

# Emergence of multisectoral new business ventures in Mongolia

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## ABSTRACT

Sharply focussed unisectoral companies being the norm in 'the west', most business scholars have tended to assume that multisectoralism is an inferior business strategy as a virtual last resort "when an industry consolidates and becomes mature" and a western company may then attempt 'concentric (related) diversification' or 'conglomerate (unrelated) diversification'. In contrast, Mongolian entrepreneurs seek multisectoralism very early in their activity. It seems Mongolian multisectoral companies constitute a 'local species' of business rarely seen in large mature consumer-driven market economies. The study demonstrates Mongolian multisectoral companies are driven by individuals who satisfy the profile of successful entrepreneurs and displays all, or nearly all, of the 9 competencies characteristic of successful entrepreneurs as proposed by McBer & Co. (1996). Yet many of the unisectoral Top companies are also driven by entrepreneurs, suggesting there may be 2 distinct types of entrepreneur in Mongolia - 'leapers' and 'nichers'. A nicher's mission is to be the 'best' in terms of size, quality, efficiency, reputation and profitability in a narrow sector. A leaper's mission is to succeed in a wide portfolio across several sectors with little synergy, and to seek growth as rapidly and ruthlessly as possible by seizing the 'best' opportunities regardless of sector.

Analysis of 135 placer gold mining companies shows that between them they at least 500 daughter companies scattered across all sectors from tourism to sausage production, and the households of the employees of these 135 companies typically have 1 to 3 microenterprises in non-mining sectors. The long duration of the harsh Mongolian winter forces nearly all of the 135 companies to confine their mining days to when water (not ice) is available, typically 155 days a year. Yet the cash flow is strong and by the end of the season they have paid off bank loans (at 4% per month interest) and amassed a cash-mountain. Putting the cash in the bank is pointless as it attracts only token interest, and a cash-hoard would attract substantial profit tax. The vast majority of the 135 companies spend the cash hoard to create 100% owned start-up daughter companies in other sectors and/or to buy controlling blocks of shares in Public Companies either via the Stock Exchange or in privatisation. The next spring, the mining company gathers cash from its daughter companies to regain liquidity to pay for fuel, re-equipping and labour ready for mining. Shortfalls are solved by using the fixed assets of the daughter companies as collateral. A placer gold mining company must be entrepreneurial and diversify to avoid being crippled by end-of-season tax and to amass enough collateral to raise finance to go mining again next season. More than 50 instances exist of placer mining companies forced to suspend production indefinitely and compelled to sell their gold mines. The study indicates that not only is the mining sector the dominant sector in Mongolian economy but also that the main source of current investment in agriculture, agroprocessing and construction is by the leaping in of multisectoral companies – the most prominently being the gold mining ventures. In the absence of a viable Stock Exchange, and in the absence of pension funds, insurance funds, unit trusts, venture capital or affordable bank finance or leasing, the multisectoral companies serve as surrogate venture capitalists, albeit preferring to create their own multisectoral portfolio rather than investing in other ventures.

## Introduction

The overall objective of this study was to determine the importance of multisectoral new ventures in the fledgling market economy of Mongolia, gain some insight into the role of entrepreneurs in creating them, and assess if such distinctive business structures will continue to be successful. One further objective was to clarify the interrelationship of multisectoral new ventures and the minerals sector, in particular in the Government-encouraged placer gold mining boom.

The topic was chosen because the author became aware of the special characteristics of Mongolia's business environment that render orthodox consumer-driven business models unlikely to produce a vibrant market economy. One factor is the lack of appreciation of the existence and role of multisectoral companies as entrepreneurial drivers of Mongolia's market economy. If they continue to grow and succeed then Mongolia will prosper, but if they are merely a temporary phase in the development towards a mature economy then – without a roadmap to guide their restructuring – they will collapse and pull with them several thousand private enterprises and much of the banking system, the already tiny economy will contract even further, and the rural areas will fade back into nomadic pastoral livestock rearing. Mongolia has de-industrialised twice in its history already.

Of course business leaders, politicians and international donors are aware that Mongolia's domestic economy is too small for local consumers to drive the economy forward much further. All realise the need for export-led growth to compensate for this, but the export-led growth they envisage is, as will be demonstrated, doomed to be small and uncertain. Therefore one goal of this study is to clarify the potential for achieving export-led growth that will provide large business opportunities that might require a new form of private enterprise, a new form of manager, and a vibrant society. Central to this is a better understanding of the special structure of most Mongolian new ventures in having a multisectoral character. As a litmus test, the potential of these multisectoral ventures as future exporters is briefly considered – most fail the test, except those engaged in mining.

This paper is a condensed version of a dissertation submitted in part fulfilment of a Masters Degree in Business Administration (MBA) awarded to Chimed-Erdene Baatar in 2005 by the Maastricht School of Management.

## Methods

### 1<sup>st</sup> component

Information was gathered about the unique characteristics of Mongolia that fundamentally affect new ventures, such as severe winters, dry short summers, geographical isolation, low population size, thinly spread population, susceptibility to 'shocks' etc. This was relatively straightforward by means of discussions with environmentalists, demographers and referring to geographical reports and documents of the State Statistical Office of Mongolia.

### 2<sup>nd</sup> component

Next an analysis was made of the most "successful" large and medium-sized enterprises in Mongolia. For objectivity, the initial selection consisted of the ventures listed in the book of 'Mongolian Top-100 Companies' published by the Mongolian Chamber of Commerce and Industry that lists their selection of the 100 top companies<sup>1</sup> to which the author has added more on the basis of personal knowledge and discussion with international business advisers. This produced a revised list of 137 companies but reduced a final total of 132 Top Companies by deletion of several companies that were somewhat secretive and untraceable in the time available. (see Table 13 in Annex 1)

The author made intensive research into the 132 companies, by means of company visits and secondary sources. *Company visits* were conducted over the period 2001-2004, plus 24 companies visited specially for this study – typically a brief discussion with a middle manager or his/her secretary and a visit to at least one of the business operations of the enterprise. However this still left 65 enterprises being interpreted solely from secondary sources. *Secondary sources* included the National Chamber of Commerce & Industry, Foreign Investment and Foreign Trade Agency FIFTA, Mongolian Business Development Agency MBDA, Minerals Resources Authority of Mongolia MRAM, Mongolian Stock Exchange MSE, discussions with students on the MBA course, newspaper reports, advertisements, literature search and an internet search for company websites.

<sup>1</sup> The list of 'Mongolian Top-100 Companies' was published in 2004, but the list itself is for the year 2002.

### 3<sup>rd</sup> component

The company information was then inserted into a matrix of sectors. Rather than ‘splitting’ company activities into narrow sub-sectors, it was clear that more clarity would be derived by ‘lumping’ activities into a limited number of large sectors – financial, transport, telecom/postal, public utilities (power/heat/water/sewerage), fuel import/distribution, mining and mineral processing, agriculture/milling, manufacturing, construction, tourism/hotels and finally trading (including retailing, wholesaling and import/export). Each company was assigned to a single ‘main sector’ on the basis of an assessment of its main sectoral activity.

### 4<sup>th</sup> component

Having assigned a company to a main sector, its presence in other sectors was then carefully determined. In this manner it became possible to decide if a company was either ‘unisectoral’ or ‘multisectoral’. Interestingly many companies whose managers and literature presented themselves as ‘unisectoral’ upon analysis were determined to be ‘multisectoral’.

