

Actual Corporate Conditions in Mongolia: An Investigation into Corporate Governance of Ulaanbaatar's Listed Companies

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Introduction

In June of 2011, a project team of professors from the Social Systems Research Institute of Chuo Gakuin University conducted a survey to investigate corporate governance in Ulaanbaatar in Mongolia. The survey was carried out in cooperation with Professor Tuvd Dorj, vice-president of the Mongolian Academy of Sciences, Tuvshintur Tsend-Ayush, Corporate Governance Development Center, D. Dugerjav, Commissioner & Vice-Chairman of the Financial Regulatory Commission of Mongolia, and Sanaser Sodnomdorj, School of Economic Studies at the National University Mongolia. We very much appreciate their cooperation.

In addition, this paper would never have been completed without the help of Chuluun Tuya, general manager of the Economy and Business Union and B. Oyuntsetseg, from the Mongolia-Japan Center For Human Resources Development. They not only provided interpreting services, but also assisted in designing, implementing, and reflecting on the questionnaire, making contacts and arranging our meetings, conferences, etc. I would here like to express my sincere thanks for their assistance.

As of May 2011, there were 335 listed companies, including 22 state-holding companies, on the Ulaanbaatar Stock Exchange. We focused on 140 companies among them, receiving 100 responses to the surveys we asked them to complete (response rate: 71.4%), accounting for 29.9% of all listed companies. We thus feel that the results reflect current conditions among Mongolian listed companies to a high degree of accuracy. This survey was the first of its kind to be undertaken in Mongolia.

Our project team had three objectives:

- (1) Understand the corporate frameworks of Ulaanbaatar's listed companies
- (2) Approach Mongolian corporate governance from a general viewpoint
- (3) Understand how listed companies are coping with environmental problems

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Each of the three objectives had the following content:

(1) Outline of the Corporate Frameworks of Ulaanbaatar's Listed Companies

We wanted a firmer grasp on the corporate frameworks of Ulaanbaatar's listed companies. We therefore had to understand a company's type of business, capital size, number of employees, gross sales per year, etc. Five fields thus characterized each company's profile:

- 1) Industries were grouped into 17 types, taking into consideration actual conditions in Mongolia.
- 2) Capitalization size was divided into eight levels.
- 3) Numbers of employees were divided into eight levels.
- 4) Yearly sales were divided into eight levels.
- 5) We asked the year of founding, of the establishment of the company, and year to be listed.

(2) Approaching Mongolian Corporate Governance from a General Viewpoint

We approached Mongolian corporate governance from a general viewpoint, studying not only the innovations of independent directors, advisory boards, and accounting advisors, but also the actual conditions of corporate ownership. The questionnaire was thus divided into these four areas:

- 1) Current situation of the board of directors, number of directors on the board, participation in the board of directors by non-executive or independent directors, the existence of certain regulations for the board of directors, the number of times per year the board of directors meets, whether or not directors receive compensation, etc.
- 2) The actual situation regarding stock holdings by the founder or his relatives. At the same time, considering the modern political history of Mongolia, we examined how many national companies' stocks the state holds.
- 3) What executive or managerial positions or managerial role a founder or his relatives might assume for a company; also, the current oversight role for management.
- 4) Whether a company has a codified management policy, business philosophy, ethical regulations, etc.

(3) How are Listed Companies Dealing with Environmental Problems?

We wanted to learn how listed companies are dealing with environmental problems. The questionnaire focused on three areas:

- 1) Whether activities of the company were a cause of environmental pollution.
- 2) Whether there are explicit laws, ministerial ordinances, or other ordinances regarding the environment that a company has to obey.
- 3) Whether a company is addressing environmental problems: taking measures against

pollution, protecting surrounding areas from harmful effects of its activities, preparing a budget for maintaining a healthy environment, etc.

1. Corporate Frameworks

(1) Type of Business

The first step of the investigation was to classify the 97 responding companies. The sectors with the greatest number of businesses were “Electricity, Heating, Water Supply”, “Construction”, “Real Estate/Rent” at 15 companies (15.5%) each. Next were “Warehouse/Transport and allied industries” at 14 companies (14.4%), and then “Manufacturing”, “Wholesale, Retail” at 13 companies (13.4%) each. Also, there were some companies who classified themselves as belonging to more than one sector, as up to three sectors could be selected.

1), 2) and 3) in Table 1-1 belong to primary industries. They have 25 checks. Five of the responding companies checked both 1) and 2). That means 20 out of 97 companies (20.6%) are classified as primary industries. It might be said that this number is not a small one for the Ulaanbaatar Stock Exchange. This evidence makes it clear that primary industries are of great importance to Mongolia. In contrast, only 13 companies (13.4%) checked 4) “Manufacturing”, a relatively low percentage. 7), 8), 9) and 12) belong to tertiary industries. 45 out of 97 companies (46.4%) are classified as tertiary (seven out of 52 companies checked more than one).

