of respondents of foreign-invested companies were wholly foreign-owned companies and almost half of respondents had more than four years of experience as foreign investors in Mongolia. In addition, the majority of respondents had fewer than 100 employees and invested less than $500,001 in Mongolia. Lastly, approximately 60% of total respondents were from mining or exploration and exploitation; trade and service; and construction and engineering sectors. Data for this study were collected during June and August 2014 through a mail survey.

Table 1. Results of Validity Analysis of the Scales

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<tr>
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<tbody>
<tr>
<td>Clarity of policy objectives and standards</td>
<td>.742</td>
<td>2.44</td>
<td>52.64%</td>
<td>.001</td>
</tr>
<tr>
<td>(N of items = 6)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality of public service</td>
<td>.773</td>
<td>3.21</td>
<td>58.26%</td>
<td>.001</td>
</tr>
<tr>
<td>(N of items = 5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity of the implementing agency</td>
<td>.779</td>
<td>2.89</td>
<td>48.7%</td>
<td>.001</td>
</tr>
<tr>
<td>(N of items = 5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign investors’ compliance with implementation</td>
<td>.698</td>
<td>3.12</td>
<td>43.2%</td>
<td>.001</td>
</tr>
<tr>
<td>regulations (N of items = 5)</td>
<td></td>
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</tbody>
</table>
In order to check scale constructions are both reliable and valid, researcher checked validity and reliability test. The validity of scale construction was ensured by applying factor analysis. The Kaiser-Meyer-Oklin (K.M.O) value for quality of public service was .779; capacity of implementing agency was .773; clarity of policy objectives and standards was .742; and target group compliance with implementation regulation was .698 at a significant level p>.000. This means that the factorability of the correlation matrix was supported.

Table 2. Results of the Reliability Analysis of the Scales

<table>
<thead>
<tr>
<th>Scales</th>
<th>Cronbach's Alpha</th>
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</thead>
<tbody>
<tr>
<td>Clarity of policy objectives and standards (N of items=6)</td>
<td>.785</td>
</tr>
<tr>
<td>Quality of public service (N of items =5)</td>
<td>.818</td>
</tr>
<tr>
<td>Capacity of the implementing agency (N of items =5)</td>
<td>.745</td>
</tr>
<tr>
<td>Foreign investors' compliance with implementation regulation (N of items =5)</td>
<td>.632</td>
</tr>
</tbody>
</table>

The reliability of the scale construction in this study was ensured through Cronbach’s coefficient alpha, which determines internal consistency of measurement. The Cronbach alpha value of quality of public service was .818; clarity of policy objectives and standards was .785; capacity of implementing agency was .745; and target groups’ compliance with implementation regulation was .632. The fact that the Cronbach alpha value of each factor was greater than .6 confirms the reliability of the scale used in the study at an acceptable level.

The data analysis part of the study concerns not only how data were analysed but also how data were prepared for regression analysis, as well as which assumptions were supposed to be met.

Table 3: Multicollinearity

<table>
<thead>
<tr>
<th></th>
<th>Capacity of implementing agency</th>
<th>Clarity of policy objectives and standards</th>
<th>Quality of public service</th>
<th>Foreign investors' compliance with implementation regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity of implementing agency</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clarity of policy objectives and standards</td>
<td>.456***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality of public service</td>
<td></td>
<td></td>
<td>.256***</td>
<td></td>
</tr>
<tr>
<td>Foreign investors' compliance with implementation regulation</td>
<td></td>
<td>.296***</td>
<td>.307***</td>
<td></td>
</tr>
</tbody>
</table>

Note: ***p<.001

The assumptions of normality and linearity of the level of the foreign investor’s satisfaction with policy implementation and the independent variables are ensured and there are no violations of linearity and normality assumption.

Furthermore, 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 .7 and there were significant relationships between and among most of the components of the variables of the study (Table 3).

After checking the assumptions, all quantitative data were assessed in a descriptive analysis and regression analyses. The data from this study were analysed using the computer SPSS programme version 17.0.

To support the results gained through the quantitative study, there were 180 foreign-invested companies that responded to the mail survey, and the study conducted structured telephone interviews with 80 of them (with the CEO or investors of foreign-invested companies) who showed a low or medium level of satisfaction in their mail survey responses. The interviews were conducted from July to August 2014. Each interview took about 20 minutes. The interviewer took notes while interviewing on the phone.