### 5<sup>th</sup> component

Three indices of multisectoral tendency (‘multisectoral-ness’) were designed and applied (refer to Annex 2 for results):

a) **Multisector Span Index:** defines how many sectors a company active in, other than in its main sector. On this basis, unisectoral companies score zero while the widest multisectoral companies score 6 points. This index was easy to apply, although it tends to underestimate the degree of multisectoral-ness on 2 counts – firstly information on non-core activities was often elusive inevitably incomplete and therefore underestimated, and secondly it gives no indication of multisectoral-ness inside a lumped sector (e.g. a wide range of different manufacturing activities);

b) **Multisector Weight Index:** defines the proportion of a company’s activities that are non-main sector. On this basis unisectoral companies score nil whereas multisectoral companies score 4 to 5 points if their non-main sectoral activities exceed that of their supposed main sector. This scale has limitations, being arbitrary, subjective and intuitive as no reliable sources of comparative data are in the public domain, such as turnover by sector, assets, number of employees etc.

c) **Public Company Index:** defines the number of public companies (JSC) and/or State-owned enterprises (SOEs) that the company controls. If a company is itself a JSC or SOE it is automatically awarded one point. Remarkably some individual private companies control up to 4 public companies and are awarded 4 points.

Having classified each the 132 companies into their main sector, other sectors, and applied the Multisector Span Index, Multisector Weight Index and Public Company Index, the author considers this provides a reasonably solid basis for the ensuing analysis.

## Limitations of the Study

This study has many limitations by virtue of it being a pioneering attempt to identify the multisectoral-ness of new ventures in Mongolia and to analyse the phenomenon. No previous studies of this phenomenon have been made in Mongolia.

The study was greatly hampered by several factors: the secrecy and inadequacy of the Mongolian Stock Exchange (MSE), the reluctance of the Foreign Investment and Foreign Trade Agency (FIFTA) to release any data on foreign companies in Mongolia, the lack of any reference material on the phenomenon in Mongolia (this being the first study to be made).

A further limitation to the success of the study was the tendency of ministries, agencies and international donors to think and act only in terms of sectors and therefore to be largely unaware of multisectoral-ness in the Mongolian economy.

About half the companies studied maintain a low profile, or only their main sector activity is strongly marketed and advertised, or their non-core activities are marketed separately under the banner of a daughter company/division. On at least 20 occasions the author was surprised to learn that a well-known company was actually a daughter of another company in a different sector.

The biggest limitation on this study was time. The multisectoral-ness having been identified and subjected to preliminary analysis, it was desirable to conduct in-depth interviews of senior managers of about 40 key companies. This was not possible in the time available.

Towards the end of the study it was important to put the presence of multisectoral companies in a global context, but this proved difficult due to the rarity of multisectoral companies in North America or Western Europe and as a consequence there is scant published material on this form of business structure in these regions. At the end of the study the author discovered by internet search that multisectoral companies are widespread and important throughout most of the rest of the world, but limitations of time prevented full use of this material.

## Brief Description of the Following Chapters

**Chapter 2** entitled ‘Comparative Disadvantages of Mongolian Enterprises’ is a stark assessment of the difficulties facing almost all business activity in Mongolia, being the World’s most thinly-spread national market with only 2.5 million people, sandwiched between the two vast and difficult markets of Russia and China and having long porous borders leaking smuggled raw materials. Attention is drawn to the harsh climate with Ulaanbaatar being the world’s coldest capital in winter, and the country prone to seasonal disasters of severe cold, wildfires and disease. The shortness of the growing season renders agriculture vulnerable to food imports from the south, makes commercial forestry barely sustainable and renders the tourism season so short as to be inefficient. Having to import all its oil, with coal production expensive, and very high energy costs per capita, industry is stifled by high energy and fuel costs. The sharp seasonality causes seasonal expansion-contraction of the overall economy and labour costs are high and interest rates are extremely high with project finance being virtually absent and the stock market is almost defunct.

**Chapter 3** entitled ‘Reflex Response of Government and Donors’ is a depressing commentary on the lack of focus or relevance of efforts by the Government and international donors to revive manufacturing in Mongolia, with the same old stale recipes being repeated and doomed to failure with little sign of any learning curve or institutional corporate memory.

**Chapter 4** entitled ‘Survival Strategies of Mongolian Entrepreneurs’ shows, in brief, some of the means whereby successful business structures have emerged in spite of the odds stacked against them. This short Chapter sets the scene for grappling with the details presented in the next Chapter.

**Chapter 5** entitled ‘Top Companies in Mongolia - The Prevalence of Multisectoral Business Structures’ contains the main findings of this study, setting out in a factual manner the importance of multisectoral companies amongst Mongolia’s ‘Top-132’ companies, and tentatively considers how, when and why they emerged. Considerable differences are identified between companies whose main activities are in different sectors. For instance, companies in the financial, transport and infrastructure sector have rarely entered other sectors, whereas companies in the mining sector and trading sector have invaded many sectors to become multisectoral. Chapter 5 is the first known attempt to unravel the ‘Top’ multisectoral companies of Mongolia and in doing so the reader will not only gain a wealth of insight into these special business structures but also be able to begin to understand the chameleon nature of the private sector in Mongolia.

**Chapter 6** entitled ‘Discussion’ debates and clarifies some of the more interesting facets of the multisectoral companies, what sort of entrepreneurs may have driven them – with discussion of why some successful entrepreneurs are ‘leapers’ whereas others are ‘nichers’. Given the scale of the findings, Chapter 6 can do no more than open up some findings for debate, having discovered a large new territory that now awaits more research.

**Chapter 7** entitled ‘Recommendations’ is grouped into concise sections, each a set of recommendations focussed on different audiences, namely: business lecturers/trainers, business advisers/consultants, and last but not least the managers of multisectoral companies.

The study concludes with a ‘Bibliography’ somewhat shorter than hoped for – a protracted internet search found very little worthwhile published material on multisectoral companies in the West most being about business conglomerates that are far less multisectoral than companies in Mongolia. On the other hand a large library of relevant material was found via internet for multisectoral companies for many other regions of the world. For ease of use, the Bibliography is in three sections – international, Mongolia and company websites.

## Disadvantages of Mongolian Enterprises

### Introduction

The consensus of most economists is that the Mongolian economy has suffered less than most of the former soviet states during the transition, and that a viable consumer-led market is rapidly emerging. But it now clear that this assessment is flawed and untenable. A comprehensive study by UNIDO of the economy shows that Mongolia has deindustrialised more than any other country in the world they have studied.<sup>2</sup>

This Chapter will demonstrate the mountain of special factors that confront entrepreneurs in Mongolia and thwart the emergence of a consumer-led market economy and will cause the economy to remain tiny, fragile, vulnerable to shocks, recession and repeated collapse.

This gloomy reassessment has implications for Government policy, donor interventions and for every Mongolian entrepreneur. It is suggested that a marked decline of the agricultural, manufacturing and services sectors is plausible during the next 3 to 4 years, and the first sign will be the collapse of the export-led garment manufacturing sub-sector within the next 6-8 months.