Table 1-1. Categories of Business among Mongolian Listed Companies

	Total 159 (97 companies)	(%)
1) Agriculture	8	8.2
2) Food manufacturing, Stock-raising	6	6.2
3) Mining	11	11.3
4) Manufacturing	13	13.4
5) Electricity, Heating, Water Supply	15	15.5
6) Construction	15	15.5
7) Wholesale, Retail	13	13.4
8) Hotel, Food and Beverage	10	10.3
9) Warehouse · Transport and Related Industries	14	14.4
10) Communication	4	4.1
11) Maintenance · Repair	7	7.2
12) Real Estate, Rent	15	15.5
13) Education	0	0.0
14) Health · Insurance	1	1.0
15) Sports, Amusement	1	1.0
16) Finance	4	4.1
17) Others	22	23.7

Under the free market system, the activities of big companies are very influential in a society’s

economic life, providing leadership to many other big or small companies in a country. It is therefore valuable for us to study about big companies in Mongolia. In the following, I focus on 12 big companies who checked “¥10,000,000,001 or more” in Table 1-3. I label them ‘Big-12’, and their categories of businesses are in Table 1-2.

Table 1-2 Big-12’s Business Categories

Categories of Business	Mining	Manufacturing	Electricity, Heating, Water Supply	Construction	Wholesale, Retail	Hotel, Food and Beverage	Communication	Maintenance · Repair	Real Estate, Rent	Others
Number of Companies	1	1	7	1	2	1	1	4	3	1

Looking at the Big-12 in detail, seven companies checked “Heating, Water Supply” and 4 of them also checked “Maintenance · Repair”. That means all the companies who are in “Maintenance · Repair” are also in “Electricity, Heating, Water Supply”.

(2) Capitalization

In looking at capitalization size, we came to the conclusion shown in Table 1-3. The greatest number of companies, at 24 (25.0%), was in the range ¥100,000,001-¥500,000,000 (¥6,250,001-¥31,250,000). Next were 20 companies (20.8%) in the range ¥1,000,000,001-¥5,000,000,000 (¥62,500,001-¥312,500,000), 12 companies (12.5%) in the range ¥10,000,000,001 or more (¥625,000,001 or more), 11 companies (11.5%) in the range ¥10,000,001-¥50,000,000 (¥625,001-¥3,125,000), and 11 companies (11.5%) in the range ¥5,000,000,001-¥10,000,000,000 (¥312,500,001-¥625,000,000).

We should be wary of jumping to conclusions from these figures however, as Mongolia’s land area is four times that of Japan. As it has a population of about 2.78 million and Ulaanbaatar has 1.15 million inhabitants (2010), it means approximately 40% of the nation’s people live in only one city. In contrast, Japan has 128 million people (2010), 46 times that of Mongolia. Mongolia’s nominal GDP in 2010 was 6,690 million dollars and 2,207 dollars per person, 1/754th and 1/18th respectively, that of Japan. The fundamentals between the two countries are so different that comparisons might seem to have little meaning. Nevertheless, we are forced to discuss and compare everything regarding States’ economic situations by the same standards due to globalism. In this paper, therefore, I have converted the Mongolian Tugrug into Japanese Yen (¥1 ≐ ¥16, as of 2011/07/14). It might be useful to compare these economic conditions with Japan or other countries.

Table 1-3 Capitalization Size

		Total Responses 96 (100%)
1)	¥10,000,000 or less (¥625,000 or less)	2 2.1
2)	¥10,000,001-¥50,000,000 (¥625,001-¥3,125,000)	11 11.5
3)	¥50,000,001-¥100,000,000 (¥3,125,001-¥6,250,000)	6 6.3
4)	¥100,000,001-¥500,000,000 (¥6,250,001-¥31,250,000)	24 25.0

5) ¥500,000,001-¥1,000,000,000	(¥31,250,001-¥62,500,000)	10	10.4
6) ¥1,000,000,001-¥5,000,000,000	(¥62,500,001-¥312,500,000)	20	20.8
7) ¥5,000,000,001-¥10,000,000,000	(¥312,500,001-¥625,000,000)	11	11.5
8) ¥10,000,000,001 or more	(¥625,000,001 or more)	12	12.5

※ ¥1 = ¥16¹

(3) Employees

Table 1-4 shows the variety in scale of full-time employees at Mongolian companies. 45 of 96 companies (46.9%) have 50 or less employees. 16 companies (16.7%) have 51-100 employees. This results, therefore, in 63.6% of Mongolian listed companies having 100 employees or less.

Table 1-4 The Number of Full-Time Employees

	Total 96	(100%)
1) 50 or less employees	45	46.9
2) 51-100	16	16.7
3) 101-150	6	6.3
4) 151-200	5	5.2
5) 201-300	8	8.3
6) 301-500	6	6.3
7) 501-1,000	5	5.2
8) 1,000 or more	5	5.2

Four companies of the Big-12 checked “1,000 or more”, two companies “501-1,000”, and two companies “301-500”. These results largely matched the estimates we had made based on the respective capitalizations. It was unexpected, however, for two companies to answer that their employees were 50 or less. This might be due to special circumstances due to their classification as “Real Estate, Rent”.