Half of the total participants (40 interviewees) had 3-8 years of experience doing business in Mongolia. Twenty participants represented foreign investment companies with less than three years of experience, while the reminder had more than 8 years of experience. In terms of the operating sectors, many foreign-invested companies that participated in the structured telephone interviews were operating their business across at least two sectors and sometimes up to eight sectors at a same time. This means many interviewees had experience conducting business in different sectors.

6. “Findings”

Findings of quantitative analysis: In this study, quantitative data analysis involved descriptive and regression analysis for examining the factors affecting foreign investment policy implementation effectiveness.
Table 4. Descriptive Statistics for Dependent and Independent Variables

<table>
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</thead>
<tbody>
<tr>
<td>Level of foreign investors’ satisfaction with foreign investment policy implementation</td>
<td>2.01</td>
<td>4.04</td>
<td>0.038</td>
<td>-2.90</td>
</tr>
<tr>
<td>Clarity of policy objective and standards</td>
<td>1.01</td>
<td>1.022</td>
<td>.089</td>
<td>.365</td>
</tr>
<tr>
<td>Quality of public service</td>
<td>0.989</td>
<td>0.998</td>
<td>0.015</td>
<td>-1.131</td>
</tr>
<tr>
<td>Capacity of implementing agency</td>
<td>1.00</td>
<td>1.018</td>
<td>.407</td>
<td>.344</td>
</tr>
<tr>
<td>Investors’ compliance with implementation regulations</td>
<td>0.997</td>
<td>0.995</td>
<td>-0.375</td>
<td>-0.480</td>
</tr>
</tbody>
</table>

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. Table 4 shows summary of results of descriptive statistics.

In this study, the regression analysis particularly ordinary least squares analysis used for analysing the relationship between the independent and dependent variables or testing hypotheses I – II. 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.

It shows the regression result for checking the proximity of the 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. Table 5 presents that the Adjusted R square value was .672, which means that the clarity of policy objectives and standards, capacity of implementing agency, quality of public service and foreign investors’ compliance with implementation regulation together can account for 67.2% of the variation in foreign investment policy implementation effectiveness.

Table 5: OLS regression results for level of the foreign investor’s satisfaction in relation to foreign investment policy implementation and independent factors

<table>
<thead>
<tr>
<th>Predicting variables</th>
<th>Unstand. Coeff.</th>
<th>Stand. Coeff.</th>
<th>Sig. (p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>3.111</td>
<td>53.383</td>
<td>***</td>
</tr>
<tr>
<td>Clarity of policy objectives and standards</td>
<td>4.65</td>
<td>0.325</td>
<td>5.953</td>
</tr>
</tbody>
</table>

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 ($\beta = .392, t = 6.903, p<.001$). Variable which has a moderate positive influence on the level of foreign investors’ satisfaction with foreign investment policy implementation is clarity of policy objectives and standards ($\beta = .325, t = 5.953, p<.001$). However, quality of public service ($\beta = .234, t = 4.41, p<.001$) was found to have a weak positive influence on the level of satisfaction with foreign investment policy implementation. Finally, foreign investors’ compliance with implementation regulation ($\beta = .187, t = 3.622, p<.001$) was found to have a weak positive influence on foreign investment policy implementation effectiveness. In the case of determining factors affecting foreign investors’ compliance with implementation regulation, the Adjusted R square value was .136, which means that clarity of policy objectives and standards, capacity of implementing agency and quality of public services together can account for 13.6% of the variation in foreign investors’ compliance with implementation regulation. Clarity of policy objectives and standards, and quality of public service were found to have a weak positive influence on foreign investors’ compliance with implementation regulation.

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 2) have been developed to make this clearer.

Findings of qualitative analysis: The study conducted telephone interviews to elicit the reasons behind foreign investors’ unsatisfactory rating with the country’s foreign investment policy implementation according to their mail survey responses. Interview responses from the 80 interviewees vary depending on their operating sectors, their experience and the percentage of their share in the foreign-invested company. The common reasons that were found through the structured telephone interviews are listed as follows:

<table>
<thead>
<tr>
<th>Predicting variables</th>
<th>Unstand. Coeff.</th>
<th>Stand. Coeff.</th>
<th>Sig. (p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of public service</td>
<td>0.479</td>
<td>0.234</td>
<td>4.41</td>
</tr>
<tr>
<td>Capacity of implementing agency</td>
<td>0.788</td>
<td>0.392</td>
<td>6.903</td>
</tr>
<tr>
<td>Foreign investors’ compliance with implementation regulations</td>
<td>5.111</td>
<td>0.187</td>
<td>3.622</td>
</tr>
</tbody>
</table>