### Disadvantage of Tiny Thinly-Spread Domestic Market

For a consumer-driven market economy to function strongly, it is axiomatic that either Mongolia's domestic market has a pool of consumers with adequate spending power or that economic unity with neighbours has been achieved to create an adequately large 'free market' containing the necessary large pool of consumers.

Although Mongolia is vast, covering 1,564,100 square kilometres and is the world's 18<sup>th</sup> biggest national territory<sup>3</sup>, it holds only 2,504,000 people<sup>4</sup>, so thinly spread that Mongolia has the world's lowest population density (only 1.5 people per square kilometre<sup>5</sup>). Mongolia should therefore be, literally, the last place on Earth where consumer-driven private enterprises should invest as the number of consumers is so tiny, so poor and so thinly spread.

In this extreme situation, perhaps orthodox models for economic development may not apply, and conventional business models and economic strategies may be inappropriate at least in part.

The vastness of the territory and the sparseness of the population means that, with the exception of the capital city, there are not enough consumers to justify much investment in infrastructure, wholesaling, retailing, services or housing, and the common-land status of 99% of Mongolia means there is no market outside the capital city and small towns for real estate. Finally, the low population density means that the pool of trained skilled labour is low, and recruitment of skilled and semi-skilled labour is only realistic in the main urban areas. It will be shown that the cost of skilled labour is rather high and productivity is rather low.

On the upside, Mongolia has a high rate of population growth. The average age of a Mongolian is only 19.8 years, which means that the pool of adult consumers is growing at about 4% per year – a rate of growth that consumer-driven businesses in the ageing economies of western Europe, North America and Japan would view with envy. But with such a small population such growth may be somewhat counterproductive for the emergence of a vibrant competitive market economy for, although it means that 4% annual growth in consumer demand is to expected all else being equal, it also means that consumer-orientated enterprises can be inefficient and disorganised and still survive.

### Disadvantage of Giant Neighbour to South

In fulfilling their role in attracting direct foreign investment, the Foreign Investment and Foreign Trade Agency (FIFTA) and international agencies (Asian Development Bank, World Bank, IFC, Japanese International Cooperation Agency, European Commission, USAID etc) stress the strategic geographical position of Mongolia with regards to the huge and dynamic market of China with its hundreds of millions of consumers "*just across the border*". The consensus is that this gives Mongolia a strong comparative advantage for export-led agro-processing and manufacturing.

The study indicates that this orthodox consensus is flawed and the proponents seem to believe in their own promotional rhetoric. While Mongolia has an effectively open market for Chinese foodstuffs and manufactured goods, China still clings to a complex framework of tariffs and bureaucratic

<sup>2</sup> Source: UNIDO report on Mongolia by Shafiq Dhani and colleagues (2002) – see Bibliography.

<sup>3</sup> Mongolia is the world's 18<sup>th</sup> biggest country, sandwiched between the 1<sup>st</sup> (Russian Federation) and the 4<sup>th</sup> (China)! – source: [www.anekei.com](http://www.anekei.com)

<sup>4</sup> Source: page 28 in: Anon (2004). Mongolian Statistical Yearbook for 2003, published by the National Statistical Office of Mongolia: Ulaanbaatar, A3 format, 337 pages.

<sup>5</sup> Source: page 29 in: Anon (2004). Mongolia 2004. prepared by the Office for Foreign Service, Montsame National News Agency: Ulaanbaatar, A3 format 270 pages.

barriers, even arbitrarily closing the border to freight movements during the visit of the Dalai Lama to Mongolia.

The consensus is that Mongolia could revive its manufacturing by exporting foods and consumer goods to China. As will be shown, even if China dismantled its barriers, Mongolia has problems with high costs of labour, energy, transport and finance that cannot be flattened to the low level of China, and the cumulative effect is that Chinese farmers, agroprocessors and manufacturers enjoy, and will continue to enjoy, an unchallengeable comparative advantage over Mongolian competitors.

So large and broad is the comparative advantage of China's agriculture, agroprocessing and manufacturing that the export to Mongolia of "*cheap Chinese foodstuffs and goods*" has stifled the development of key sectors of Mongolia's economy. Examples of foodstuffs include: rice, sugar, butter, flour, early potatoes, most vegetables and most fruits. Examples of goods include: shoes, trousers, shirts, pullovers, coats, furniture, plastic goods and kitchen items etc.

But it is not just the exporting to Mongolia of "*cheap Chinese foodstuffs and goods*" that is the issue – the insatiable demand by Chinese manufacturers for raw materials, and the vast comparative advantage they enjoy in not only the China market but also in the world market, means that Chinese companies now systematically out-compete throughout Mongolia all local companies for agricultural and forestry raw materials – cashmere wool, camel wool, sheep wool, horse hair, hides, pine nuts and timber being the main examples. This stimulates the growth of Mongolian companies engaged in collection of such raw materials, and often part-processing (e.g. de-hairing cashmere, part-processing of hides, simple timber processing etc) but it starves the local Mongolian manufacturing companies of essential raw materials. The net result is that Mongolia gains export earnings for raw materials and herders gain better incomes, but Mongolia-based manufacturers of fine fibre goods (e.g. garments and blankets), woollen goods (e.g. carpets and garments), leather goods (e.g. shoes and coats) and wooden goods (e.g. matches and chipboard) are unable to compete for raw materials, and therefore the initial comparative advantage enjoyed by Mongolian companies in having access to local raw materials is not only reduced but reversed.

The sad fate of Mongolia's cashmere industry is a classic example of the loss of comparative advantage by loss of local raw materials (cashmere wool and camel wool) to China.<sup>6</sup>

The above account shows that the large initial comparative advantage that Mongolia-based manufacturers enjoyed with regard to special raw materials has been overturned decisively by the wider comparative advantages enjoyed by China-based manufacturers that enter the Mongolian market to buy up the raw materials in very large volumes. Paradoxically, having China as a giant market to the south has proved to be, and will continue to be, disastrous for Mongolia-based manufacturing based on local raw materials.

Now to consider Mongolia's giant northern neighbour, the Russian Federation.

### **Disadvantage of Giant Neighbour to North**

*What then of Mongolia's giant neighbour to the north, the Russian Federation?*

First it needs to be recalled that as early as 1921 Mongolia became the world's second soviet state. Although officially independent of the Soviet Union, Mongolia was an integral part of the Soviet Bloc. For all its faults, the Soviet Bloc was, until its demise, the world's largest multi-ethnic multinational fully integrated economic trading block - especially when the states of Central and Eastern Europe became included with it as COMECON after WWII. Essential to the success of the unity of the trading block was the imposition of a single main language (Russian) and a single set of unified standards (GOST) for manufacturers. Having thus created a 'level playing field' for economic activity, an enormous flow of direct foreign investment (DFI) into Mongolia was justified on economic grounds, regardless of ideological or geopolitical standpoint, and poured in from the Russian Federation, Hungary, Bulgaria, Czechoslovakia, East Germany, Poland and other members of COMECON. For a decade Mongolian farming, agroprocessing and manufacturing boomed, supplying foodstuffs to Siberia (Mongolia having a longer growing season) and exporting agro-industrial goods (blankets, carpets, felt boots, leather boots, saddles, meat products etc) throughout the Soviet Bloc, cushioned by barter and by highly-subsidised rail freight costs.