Table 1-5 Big-12's Full-Time Employees

Full-Time Employees	Number of Companies
50 or less	2
151-200	1
201-300	1
301-500	2
501-1,000	2
1,000 or more	4

(4) Yearly Sales

We can see there are two peaks in Table 1-6: ¥50,000,000 or less (20.0%) and ¥1,000,000,001-¥3,000,000,000 (22.5%).

¹ According to the foreign exchange rate site Jprate.com (<http://www.jprate.com/jpy/asia-pacific.html>), the exchange rate as of July 14, 2011 was ¥1=¥15.68962.

Table 1-6 Yearly Sales

		Total 80	(100%)
1) ¥50,000,000 or less	(¥3,125,000 or less)	16	20.0
2) ¥50,000,001-¥100,000,000	(¥3,125,000-¥6,250,000)	5	6.3
3) ¥100,000,001-¥500,000,000	(¥6,250,000-¥31,250,000)	14	17.5
4) ¥500,000,001-¥1,000,000,000	(¥31,250,000-¥62,500,000)	14	17.5
5) ¥1,000,000,001-¥3,000,000,000	(¥62,500,000-¥187,500,000)	18	22.5
6) ¥3,000,000,001-¥8,000,000,001	(¥187,500,000-¥500,000,000)	3	3.8
7) ¥8,000,000,001-¥13,000,000,000	(¥500,000,000-¥812,500,000)	5	6.3
8) ¥13,000,000,001 or more	(¥812,500,000 or more)	5	6.3

There are three companies in the Big-12 who checked 12) “Real Estate, Rent” in Table 1-1. Two of them whose yearly sales were the lowest of the Big-12 and had 50 employees or less checked 5) ¥1,000,000,001 - ¥3,000,000,000 in Table 1-6 and the other 6) ¥3,000,000,001 - ¥8,000,000,001. While at this stage it would be premature to draw a conclusion, the data seems to indicate that the yearly sales per capital of the Real Estate or Rent industry is smaller than other equally capitalized industries.

Table 1-7 Big-12's Yearly Sales

Amount of Sales Per Year (valid responses from 9 companies)	Companies
¥1,000,000,001-¥3,000,000,000	2
¥3,000,000,001-¥8,000,000,001	2
¥8,000,000,001-¥13,000,000,000	1
¥13,000,000,001 or more	4

The questionnaire asked companies the percentage of their stock that was owned by the state. There are at present 22 state-owned companies on the Ulaanbaatar Stock Exchange and 15 of them responded to our questionnaire. Of these, eight companies answered “80% or more”, five answered “51-60%”, one answered “71-80%”, and one answered “10% or less” (see Table 1-8).

On the other hand, 83.9% of listed companies answered “None”. It was a rather higher score than we expected. Our speculation is that private founders hold the stock of many listed companies.

Table 1-8 The Ratio of State-Held Stocks

	Total 93	(100%)
1) None	78	83.9
2) 10% or less	1	1.1
3) 10-20%	0	0.0
4) 21-30%	0	0.0
5) 41-50%	0	0.0
6) 31-40%	0	0.0
7) 51-60%	5	5.4
8) 61-70%	0	0.0

9) 71-80%	1	1.1
10) 80% or more	8	8.6

In the Big-12, eight companies are state-owned companies. Four of the 12 are 100% private companies. Two of the four have “50 or less” full-time employee companies and are in the “Real Estate, Rent” industry.

Table 1-9 The Ratio of State-Held Big-12's Stocks

State-Held Stock	Companies
None	4
50-60%	1
71-80%	1
80% or more	6

2. Corporate Governance Frameworks

(1) Number of People on Board of Directors

In listed companies on the Ulaanbaatar Stock Exchange, the number of people on boards of directors is set at nine in principle. Therefore, the main question concerning the size of the board of directors is whether it has nine members or not. Table 2-1 shows the results. 81 of 96 companies were in compliance with the rule. 11 companies had eight or less members, and four companies had ten or more.

Table 2-1 Number of Directors

	Total 96	(100 %)
1) 8 members or less	11	11.5
2) 9 members	81	84.4
3) 10-13 members	2	2.1
4) 14 members or more	2	2.1

Among the Big-12, 11 have nine directors, and one, a state-holding company, has 14.

(2) Non-Executive Directors

Many scholars recognize that active participation by non-executive or independent directors raises the effectiveness of corporate-governance. In response to our question whether companies were hiring non-executive directors, three quarters answered “yes”.

Table 2-2 Non-Executive Directors

Response	Total 93	(100 %)
1) Yes	73	78.5
2) No	20	21.5

According to Table 2-3, 7 of the Big-12, 58.3%, answered “yes”. This figure is smaller than Table 2-2’s, of 78.5%. Four of five in the Big-12 who answered “no” are state-holding companies. As eight of the Big-12 are state-holding companies, we understand that half of them have no non-executive directors. It might be safer for state-holding companies if they do not have non-executive directors. As these companies are already under government control, the effect might be almost the same as having such directors. Doubts remain however regarding its appropriateness.