Note: N=180; ***p<.001; R² = .681, Adjusted R² = .672; F = 75.105, p<.001; Durbin Watson Statistics = 1.820
The first reason was the difference between legal statements, implementation standards, and practices. The majority of interviewees were certain that what the law on foreign investment stated was different from implementation standards and practices. The reason behind the huge gap between what is stated by the law and implementation practices could be the fact that implementation standards were not clearly stated in the law and that the implementing agency is permitted to make its own implementation standards that are more in line with the organisational goal than the policy goal. For example, the required documents and important dates for registering foreign investment or the amount of charges that should be imposed on investors if they violate the law are formulated by the implementing agency. However, these rules and standards tend to conflict with what the law states.

The second reason was the lack of a systematic policy for promoting foreign investment in particular sectors and a reward policy for strong performance by foreign-invested companies. Several interviewees said that there is no policy promoting foreign investment such as tax incentives. In some sectors, foreign investors need a great deal of support from the government to reduce risk and increase profits of the investing company. However, some other interviewees expressed that tax incentives should be provided based on foreign-invested companies’ performance.

The third biggest reason for dissatisfactory perceptions on implementation was the instability of the legal and political environment. Many interviewees said that the foreign investment legal and political environment always changes with each new government. This is because politicians intervene considerably in the foreign investment legal environment, which causes a great deal of confusion among foreign investors. However, the level of political stability varies in different sectors. Political instability in the mining sector was highest of all sectors.

The fourth reason was discrimination between foreign and local investors. Several interviewees said that public organisations discriminate against foreign investors in many cases, such as issuing permits, extending certificates, and applying for government projects. In addition, some staff members at public organisations try to discriminate when they provide public service. Foreign investors want to have the same treatment as local companies.

The fifth reason was corruption and excessive bureaucracy with civil servants and public organisations. Interviewees from most sectors, especially sectors that require licenses to operate a business in Mongolia, specified corruption as problem regarding public organisations. Excessive bureaucracy also tends to occur in every public organisation due to a lack of ethics among public servants, weak cooperation among public organisations and ambiguous policy standards. To obtain required permissions, foreign investors must submit several documents, visit various public organisations, and perform a number of processing procedures. Several steps at public organisations increases bureaucracy and leads to corruption.

The last common reason was negative information about foreign investors in the media. Due to the negative reputation of foreign investors in the mining sector, which is always associated with environmental damage and other issues, social media attempts to cover only the bad experiences of foreign-invested companies. Many other foreign-invested companies can be good examples for the host country. However, those companies have rarely been admired and appreciated by social media, which creates several problems for their businesses, especially in the mining sector. Interviewees shared that foreign investment agencies should be concerned about this issue and provide positive information about foreign investors.

In terms of the clarity of foreign investment policy objectives and standards, interviewees were asked that how they would define the purpose of foreign investment law in Mongolia. Answers were different in various sectors. For example, the mining, banking, foreign trade and construction sectors tend to define foreign investment as regulated but ambiguous. Light industry sectors, on the other hand, are defined as protecting foreign investors’ interests and unambiguous. In addition, the agricultural sector defined it as promoting foreign investment in Mongolia. However, many of them stated that they could not define it.
Foreign investment law is very broad, ambiguous and lacks several regulations, including an enforcement mechanism, rights, obligations, duties of foreign investors, expected outcome of the policy and treatment for foreign investors. Furthermore, standards, rules and regulations are ambiguous. For example, there are no standards of conditions for rejecting foreign investment or extending foreign investment certificates, specific dates and lists of documents, and penalties for in the event foreign investors violate the law.

Regarding the capacity of implementing agencies, interviewees mentioned that they have a lack of resources, including financial, power and human resources. Due to the lack of financial, power and human resources, agencies do not organise a number of activities for foreign investors. Most government decisions related to foreign investment issues take a long time, and the performance of foreign investment projects cannot be evaluated. Moreover, according to interviewees, implementing agencies do not have sufficient communication and cooperation with other public organisations and foreign investors.