At the peak of COMECON investment into Mongolia, the soviet system disintegrated, and Mongolia found itself "on the wrong side of the border" of the Soviet Union and confronted with tariff barriers in addition to the prevailing chaos with the dissolution of the system.

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<sup>6</sup> The demise of Mongolia's cashmere garment manufacturing is catalogued in the UNIDO report on Mongolia by Shafiq Dhani and colleagues (2002) – see Bibliography.

As a result, Mongolian agriculture and manufacturing underwent the most severe and sudden de-industrialisation shock of any country in peacetime. So severe that tens of thousands of Mongolians resumed the nomadic tradition as pastoral livestock herders.<sup>7</sup>

*What then is the current situation with Mongolia's northern neighbour?*

Reminiscent of the flawed logic regarding China, the orthodox consensus of business managers, government officials and international donors is that Mongolia can once more enjoy a comparative advantage over if not all of the Russian Federation then at least that part east of the Urals and particularly the vastness of Siberia. For instance, the very harsh long winters of Siberia means that this region has a huge need for foodstuffs and warm clothing (e.g. leather boots, leather coats, cashmere jumpers, camel-wool blankets etc). With millions of "hungry cold people with cash" just across the border in Siberia, it is claimed that "if only" Mongolian enterprises can become more efficient, better equipped, more professional etc and "if only" the Governments of Mongolia and Siberia stimulated a free market based on consumer-driven economic principles then Siberia would get the foodstuffs and clothing it needs and Mongolian farming and industry would thrive.

Again, as with the China market, the study indicates that this orthodox consensus is flawed and naïve. Mongolia has an effectively open market for imports from the Russian Federation, but the converse is not true. As with China, Russia still clings to a complex framework of tariffs and bureaucratic barriers to protect its own fragile agriculture and agroprocessing, such as blocking exports of meat from Mongolia on ever-shifting bureaucratic grounds.

As with China, even if Russia dismantled all its trade barriers, Mongolia still has systemic problems with high costs of labour, energy, transport and finance that cannot be flattened to the low level of Siberia for manufactured goods. Even for foodstuffs, the Siberian consumers enjoy access to the substantial agricultural outputs of southern Russian and northern Kazakhstan – significantly superior to Mongolian meat, eggs, vegetables and milk products, available in much larger quantities and produced in a much longer growing season.

Furthermore, the Russian Federation's agroprocessing base is so large and relatively efficient, that export of Russian foodstuffs to Mongolia is substantial, and often out-competes on price and quality the foodstuffs produced by Mongolian-based farms and agroprocessors. The most striking example are the huge quantities of TETRAPAK™ milk imported from Krasnyarsk more than 1,500 kilometres by rail into Ulaanbaatar, competing with local Mongolian TETRAPAK™ milk. The Russian milk processors enjoy a long 'milk season' whereas the Mongolian milk processors are crippled by having only a short 'milk season'. Thus, even if the dairy herds were pedigree and winterised to give a longer 'milk season' and higher yields, the energy costs would wipe out much of the comparative advantage of nearness-to-market<sup>8</sup>. On a positive note, there is only a limited trade northwards in agro raw materials – unlike China, the agroprocessing and manufacturing industries of Russia/Siberia have sufficient domestic supplies.

The above account shows that the large comparative advantage that Mongolia-based manufacturers and farmers enjoy regarding proximity to the Siberia market is negated by the wider comparative advantages enjoyed by Russia-based farmers and manufacturers. Having Siberia as a giant market to the north has proved to be, and will continue to be, of little benefit for Mongolia-based manufacturers and farmers.

### **Disadvantage of Vast Porous Borders**

*Manufacturing enterprises have to cope with lack of control of smuggling out of large amounts of the raw materials!*

In an idealised common market, there would be no need for border controls on the movement of goods, such as achieved by the European Union and in the past by the Soviet Union. Given that Mongolia is sandwiched between the two very different giant 'common markets' of the Russian Federation and China, it is necessary for border controls to exist and be enforced.

Unfortunately, border controls are largely unenforceable. Mongolia has not only the world's lowest population density, but also a vast border of 8,161 kilometres<sup>9</sup> – 3,485 km with the Russian Federation and 4,676 km with China. Apart from the main road, rail and air routes, this border is too

<sup>7</sup> Source: see Table 10.13 on page 163 in 'Mongolia in a Market System – Statistical Yearbook 1989-2002' – see Bibliography.

<sup>8</sup> According to the management of the new Mongolian-New Zealand joint venture, NZM Ltd, the source of milk for their new TETRAPAK™ carton milk factory in Ulaanbaatar is not Mongolian cows, but powdered milk from New Zealand in order to achieve consistent supply and satisfy the company's strict health standards.

<sup>9</sup> Source: page 20 in Anon (2004). *Mongolian Statistical Yearbook for 2003*, published by the National Statistical Office of Mongolia: Ulaanbaatar, A3 format, 337 pages.

large to be policed effectively. The northern border is drawn just inside the vast dense taiga forest of Siberia, and the southern border is drawn along the most arid part of the Gobi desert.

Having a vast porous border means that Mongolian-based farms and manufacturers are confronted with a dire situation. Cross-border cattle raids and horse raids are frequent across many sectors of the northern border, the many thousands of rustled livestock per year being an unpaid-for illegal 'export' that is a severe disincentive for livestock rearing within 100km of the border. On the southern border, the situation is quite different, but disastrous for Mongolia's agroprocessors. Chinese traders buy-up from the Mongolian herders most of the cashmere and camel-wool across thousands of square kilometres, out-competing on price and terms the buyers of the Mongolian cashmere/camelwool processors and garment manufacturers. The Mongolian herders enjoy enhanced cash income, but meanwhile Mongolia gets no value-added from the exported raw materials and the cashmere/camelwool factories are in deep crisis. Much of the raw material is simply driven by car and small truck across the border into China. Having acted upon ill-considered advice from World Bank advisers to liberate export of raw cashmere/camelwool the trade is now so enormous that to re-impose an export ban, even if allowable as a temporary measure under WTO, would be doomed to failure due to the ease of cross-border smuggling of raw cashmere/camelwool, and the willingness - due to economic necessity - of Mongolian herders to facilitate this.

But the porous southern border has not only allowed the leakage of raw cashmere/camelwool to become an unstoppable flood. In a similar manner there is now a strong unstoppable flood of illegal exports of marmot skins, sheepskins, goatskins, pine nuts, timber and medicinal plants into China.

### **Disadvantage of Seasonal Inflation-Deflation**

*Businesses in Mongolia have to cope with an economy that expands and contracts with the seasons.*

Business managers attuned to western or Asian markets arriving in Mongolia soon become aware of the severe long winters and the too-brief summers, and make appropriate adjustments to their business operations. Obviously it pushes up costs of business – particularly in the agricultural, agroprocessing and tourism sectors.

But the issue is much more serious for business than this.

The contrast in temperature between summer and winter is extraordinary by world standards due to the sharply continental climate, Ulaanbaatar is not only the world's coldest capital city in winter, but also appears to be the capital city with the greatest contrast of summer-winter mean temperature. This is not just an academic issue and a seasonal planning issue – it creates a huge hidden extra cost across the entire economy, engulfing all sectors and stifling all businesses.