Table 2-3 Big-12’s Non-Executive Directors

Response	Number of Responses	12	(100 %)
1) Yes	7		58.3
2) No	5		41.7

(3) Number of Non-Executive Directors

We asked each company the number of their non-executive directors, and received 70 responses (see Table 2-4); 14 companies have 7 people (20.0%), 12 companies have five and eight people each (17.1%), and ten companies have six people (14.3%).

Table 2-4 Number of Non-Executive Directors

Total 70 Percentage in Parentheses

Number of Non-Executive Directors	1	2	3	4	5	6	7	8	9	10	11
Number of Companies (percentage)	2 (2.9)	4 (5.7)	6 (8.6)	5 (7.1)	12 (17.1)	10 (14.3)	14 (20.0)	12 (17.1)	4 (5.7)	0 (0.0)	1 (1.4)

As to Table 2-5, we do not have sufficient information to identify characteristics of national and private companies due to the scarcity of samples.

Table 2-5 The Number of Big-12’s Non-Executive Directors

Total 7

Number of Non-Executive Directors	1	2	3	4	5	6	7	8	9	10	11
Number of Companies	1	0	0	1	0	1	2	1	1	0	0

(4) Independent Directors

Another important point for corporate governance is whether companies have independent directors or not. Non-executive directors, as mentioned above, are not in charge of management execution but have only a monitoring function. On the other hand, independent directors are non-executive directors who have a completely neutral position vis-à-vis the company and its executives.

As seen in Table 2-6, 55 of 93 companies answered “yes”, amounting to 59.1%. Almost 60% of listed companies have independent directors, of which some companies have two or three or even six or more. From these results, doubts remain whether they fully understand the difference between non-executive director and independent director.

Table 2-6 Independent Directors

Choices	Number of Answers 93	(100 %)
1) Yes	55	59.1
2) No	38	40.9

Table 2-7 Number of Independent Directors. Total Number of Responding Companies: 53. Percentages are in Parentheses.

Number of Independent Directors	1	2	3	4	5	6	7	8
Answered Corporate Number (percentage)	5 (9.4)	11 (20.8)	9 (17.0)	5 (9.4)	5 (9.4)	11 (20.8)	4 (7.5)	3 (5.7)

Table 2-8 and Table 2-9 show the presence/absence of Big 12’s independent directors and number of independent directors.

Table 2-8 Big-12’s Independent Directors’ Presence/Absence

	Total 12
1) Yes	6
2) No	6

Table 2-9 Big-12’s Number of Independent Directors
Total Number of Responding Companies: 6

Number of Independent Directors	1	2	3	4	5
Number of Responding Companies	0	3	0	2	1

(5) Board of Directors’ Regulations

An important requirement for corporate governance is whether codified regulations are maintained. We asked listed companies whether there were regulations for their boards of directors. The result is shown in Table 2-10. 74.5% of companies said “Yes”, which was not surprising. We would therefore like to direct attention to the 24 companies (25.5%) that answered “No”. All of the Big-12 answered “Yes”.

Table 2-10 Presence/Absence of Managing Board Regulations

	Total Responses: 94	(100 %)
1) Yes	70	74.5
2) No	24	25.5

(6) Number of Board of Directors' Meetings Per Year

We questioned listed companies on how many times per year they held board of directors meetings. The results are shown in Table 2-11. As is well known, a board of directors is the organization within a company that creates a strong management base and carries out appropriate decision making thoroughly and promptly, and at the same time monitors the execution of business activity. Problems exist, therefore, for the three listed companies who answered, "Board of directors meetings have not been held at all". 90% of companies held board of directors meetings ten times or less a year. 60% of listed companies held meetings once or less a quarter. It can be said that they do not yet recognize the importance of boards of directors. Their boards of directors are not functioning effectively.

Table 2-11 Number of Board of Directors' Meetings Per Year

Responses	Total 95	(100 %)
1) None	3	3.1
2) 1-4 times	57	60.0
3) 5-10 times	29	30.5
4) 11-14 times	5	5.3
5) 15 times or more	1	1.1

In the Big-12, 4 companies hold board of directors meetings 11-14 times a year and one 15 times a year. Table 2-11 shows that six companies hold board of directors meetings 11 times or more a year and five companies among them belong to the Big-12. It can be said that only the big companies hold board of directors meetings with such frequency.

Table 2-12 Big-12's Board of Directors' Meetings Per Year

Responses	Total 12
1) None	0
2) 1-4 times	1
3) 5-10 times	6
4) 11-14 times	4
5) 15 times or more	1

(7) Salary and Other Compensation for Directors

In the questionnaire, we asked whether directors were provided with salaries or other forms of compensation. The results were that 47 in 95 companies (49.5%; see Table 2-13) paid directors a salary or provided other forms of compensation. 48 companies (50.5%) answered that they paid nothing to the directors. These raise the question of whether the director itself is an honorary post. This situation deserves further consideration.

Among the Big-12, 10 in 12 companies paid the directors some salary and compensation. As mentioned earlier, eight companies of the Big-12 are state-holding companies and one company among them provides its directors with neither salaries nor other compensation.