In addition, interviewees were asked for recommendations on further agency improvements. All of their responses imply that information should be distributed faster and more correctly, that officers should improve their communication skills, that standards must be more clear and detailed, that agencies should promote investments through advertising opportunities, that more meetings and conferences should be organised, that online communication with investors should be improved, that implementation of investment projects should be monitored, that authority for faster decision making should be increased, and that more research about the investment climate in Mongolia should be conducted.

For quality of public service, most interviewees were unsatisfied with the timing and diversity of public services. The range of services provided by implementing agencies should be more diversified. In the context of timing, the biggest problem lies in providing quality services. Many interviewees mentioned that the registration process takes a long time and involves several steps. Furthermore, aftercare services such as providing consultations and references, organising meetings and conferences, advertising the legal environment and investment opportunities, and other possible services do not match investors’ expectations.

In terms of foreign investors’ compliance with implementation regulation, the majority of investors state that they are willing to comply with implementation regulations, including registering their new investments and re-investment, reporting their performance every year and informing if they have any changes in the terms of their structure, operating sector, location, etc.

Furthermore, interviewees mentioned that enforcement for regulations must be applied because standards for violating the foreign investment law have not been issued in practice, and some investors have no intention of informing on any changes that happen. However, if the government regulates foreign investment too much, investors feel uncomfortable. Interviewees mentioned that a certain level of regulation is acceptable because it also creates closer relations between investors and public officers.

7. “Discussion and Conclusions”

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 collecting data and analyzing the factors affecting foreign investment policy implementation effectiveness (i.e. level of foreign investors’ satisfaction with foreign investment policy implementation). The determinant factors included the clarity of policy objectives and standards, quality of public service, capacity of implementing agency, and foreign investors’ compliance with implementation regulations. 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.

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 Andrews-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 Andrews-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.

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, Howat et al. (1999), Disney (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 Howat et al. (1999), Disney (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.

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, Gieles 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 Gieles 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.

Based on above discussions and findings, the study recommends that unambiguous and measureable policy objectives and means, as well as better capacity of foreign investment agencies, are the main solution for improving foreign investment policy implementation in Mongolia. Foreign investment law must be clear on the following issues:

Intended goals to be achieved must be consistent with the national development plan and be measured by policy outcome;

All implementation regulations, standards and rules, such as conditions concerning rejection or confirmation of investment authorisation; a list of all required documents for foreign investment and re-investment registration, extension of certification, provision of investors’ cards, bankruptcy and many others;

Same treatment for local and foreign investors;
Protection of foreign investment;  
Enforcement approaches to comply with the law, such as defined penalties for non-compliance with the law;  
Promotion of foreign investment in certain sectors and linked with tax law;  
Foreign investment agencies’ duties: provide better quality of service, control and check the performance of foreign investment projects, provide aftercare service;  
Foreign investors’ obligations should include the organisation of training for local employees, transferring of new technology, taking responsibility for environmental damage and local citizens’ dissatisfaction, register re-investment, inform of any changes regarding company name, structure, investor and location, report the performance of investment projects;  
Foreign investment agencies’ rights to issue penalties for non-compliance with the law, and obtain data of foreign investment organisations from other public organisations.  
Furthermore, foreign investment agencies should be improved in terms of their financial, human and power resources to implement foreign investment policy effectively. It has been observed that the coordination and cooperation among main implementing agencies and other participating agencies are weak and underdeveloped. Therefore, introducing an online system would solve the problem of weak implementing agencies and improve the quality of services. Foreign investors should be able to submit the required information or obtain information through Internet websites. In addition, public organisations should be able to use online systems to exchange information.  
Likewise, the stability of the foreign investment legal and political environment must be mentioned. Political parties should be able to respect previous governments’ policies despite different political ideologies. Furthermore, legal changes can be reduced when all stakeholders are involved in policy formulation stages, the policymaking process and improvements based on research.  
The current study evaluated foreign investment policy implementation in Mongolia based on foreign investors’ perceptions and provided recommendations for effective implementation of foreign investment policy as a practical contribution. In addition, 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 hypothesised predictors for achieving the effective implementation of foreign investment policy.  
Future research can be conducted in the area of foreign investment policy implementation effectiveness in specific sectors. In addition, the impact of mining investment on environmental issues could be an important topic for many resource-rich countries, such as Mongolia. Also, the current study used foreign investors’ satisfaction level 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 growth rate of foreign investment inflow, 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.).
8. “References”