The hidden cost is that the scale of seasonal contrast is such that, unlike western mature economies, the Mongolian economy expands markedly in summer and contracts sharply in winter. Almost all sectors undergo this annual expansion and contraction, albeit with several large special exceptions – coal mining, transport (moving the coal), power generation (electricity and district heating), and education (academic sessions).

The marked seasonal expansion and contraction of the Mongolian economy creates many 'distortions' and 'inefficiencies' compared with a textbook model of what a market economy should be. In particular, consumer prices rise sharply in winter for only to fall sharply in summer. This yo-yo effect on prices makes managing any business a challenge! Using the Overall Consumer Price Index as a measure of inflation/deflation it can be shown that the season fluctuation in buying power was 12.8% in 2000, 7.6% in 2001, 3.2% in 2002<sup>10</sup> and 6.6% in 2003<sup>11</sup> in terms of the national currency (Tugrug, MNT)<sup>12</sup>. A seasonal yo-yo in exchange rates with other currencies would occur if it were not carefully managed by the Central Bank of Mongolia ('Mongol Bank'), otherwise there would be a surplus of money in circulation in winter and a shortage of money in circulation in summer. The impact on the money supply is quite a complicated issue and merits further study.

*Turning to the cost of finance*, the author suggests that this seasonal expansion-contraction of the economy also contributes to the very high cost of loan finance in Mongolia. Almost all bank loans are for short-term (i.e. seasonal!) working capital - in spring there is a huge demand for loans for agriculture, construction, mining and trade, but in winter the demand for loans drops noticeably.

<sup>10</sup> Source: Source: page 20 in Anon (2004). Mongolian Statistical Yearbook for 2003, published by the National Statistical Office of Mongolia: Ulaanbaatar, A3 format, 337 pages.

<sup>11</sup> Source: page 28 in: Anon (2004). Mongolian Statistical Yearbook for 2003, published by the National Statistical Office of Mongolia: Ulaanbaatar, A3 format, 337 pages.

<sup>12</sup> Some complexities of the seasonal inflation/deflation are discussed in the Mongol Bank paper by Enkhuyag – see Bibliography.

Therefore the money in the economy is under-utilised in the winter and this implies that – even if Mongolia was a mature market economy - interest rates would need to be 50% higher than interest rates in normal countries in order for the lenders to enjoy similar annualised rates of return. This conclusion is provisional, requiring in-depth further analysis, but implies that the cost of borrowing for businesses in Mongolia are destined to always be higher than in a ‘normal’ country.

*Turning to the cost of transport*, businesses in Mongolia already face significant costs due to the huge distances inside the country and to export markets. Fortunately transport demand is counter-cyclical (i.e. INCREASES in winter) due to the sudden need to transport coal by rail and truck. Therefore transport costs are not noticeably increased by the contraction-expansion of the general economy.

*Turning to the cost of labour*, while a business has no problem in laying-off workers for the winter due to lack of raw materials (no milk, no grain, no vegetables, no slaughtering, no leather, no cashmere, no wool, no tourists etc), it means that the level of unregistered unemployed skyrockets in winter. Not surprisingly, in order to retain skilled and semi-skilled labour, a business has to pay either a winter retainer, invent winter work or pay a wage premium in summer. The net effect is the same – wage costs of factory workers in Mongolia should be lower than in rural China but are higher for the months actually worked. Therefore the orthodox consensus that Mongolia enjoys a comparative advantage over China regarding labour costs is naïve and indeed incorrect.

### **Disadvantage of Severe Long Winters**

*Businesses in Mongolia have to cope with winters that are too long and too severe.*

In winter, Ulaanbaatar is much colder than Reykjavik in Iceland, or even the North Pole!<sup>13</sup> Not surprisingly, it is claimed that Mongolia has the highest per capita consumption of energy of any country in the world. Even if a package of sorely needed energy conservation measures were enacted, the per capita energy consumption would remain stubbornly high.<sup>14</sup>

Businesses in Mongolia have the significant comparative disadvantage that their energy demand for heating is considerable putting them at a comparative disadvantage – albeit with major exceptions such as bakeries, sweet factories and cement factories that generate a significant amount of waste heat that can be used for space heating.

### **Disadvantage of Short Summers**

*Businesses in Mongolia have to cope with summers that are too short and too dry.*

Trees are limited in species and they grow very slowly, making reforestation slow and replanting uneconomic. Grain, vegetables and fruit have only a short growing season, restricting crop types and varieties, depressing yields per hectare, and compressing the harvesting period. For livestock, the season for reproduction and fattening is short, and therefore gains in body weight are low and the milk season is very short. This package of problems gives farmers and foresters – and agroprocessing industries – a large comparative disadvantage compared with the much more favourable agricultural regimes in large parts of China and southern Russia.

Mongolia’s summer climate is basically unsuitable for large-scale arable farming, dairy farming or sustainable forestry. The summers are good enough for livestock rearing to be very successful, but primarily by nomadic pastoral livestock rearing that is difficult to incorporate into a coherent efficient supply-chain for industrial-scale factory-based processing of meat, casings, leather or wool to produce value-added foodstuffs and consumer goods.

In addition, the short summer creates a very tight time-window for the tourist season. Having such a short season compresses the activity of all the tourism-based and tourism-dependent companies into a hectic period. This markedly pushes up the costs of the tour operators, ger camps and hotels, and renders the fragile tourism industry vulnerable to shocks making investment rather risky.

### **Disadvantage of Vulnerability to Shocks**

*Businesses in Mongolia have to cope with vulnerability to environmental shocks.*

Mongolia’s climate makes its economy prone to environmental shocks, symptomatic of why until recent years the Mongolian people have been thinly-dispersed nomadic communities. Mongolia is not a first-choice location for farmers or city dwellers!

**Dzud** - *businesses in Mongolia have to cope with the shock of dzud.*

<sup>13</sup> For information on the winter temperatures at the North Pole see [www.arctic.noaa.gov/np2003/gallery\\_np\\_questions.html](http://www.arctic.noaa.gov/np2003/gallery_np_questions.html)

<sup>14</sup> Ulaanbaatar’s annual mean temperature is 0.5°C, the January mean temperature is –21.8°C with a remarkable annual range to an average of +16.9°C in July (source: page 289 in: State Statistical Yearbook for 2003, published by National Statistical Office of Mongolia). These are mean temperatures overall, the mean nighttime temperature is colder.

Winters can be very severe, causing millions of livestock to die and the rest to be weakened. Known as dzud, such episodes render tens of thousands of herders destitute by loss of their herds, and deprive the agroprocessing factories of animal raw materials. Dzud pushes up the cost of livestock-based industries and creates an investment climate of uncertainty as well as adding to costs of all rural-based industries if the dzud cuts transport links and electricity supply.

**Wildfires - businesses in Mongolia have to cope with the shock of wildfires.**

Wildfires are a natural part of Mongolia's main ecosystems, keeping the steppe free of trees, keeping the steppe-forest transition zone a complex mosaic of grassland and forests. But in recent years the frequency, intensity and extent of wildfires has increased markedly, devastating vast tracts of forest, grassland and farmland. Almost beyond belief, more than 20% of Mongolia's surface area has been destroyed by wildfires in the last 15 years.