Table 2-13 Provision of Salary and Compensation for Directors

Responses	Total 95	(100 %)
1) Yes	47	49.5
2) No	48	50.5

Table 2-14 Big-12's Provision of Salary and Compensation for Directors

Responses	Total 12
1) Yes	10
2) No	2

(8) Form of Compensation to Directors

To this question, we had responses from 48 companies. The results are totaled in Table 2-5. Table 2-6 shows the totals of the Big-12. Both have the same tendencies. 20 companies provide the director with only stocks, 8 companies provide both stocks and salary, and 9 companies, only a salary.

In the Big-12, there were 11 answers from ten companies. Four companies provide the director with only stocks. Three companies provide a salary, and one company provides both stocks and a salary. Only two companies out of them all provided a bonus and they were not from the Big-12.

Table 2-15 Form of Compensation to Directors

Responses	Total 60 (48 companies)	(%)
1) Stocks	30	62.5
2) Bonus	2	4.2
3) Salary	18	37.5
4) Others	10	20.8

Table 2-16 Form of Compensation to Directors in the Big-12

Responses	Total 11 (10 companies)	(%)
1) Stocks	5	50.0
2) Bonus	0	0.0
3) Salary	4	40.0
4) Others	2	20.0

(9) Ratio of Company's Own Stocks Held by Founder or His Relatives

For corporate governance, a big issue is how the founder of a company or his relatives are involved with management of the company. Table 2-17 is a list of the ratio of a company's own stocks held by the founder or his relatives. 30% of companies answered that their founder or his relatives did not own stocks. Special attention should be paid to the companies that have 61% or more of their stocks held by the founder or his relatives. There were 33 such companies, almost 40 percent of listed companies. Until now, in the standards to be met by listed companies, there

have been no restrictions on the holdings ratio for big shareholders.

In two thirds of all the companies, the founder or his relatives were big shareholders. Especially noteworthy is that one third of all companies had concentrated ownership. Among the Big-12, 11 companies had no such shareholders; one company did, holding 61-70%.

Table 2-17 Holding Ratio of Company's Own Stocks by Founder or His Relatives

Responses	Total 90	(100%)
1) None	28	31.1
2) 10% or less	6	6.7
3) 10-20%	4	4.4
4) 21-30%	7	7.8
5) 31-40%	2	2.2
6) 41-50%	5	5.6
7) 51-60%	5	5.6
8) 61-70%	11	12.2
9) 71-80%	11	12.2
10) 81% or more	11	12.2

(10) Participation Conditions in Management by Founder or His Relatives

We asked listed companies whether their founders or their relatives were participating in management. We also asked them if they were participating in their company's management, what official position they held. This question permitted multiple answers, so we had 152 responses from 91 companies. In 69 companies (76%), the founder or his relatives participated in management. Their main official positions were president, director, or chairman of the board of directors. They were leaders in the company and conducted corporate governance (see Table 2-18).

Table 2-18 Founder or His Relatives' Participation in Management

Responses	Total 152 (91 companies)	(%)
1) Do not participate in management	22	24.2
2) Chairman of the board of directors	39	42.9
3) President	45	49.5
4) Director of the bureau	5	5.5
5) Director	33	36.3
6) President of the subsidiary company	3	3.3
7) others	5	5.5

Among the Big-12, 11 companies answered this question. Eight companies answered that their founder or his relatives did not participate in management. At one company, their founder or his relatives served as chairman of the board and as a director, at one company, as president, and at one company, in other capacities. In the large majority of companies in Mongolia, the ownership and management were combined (or owner managers). On the other hand, among the Big-12, we can see that there is a separation of ownership and management. Most of the state-holding

companies in the Big-12 answered, they “Do not participate in management”.

Table 2-19 Founder or His Relatives’ Participation in Management among the Big-12

Responses	Total 11
Do not participate in management	8
Chairman of the board or director	1
President	1
Others	1

(11) Whether the Chairman of the Board Concurrently Holds the Post of Executive Officer

Only one in 93 companies answered, “yes” to the question whether the chairman of the board concurrently holds the post of executive officer. Therefore, it is not the case that in listed companies in Mongolia the chairman of the board and executive officer are the same person.

Table 2-20 Whether the Chairman of the Board Concurrently Holds the Post of Executive Officer

Responses	Total 93	(100%)
1) Yes	1	1.1
2) No	92	98.9

(12) Who Supervises the Senior Management?

Table 2-21 is the result for the question, “Who supervises the senior managers?” 79 companies answered that the board of directors supervises the senior managers. This means 85% of companies recognize the boards of directors’ governance. Therefore, there are 14 companies who are not subject to governance by their board of directors. Only 9 of the 14 companies were subject to governance by the big shareholders.

Table 2-21 Who Supervises the Senior Management?

Responses	Total 167 (93 companies)	(%)
1) Board of directors	79	84.9
2) External auditors	25	26.9
3) Shareholder’s meeting	26	28.0
4) Big shareholders	30	32.3
5) Others	7	7.5

Among the Big-12, senior managers of 11 companies are governed by boards of directors and eight companies by external auditors. Therefore, most of their senior managers are being supervised by two organizations. On the other hand, four companies are governed by shareholders’ meetings. Two companies are governed by big shareholders, with one of these being a government owned company. However, both of these companies also undergo simultaneous governance by shareholders’ meetings, boards of directors, and external audits.

Table 2-22 Supervision of Senior Management among the Big-12

Responses	Total 25 (12 companies)
1) Board of directors	11
2) External auditors	8
3) Shareholders' meeting	4
4) Big shareholders	2

3. Corporate Response to Environmental Problems

(1) Experience with Environmental Problems

At the end of the questionnaire we asked the listed companies whether they had experience with environmental problems. In Japan, the Basic Environment Law has been in force since 1993. In this law, environmental pollution (“kogai” in Japanese) is classified into seven fields: air pollution, water pollution, soil contamination, ground subsidence, noise, vibration and offensive odors. We investigated whether listed companies had experience with these seven kinds of pollution. We provided three possible responses: they are “not generated”, “generated in the past but solved already” and “generated and not yet solved”. The results from the 89 companies that responded are shown in Table 3-1.

Table 3-1 Experience with Environmental Problems

Total Number of Responding Companies: 89

	Environmental problems	Not generated	Generated in the past but already solved	Generated and not yet solved
1	Air pollution	65	9	11
2	Water pollution	69	7	6
3	Soil contamination	66	9	7
4	Ground subsidence	72	6	3
5	Noise	59	12	12
6	Vibration	61	12	8
7	Offensive odors	66	9	7
8	Others	18		

In looking at the column, “Generated in the past but already solved”, the most common problems cited are “noise” and “vibration”, with 12 companies each. Following these are “air pollution”, “soil contamination” and “offensive odors”, with nine companies each. In the column, “Generated and not yet solved”, the most common problem is “noise”, with 12 companies. The next is “air pollution”, with 11 companies, “vibration”, “soil contamination”, and “vibration”, with 8 companies each. These two columns show the same tendencies. All of them involve serious environmental problems. Air pollution, water pollution and offensive odors especially affect people’s health, but these phenomena were allowed to continue for a long period. We hope they find and implement solutions as soon as possible.

(2) Law, Ministerial Ordinances, Ordinances Concerning the Environment

As is widely understood, few environmental problems can be solved by one company or area alone. That is why a law, a ministerial ordinance, or an ordinance, etc., is needed. We therefore asked how listed companies are dealing with them.

43 in 90 companies (47.8%), or almost half, answered that they had laws, ministerial ordinances or other ordinances related to the environment which they had to observe. 27 companies (30.0%) answered that they were not subject to such laws (see Table 3-2). In the past, Japan had a serious pollution problem, called the “Four Major Pollution Diseases,” which killed a lot of people. It was caused by people overlooking serious negligence being hidden by economic development. We believe these lessons could apply to every developing area in the world.

Table 3-2 Laws, Ministerial Ordinances, and Ordinances Concerning the Environment

Responses	Total 90	(100%)
1) Yes	43	47.8
2) No	27	30.0
3) I don't know	20	22.2

(3) Dealing with Environmental Problems

We enquired as to how companies were dealing concretely with environmental problems. This question allowed two or more answers. The result is Table 3-3. 45 companies, almost half of the listed companies, answered “Eco-friendly business” and 37, or more than 40%, answered “Energy-saving measures”. About 20% answered “Development of environmentally friendly products”, “Buy second-hand goods or recycled articles”, and “Dispose of garbage in accordance with the laws”.

Table 3-3 Dealing with Environmental Problems

Responses	Total 217 (88 companies)	(%)
1) Eco-friendly business	45	51.1
2) Development of environmentally friendly products	18	20.5
3) Reduce consumption of environmental assets	11	12.5
4) Use natural energy	10	11.4
5) Buy second-hand goods or recycled articles	18	20.5
6) Use of recycled raw materials	12	13.6
7) Energy-saving	37	42.0
8) Environmental education to employee in the company	28	31.8
9) Dispose of garbage in accordance with laws	18	20.5
10) Others	9	10.2
11) Do nothing	11	12.5

(4) Influence of Environmental Protection on Companies

We enquired as to what positive influences environmental protection had on companies. As can be seen in Table 3-4, there were eight answers from which to choose. As a result, many companies chose “Improve images of company”, “Improve employee’s consideration for the

natural environment”, or “Improve employee’s morality”. “Expectation for the reduction of expenditures” was fourth. These effects show that, regarding environmental protection, every company needs to view its prospects in the long-term. If they expect instant profit, there is a danger that the company might follow the wrong road. Therefore, management strategy in this area is very important, and at the same time, is deeply related to the following question.