Wildfires have created uncertainty and new risks for businesses engaged in forestry, livestock processing, crop production, tourism and transport.

**Disease - businesses in Mongolia have to cope with the shock of serious diseases.**

The huge number of livestock in Mongolia, coupled with the free-movement of antelopes, means that livestock is under threat of serious diseases such as foot-and-mouth. This makes it virtually impossible for Mongolian meat processors to export meat or meat products to key markets such as Western Europe, North America or Japan, and with all existing markets (notably Russia, China and Middle East) liable to impose bans on legitimate veterinarian concerns at any time. The only long-term acceptable market for Mongolia's huge "national herd" appears to be as low-value pet-food.

Mongolia is recognised as being the world's largest reservoir of the bubonic plague bacterium, with an annual risk of outbreaks of Plague (also known as the Black Death). The reservoir of the bacterium is in Mongolia's marmot (ground squirrel) population, creating some reluctance to invest in the tourism sector – not particularly from the risk of catching the disease, but the collapse of the entire tourism industry if just one group of tourists succumbed to the Black Death.

**Disadvantage of High Energy and Fuel Costs**

*Businesses in Mongolia have to cope with high energy and fuel costs.*

**Energy costs**

The severity of Mongolia's winter means the energy requirement for most businesses is correspondingly high. If energy or fuel costs were low this would not be a problem, but oil, coal and electricity prices are now deregulated. Mongolia's cost of coal production and power generation is high (being in high demand only for winter) and electricity transmission losses push up unit costs. Currently a price increase in coal of 20% is proposed by the recently privatised large coal-mines and a knock-on price increase of 20-30% in electricity is widely expected.

**Fuel costs**

Mongolia imports all its refined oil products (even though exporting some crude) and is vulnerable to price and supply being dependent on Yukos, the giant Russian oil corporation that is currently in financial and administrative turmoil. Lacking maritime access or oil refinery, all oil products have to be imported by rail or truck, pushing up the cost of fuel. Mongolian businesses therefore have a significant comparative disadvantage compared with Chinese and Russian businesses.

**Disadvantage of High Labour Costs**

*Businesses in Mongolia have to cope with high labour costs.*

The severe winters and consequent seasonal shedding of labour pushes up labour costs. But there is a second factor, namely the relatively low influx of rural people into the industrialised cities. In China and Siberia, such migration has held down wages. But in Mongolia, the main influx from the rural areas are not peasants but nomads with few skills to offer a potential employer.

Labour costs have recently been compared between Ulaanbaatar and China by garment manufacturers with identical factories in both countries.<sup>15</sup> The total cost of salaries and benefits (free bus fare and lunches) and fringe benefits (company payroll tax, social benefits contribution, paid holidays) gives a gross cost per month of about 140\$ per month per operator in Ulaanbaatar, comparable with big cities in China - but rural China labour costs can be a third lower.

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<sup>15</sup> Source: Ron Zeidel (2004). *The State Of Apparel Within the Mongolian Economy*. Briefing Paper to the North American Business Council, October 2004. Manuscript, 3 pages.

### **Disadvantage of High Transport Costs**

*Businesses in Mongolia have to cope with high transport costs.*

Lacking a seaport, and with seaport access only through a second country, pushes up transport costs for Mongolian businesses. This applies not only to export of goods, but also of imports of raw materials. The issue is not merely about the actual direct cost of the transport, but also the problem of capital tied up in raw materials in transit, or export products in transit, as well as the considerable uncertainties about border delays, customs tariffs and security.

### **Disadvantage of Lack of Affordable Finance**

*Businesses in Mongolia have to cope with high transport costs.*

For companies to grow, affordable capital is essential. However in Mongolia the cost of capital by means of loans from commercial banks and non-bank financial institutions is remarkably high, with a spread of interest rates of 3 to 5% pre month. Such high rates of interest are affordable by many types of trading operations or for seasonal working capital for most enterprises, but is far too high for capital investment in machinery and equipment.

Not only are the interest rates too high for capital investment projects, the repayment period is much too short, with a norm of 3-9 months and rarely more than 12 months. This means that no substantial capital investment can afford local bank finance as the repayment schedule would need to be largely completed before a significant income stream, if any, existed.

The high cost of capital, and absence of long-term loans creates a comparative disadvantage with most of the rest of the world for Mongolian-based enterprises engaged in farming, agro-processing or manufacturing to embark upon capital-intensive investment projects.

### **Disadvantage of Lack of Adequate Stock Market**

*Businesses in Mongolia have to cope with a Stock Market that destroys public companies!*

In a western-style market economy, companies can raise capital cheaply by issuing stock to shareholders via a 'stock market'. It is difficult to imagine how modern market economies could develop or even function if stock markets did not exist. But, due to strategic blunders the Mongolian Stock Exchange is tiny, non-transparent, moribund and is making no measurable contribution to economic growth or market efficiency.

The western advisers convinced the Government to create a Stock Exchange for the key task of implementing the privatisation policy. The western adviser made the flawed assumption that after that the shareholders of the state-owned properties people would trade their allocated shares. But it has not happened. According to D. Jargalsaikhan<sup>16</sup> of the 400+ companies registered as public companies on the Mongolian Stock Exchange only the stocks of the 'Top 20' public companies are freely traded. Transparency is virtually non-existent and only 30 public companies (7.5%) file reports. Less than 5 bond issues to raise capital have been made by companies via the Stock Exchange, and the Stock Exchange has failed to attract a single new listing and no entrepreneurs have ever attempted a Prospectus or Initial Public Offering (IPO).

Rather than being the source of finance for company growth, the main commercial activity of the Stock Market has been, and continues to be, for private companies to buy a controlling block of shares in a public company (at privatisation auction or via the Stock Market), change the management and add the public company as a unit of the private holding company. The rights of the small investors are not protected and trading of shares virtually ceases.

According to the author's investigation, hampered by lack of transparency in the Stock Market, at least 250 of the 400 listed public companies have been assimilated by private companies in this manner. For instance, TBD Anduud Ltd is a multi-sectoral private company with 3 public companies amongst its subsidiaries<sup>17</sup>.

As for the remainder of the 400 public companies, the majority have, or intend to, restructure themselves as limited liability private companies. In summary, Mongolia has a Stock Market that operates in reverse and systematically destroys public companies and terminates trading in shares.

<sup>16</sup> Source: interview with D. Jargalsaikhan viewable on internet at: [www.bizmongolia.mn](http://www.bizmongolia.mn)

<sup>17</sup> TBD Anduud Ltd was formed in 1992 as a private company and now has controlling blocks of shares in 3 public stockholding companies: Buudain Tsatsal JSC (flour-milling), Atar Chandagan JSC (cereal growing) and Gund Khairkhan (brick manufacturing).

## Response of Government and Donors

### Introduction

The orthodox view is that in order to create a viable market economy then the role of Government is to create an enabling environment for private enterprise to flourish, and the role of international donors is to assist the Government in achieving this laudable goal by means of advice, technical assistance projects, grant aid and soft loans.