Table 3-4 Influence of Environmental Protection on Companies

Responses	Total 187 (81 companies)	%
1) Improve image of company	40	49.4
2) Increase productivity	16	19.8
3) Build trust with financial institutions	11	13.6
4) Improve employees’ consideration for the natural environment	29	35.8
5) Improve employees’ morals	28	34.6
6) Expectation for the reduction of expenditures	23	28.4
7) Improve reputation among private organizations	19	23.5
8) Increase sales	15	18.5
9) Others	6	7.4

(5) Budget for Environmental Protection

Environmental protection presents difficult financial problems. In general, if a company invests money for protecting the environment, it is hard to see immediate effects. Therefore, it is very important that a company makes stakeholders understand its long-term management strategy, though this is not an easy task. That is why many and various environmental problems are occurring around the world.

To the question whether they had budgets for environmental protection, 27 companies (31.4%) answered “not at all”. Also, about 30 percent of companies had only minimal budgets for it. That means more than half of listed companies didn’t consider environmental problems to be very important. This prompts serious worries about the destruction of Mongolian nature, the purest natural environment in the world. It might result in an irreparable loss of wealth.

Table 3-5 Budget for Environmental Protection

Total 86

	Not at all	¥1,000,000 or less	¥1,000,001- 3,000,000	¥3,000,000- 10,000,000	¥10,000,000- 50,000,000	¥50,000,000 or more
Companies	27	23	11	18	5	2
Percentage	31.4	26.7	12.8	20.9	5.8	2.3

4. Some Conclusions

Based on the results of the survey, we came to the following conclusions:
From the viewpoint of corporate governance,

- (1) Many companies are characterized by being owner-managed, i.e., they have major stockholders who are the founder or founder's relatives.
- (2) It should be pointed out that almost all boards of directors of listed companies have outside directors and independent directors.
- (3) It is a very interesting fact that in 50.5% of companies, the directors are not paid. This raises the question: Is the director itself an honorary post, one of the responsibilities of the major stockholders, or do other incentives exist for the directors?
- (4) There are relatively few listed corporations whose stocks are held by the state in Mongolia, compared with that of China; as opposed to this, many enterprises in Mongolia have been founded by investors from the private sector.
- (5) Formal and institutional conditions for boards of directors are generally fulfilled: there are codified and enacted rules, they maintain the required number of directors, and include outside or independent directors, etc. There is concern, however, if boards of directors are functioning effectively as management overseers, as at present more than 60% of boards of directors meet less than four times per year.

※ In carrying out this questionnaire in Mongolia, I received the help of many people, as I described at the beginning of this paper. I want here to express my sincere appreciation to all those concerned. Especially, I want to express my gratitude to Professor Toshio Kikuchi. It might have been impossible to write this paper without his academic guidance and personal networks in Mongolia. I am also grateful to John Dolan, Associate Professor at Chuo Gakuin University. The English version of this paper would never have been completed without his help in reading through it and making the necessary corrections. I am also grateful to Nergui Battuya, a very bright graduate school student of mine, for helping to translate the questionnaire and its data from Japanese into Mongolian and vice-versa.

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《Reference》

《June 2011》

Questionnaire Response Sheet

Please reply by June 20 using reply envelope.

Please reply to the following questions by filling in the number of applicable answer in the box of each reply column.

I. About the outline of your company

1. To which type of industry does your enterprise belong to among the following?

1) Agriculture 2) Food manufacturing, Stock-raising 3) Mining 4) Manufacturing 5) Electricity, Heating, Water Supply 6) Construction 7) Wholesale, Retail 8) Hotel, Eat and Drink 9) Warehouse · Transport and allied industries 10) Communication 11) Maintenance · Repair 12) Real Estate, Rent 13) Education 14) Health · Insurance 15) Sports, Amusement 16) Finance 17) Others

Please indicate up to three types of industry applicable to your company. →

2. Please inform us of the amount of capital of your company.

1) ¥10,000,000 or less 2) ¥10,000,001-¥50,000,000 3) ¥50,000,001-¥100,000,000 4) ¥100,000,001-¥500,000,000	5) ¥500,000,001-¥1,000,000,000 6) ¥1,000,000,001-¥5,000,000,000 7) ¥5,000,000,001-¥10,000,000,000 8) ¥10,000,000,001 or more
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Please fill in applicable number. →

3. Please inform us of the number of regular employees of your company.

- ① 50 people or less
- ② 51-100 people
- ③ 101-150 people
- ④ 151-200 people
- ⑤ 201-300 people
- ⑥ 301-500 people
- ⑦ 501-1,000 people
- ⑧ 1,000 people or more

Please fill in applicable number. →

4. Please inform us of the annual sales of your company.

- 1) ¥50,000,000 or less
- 2) ¥50,000,001-¥100,000,000
- 3) ¥100,000,001-¥500,000,000
- 4) ¥500,000,001-¥1,000,000,000

- 5) ¥1,000,000,001-¥3,000,000,000
- 6) ¥3,000,000,001-¥8,000,000,000
- 7) ¥8,000,000,001-¥13,000,000,000
- 8) ¥13,000,000,001 or more

Please fill in applicable number. →

5. Please inform us of the business foundation year of your company, incorporation-procedures year, and listed year.

- ① Business foundation year
- ② Incorporation-procedures year
- ③ Listed year

II. About Board of Directors

1. Please inform us of the number of the board of directors of your company.

- 1) 8 or less people
- 2) 9 people
- 3) 10-13 people
- 4) 14 or more people

Please fill in applicable number. →

2. Do you have a non-executing director on the board of directors of your company?

- 1) Yes
- 2) No

Please fill in applicable number. →

If your answer was 1), please inform us of the number.

3. Do you have an independent director on the board of directors of your company?

- 1) Yes
- 2) No

Please fill in applicable number. →

If your answer was 1), please inform us of the number.

4. Does the board of directors of your company have regulations?

- 1) Yes
- 2) No

Please fill in applicable number. →

5. How many times per year do the board of directors of your company hold meetings?

- 1) None 1-4 times
- 2) 5-10 times
- 3) 11-14 times
- 4) 15 or more times

Please fill in applicable number. →

6. Does your company provide a salary or remuneration to its directors?

- 1) Yes
- 2) No

Please fill in applicable number. →

6-1 If your answer was 1), please inform us of the type of remuneration.

- 1) Stocks
- 2) Bonus
- 3) Salary
- 4) Others (Please describe concretely. _____)

Please fill in applicable numbers. Multiple answers allowed. →

7. What percent does the state hold of the stocks of your company?

- 1) none
- 2) less than 10%
- 3) 10 – 20%
- 4) 21 – 30%
- 5) 31 – 40%
- 6) 41 – 50%
- 7) 51 – 60%
- 8) 61 – 70%
- 9) 71 – 80%
- 10) 80% or more

Please fill in applicable number. →

8. What percentage of the company's own stock does the founder or his relatives hold?

- 1) none
- 2) less than 10%
- 3) 10 – 20%
- 4) 21 – 30%
- 5) 31 – 40%
- 6) 41 – 50%
- 7) 51 – 60%
- 8) 61 – 70%
- 9) 71 – 80%
- 10) 80% or more

Please fill in applicable number. →

III. About Management

1. Do the founders or their relatives participate in the management of your company? If so, what kind of posts are they engaged in?

- 1) Do not participate in management
- 2) Chairman of the board of directors
- 3) President
- 4) Bureau director
- 5) Director
- 6) President of a subsidiary company
- 7) others

(In the case of 7, please describe concretely: _____)

Please fill in applicable numbers.

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Multiple answers allowed. →

2. Does one person hold the posts of both chairman of the board of directors and CEO?

- 1) Yes
- 2) No

Please fill in applicable number. →

3. Who is superintending management?

- 1) Board of Directors
- 2) External auditors
- 3) Shareholder's meeting
- 4) Big shareholders
- 5) Others (Please describe concretely: _____)

Please fill in applicable numbers.

Multiple answers allowed. →

IV. About management policy, management philosophy, ethical codes, etc.

1. Is your company's management policy or management philosophy, etc., codified?

- 1) Is not codified
- 2) Is codified
- 3) Codification is now under consideration
- 4) Others (Please describe concretely:_____)

Please fill in applicable number →

2. Is the ethical code codified?

- 1) Is not codified
- 2) Is codified
- 3) Codification is now under consideration
- 4) Others (Please describe concretely:_____)

Please fill in applicable number →

V. Experience with environmental problems

1. Has your company faced the following environmental problems due to its own activities?

	Environmental problems	Not generated	Generated in the past but already solved	Generated and it has not solved yet
1	Air pollution			
2	Water pollution			
3	Soil contamination			
4	Ground subsidence			
5	Noise			
6	Vibration			
7	Offensive odors			
8	Others			

2. Are there laws, ministerial ordinances, or other ordinances, etc., relevant to the environment which must be observed in managing an enterprise?

- 1) Yes (Please write law's name : _____)
- 2) No
- 3) I don't know

Please fill in an applicable number →

3. How is your company dealing with environmental problems?

- 1) Eco-friendly business
- 2) Development of environmentally friendly products
- 3) Reduce consumption of environmental assets
- 4) Use natural energy
- 5) Buy second-hand goods or recycled articles
- 6) Use of recycled raw materials
- 7) Energy-saving
- 8) Environmental education to employees in the company
- 9) Dispose of garbage in accordance with laws
- 10) Others _____)
- 11) Do nothing

Please fill in applicable numbers. →

Multiple answers allowed.

4. What kind of influence has environmental protection had on your company?

- 1) Improve image of company
- 2) Increase productivity
- 3) Build trust with financial institutions
- 4) Improve employees' consideration for the natural environment
- 5) Improve employees' morals
- 6) Expectation for the reduction of expenditures
- 7) Improve reputation among private organizations
- 8) Increase sales
- 9) Others (_____)

Please fill in applicable numbers. →

Multiple answers allowed.

5. Is there a budget sufficient for environmental protection in your company? (Please indicate applicable number.)

Not at all	1 ¥1,000,000 or less	¥1,000,001- 3,000,000	3¥3,000,001- 10,000,000	¥10,000,001- 50,000,000	¥50,000,001 or more
1	2	3	4	5	6