But, unfortunately both the Government and donors have rather uncritically attempted to transplant western-style consumer-driven market economics without paying enough attention to the specifics of Mongolia. In the words of a leading foreign adviser of the 1990's, "*we just pump in the consultants*"<sup>18</sup>. Few of these foreign advisers had any prior experience of a command economy or grasped the immensity of the task in dismantling it while at the same time as creating a market economy – all in a country dominated by nomads, a severe climate and not enough critical mass of population to create much of a market! Essential and good work was achieved, but much important components were damaged beyond repair – the stock market, the dairy sector, the grain sector and the cashmere garment industry for example.

Mistakes are inevitable, but there is little sign of the Government or its advisers (IMF<sup>19</sup>, WB, ADB, USAID, JICA, KOICA, EC, GTZ) having learned much from mistakes. And early naive concepts have hardened into dogma, repeated as mantra: *...poverty alleviation... agro-processing... ecotourism... sustainable pastoral livestock rearing... meat processing for exports... timber processing... China is a big potential market and so too is Siberia... added-value for exports... light manufacturing...*

To take an extreme example, some foreign advisers are now suggesting – privately - that the best thing for livestock rearing, arable farming and agro-processing would be the closure of the Ministry of Agriculture! This ministry, regardless of who is minister, is stuck in the time warp of the command economy and each year makes a public announcement of what the price of wheat will be paid to the farmers. But all flourmills are now private, and the only wheat the ministry controls is the dumped wheat from the USA that distorts the market and cripples the farmers.

It is sobering that the largest generator of jobs in rural Mongolia over the last few years has not been agriculture, industry or nomadism but a poverty-driven illegal gold rush of more than 100,000 people.<sup>20</sup>

### Disadvantage of Flawed Donor Interventions

Most western advisers cling to the belief, shown in this study to be incorrect and untenable, that to create a vibrant market economy in Mongolia it requires a conventional package of measures to stimulate a consumer-driven private sector, and that growth can be achieved by creating value-added to Mongolia's animal raw materials – plus of course tourism.

From this untenable starting point, donor interventions by projects, policy advice, grants and loans has not only been inappropriate but have often aggravated the situation. For instance, Dutch intervention to help restructure the dairy industry in Mongolia did not prevent the inevitable the deindustrialisation of the sector with consequent loss of most pedigree herds and large dairies. In recent years, the USA Government has deterred the revival of industrial-scale dairying by imported large volumes of USA butter as "aid". Likewise USA Government intervention with imports of wheat to make-up the supposed insufficiency of local wheat production has contributed to the further decline of wheat production in Mongolia. The USA wheat is imported and sold at supposedly 'market prices' but in reality the sheer volume damages the local market for home producers, accelerating the decline of the arable sector by this dumping cloaked as "aid".

Turning to small and medium-sized enterprises, the European Commission attempted between 1995 and 1999 with millions of euros of grant aid to template into Mongolia the successful SME Development Agency (SMEDA) model of Western Europe, ignoring the need for ongoing subsidy from large corporations and governments to ensure their success. Although the Mongolian Business Development Agency (MBDA) did important work in assisting SMEs when the MBDA enjoyed massive EC funding, it is now only a shadow of its former self as the SMEDA model is not financially sustainable and has failed in almost all Tacis states. Currently the European Commission is grant-

<sup>18</sup> Paul Orquist, then of the UNDP Private Sector Management Project.

<sup>19</sup> Examples of the consensus include the IMF paper in 2003 by Kevin Cheng titled '*Growth and Recovery in Mongolia During Transition*', and the IMF Country Report for November 2002 – see Bibliography.

<sup>20</sup> For a review of illegal gold mining and its positive impact on the rural economy, see (i) PowerPoint presentation by the writer at the Communities and Artisanal and Small Scale Mining Conference held in 2004, downloadable from: [www.casm.org](http://www.casm.org); (ii) report by Robin Grayson et al (2003) and paper by William Murray(2003) – see Bibliography.

funding a large new project to assist wholesaling in rural Mongolia, but this has been widely criticised as being a throwback to command economy methods and liable to create a monopolistic situation in many rural areas regarding supply of consumer goods.

Donor intervention has led directly to the current moribund state of the Mongolian Stock Exchange (USAID); and to corruption due to strict advice from the International Monetary Fund (IMF) to cap wages of government employees. Corruption is inevitable in order to have a living wage!

Of course there have been many good donor interventions, but most have been non-sustainable or triggered problems (stock market, corruption, decline of arable and dairying etc) – and very few have addressed the issue of how to assist Mongolia’s private companies become world-competitive.

## Some Strategies of Local Entrepreneurs

In view of the catalogue of problems confronting the viability of private businesses in Mongolia, it seems reasonable to talk of 'survival strategies' used by entrepreneurs. The current Chapter introduces some of the successful survival strategies used by Mongolia's entrepreneurs, while Chapter 5 examines details of each sector.

### Improving Backward Linkages

Of the entrepreneurs engaged in trading (importing, wholesaling and retailing) some have strengthened their market competitiveness by diversifying into the manufacturing sector to produce items for which exists a strong domestic demand, notably mineral water, beer, vodka, bricks, vegetables, doors and window-frames. However, in view of the small finite size of the domestic market the author considers that all these profitable niches will become saturated by new players within the next 12-24 months, and only a small number of these new manufacturers will survive in the long term and at best be struggling with tight margins.

### Improving Forward Linkages

Entrepreneurs engaged in manufacturing often face barriers to access to local consumers due to the compartmentalisation of retailing amongst new trading houses and due to inefficiencies in the retailing sector generally. A common response to these difficulties has been, and continues to be, the setting-up by manufacturers of chains of factory shops to reach the customers and sell the products. Some factory shops are typical of western economies (e.g. chains of confectioners owned by a manufacturer) but some are remarkable such as rival chains devoted to cashmere garments. As suggested in the next Chapter, the tendency of local manufacturers of consumer goods to enter retailing to capture domestic market share does not indicate the strength of the domestic market but rather the opposite – the small size of the domestic market means that maximising sales efforts to gain market share is vital. It is also a symptom of a lack of international competitiveness that some manufacturers are striving to gain more domestic market share.

### Breaking into International Markets

Faced with the small size of the domestic market, many entrepreneurs want to break into international markets for products or services. As yet none have succeeded in becoming significant exporters of manufactured goods with high value-added, apart from those enjoying privileged access to the lucrative USA market for garments – but this distortion terminates in 2005.

A soft route into international markets has been via the tourism sector. Mongolia is a strong 'brand' and it has a strong package of 'product' for tourists in the legacy of Chinggis Khaan, Huvsgul Lake, the Gobi Desert, dinosaurs, nomads, fishing and hunting. But a risk of saturation is appearing with more than 100 local companies constructing new hotels and ger camps but paying not enough attention to logistics, customer care or international marketing.

But the softest route into international markets, requiring zero marketing and in which competition is virtually irrelevant, is in placer gold mining, with more than 130 producers. Both the Central Bank and the Trade & Development Bank buy impure gold ('dore') for export and refining abroad. The sale of gold is so effortless that the producers gain no skills in sales or marketing.

### Evolving into Multisectoral Companies

Faced with the small size and seasonal uncertainty of the domestic market, many thousands of entrepreneurs have sought to create multisectoral companies, spanning several sectors that may or may not bring worthwhile synergies. This strong tendency is seen throughout the private sector in Mongolia – in companies large and small (even microenterprises), successful and unsuccessful. The following Chapter examines its prevalence amongst the 'Top' companies in Mongolia.

### **Disadvantage of Flawed Government Interventions**

The Government has achieved a great deal over the last decade, with donor intervention, to prevent the collapse of the national economy and created quite a good enabling environment for a consumer-driven market economy to emerge.

On the downside, many of the Government's interventions have, for short-term gains, damaged the potential for Mongolian companies to become internationally competitive in terms of exports, or at the very least to defend some of the domestic market from imported manufactured goods. It is now apparent that if a Mongolian company seeks to become a world-class business then as well as overcoming the daunting comparative disadvantages discussed already in this paper, the company will have to battle with the government – not only on the expected 'red tape' but also on a range of policy matters that are quite remarkable.

For a start, the Government – with the unwavering support of the orthodox foreign advisers of the donors – has as its 'mantra' that *foreign investment is a good thing and must be encouraged at all costs*. The foreign investor gets huge tax breaks in most key sectors, but a local company does not! There are now Mongolian entrepreneurs who have accumulated significant capital, and are poised to set up manufacturing goods for the local market – but what if a foreign competitor arrives and backed by 'zero tax' would surely out-compete them on price?

The tax incentives for direct foreign investment (DFI) are not only a deterrent to local companies from investing, they are a blunt instrument. A systemic flaw in this well-meaning intervention by Government backed by international donors is that the foreign investor gets the 'tax break' with only token regard to the technology of the processes, the quality of the products or the nature of the exports. The flaw has been highlighted by the appearance of a large number of DFI companies from China engaged in leather processing. Most of these use imported old technology from China (where much of it is substandard and banned), have caused severe pollution of parts of Ulaanbaatar with heavy metal contamination and have been exporting semi-finished hides to China, not leather goods. There is no tangible benefit to Mongolia from this and it has deprived some local tanneries of the hides they need to make leather products for export. The environmental damage has caused such an outcry that 30 of the Chinese tanneries to be closed by inspectors but still leaving the damage behind. A less extreme example has been the start-up of Chinese-owned claypits and brickworks producing average-quality bricks. While good for local consumers, it damages Mongolian-owned companies that don't get the tax-break and yet produce identical bricks!

## Multisectoral Business Structures

### List of Top-132 Companies in Mongolia

For each of the 132 ‘Top’ companies in the study, Table 13 (Annex 1) presents the company name and preserves their ‘rank’ in accordance with the ranking assigned by the MNCCI 2002 study down to a rank of 100, followed by the rank of 101 to 127 taken from an additional 27 companies in the Top-100 of 2001 but absent from the Top-100 of 2002. Finally a further 6 companies were added by the author on the basis of success in 2003 or 2004 using personal judgement tempered by the opinion of foreign advisers consulted. The ‘extra’ 33 companies are numbered 101x onwards for convenience and their numbering does not signify a rank. Before finalising the list, 5 were deleted on the grounds of being too invisible to gather enough information, and/or information was contradictory.

Each of the Top-132 companies was assigned to a ‘main’ sector in accordance with their ‘main’ activity (see Table 13). The author selected a small number of wide sectors. ‘Lumping’ rather than ‘splitting’ was preferred in order to better demonstrate the extraordinary width of multisectoralism in Mongolia. It was evident that ‘multi-subsectoralism’ is also prevalent, but this is less remarkable being also common in North America and Western Europe.

### Top Financial Enterprises

Of the Top-132 companies, 10 have their main activity in the financial services sector (see Table 1). Of these, all are commercial high-street banks, apart from the leading insurance company **Mongol Daatgal**. The strict control exerted by the Central Bank (the ‘Mongol Bank’) upon the financial institutions NOT to engage in non-banking activity, bars them from multisectoralism. That said, there are 4 banks with strong business links to other sectors, as follows.

The privatised **Trade and Development Bank** is heavily connected with the mining sector, by 3 interlocking factors: a) a portfolio of >20m\$ short-term loans to placer gold miners; b) by being a gold merchant buying impure gold (‘dore’ gold) from the miners to export it to gold refineries to create bullion gold); and c) by the majority shareholder being a gold trader in New York (Gerrards Metals).

The State-owned **Mongol Post Bank** now has strong collaborative links with Mongol Post for the provision of simple banking services via the post offices across Mongolia.

The **Capitron Bank** is interesting in being a young business venture created by cash generated by Petrovis Ltd (rank 00) from its lucrative fuel import/distribution business.

It is not usual to consider a central bank as being a business so it does not appear in the Top-130. But the **Mongol Bank** is not only a central bank, it is also a profitable gold merchant bank – the Central Bank bought 12 tons of gold (expressed in pure units) in 2003 from 135 gold mining companies valued at today’s gold price as 168 million USD, for conversion to gold bullion and ultimate sale to gold traders abroad.<sup>21</sup>

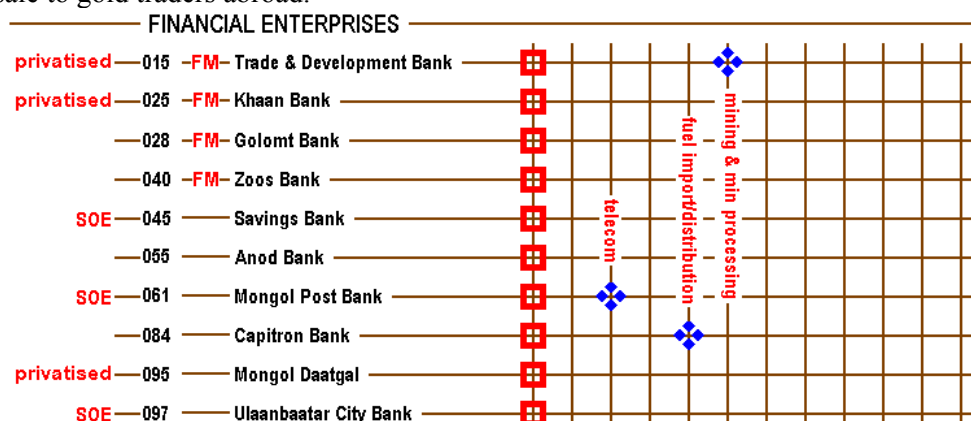


Fig. 1: Financial sector specialists in Mongolia’s Top-132 Companies. Note the virtual absence of multisectoralism, apart from: a) strong links between the Trade & Development Bank and the mining sector, b) strong links between the Capitron Bank and fuel importers/distributors; and c) collaboration between the Mongol Post Bank and Mongol Post Services.

<sup>21</sup> Source - Research Paper of the Central Bank of Mongolia (Mongol Bank) by J. Otgondorj – see Bibliography.

### Top Transport Enterprises

Of the Top-132 companies, 8 have their main activity in the transport sector (see Table 2). With the exception of Tuushin and Mongolian Railway, multisectoralism is weak and often suppressed.

**Mongolian Railway**, the SOE national railway, is itself a major importer and wholesaler of diesel fuel,<sup>22</sup> has links to the minerals/mining sector by haulage of coal to generators and export of concentrates (Cu, Mo, CaF<sub>2</sub>), and is the prime means of importing fuel for all oil traders.

**MIAT** is the state-owned airline, with Irish management financed by EBRD prior to privatisation. Understandably, MIAT has a tourism division, but the State Property Commission intervened and confiscated their large new hotel in 2000, the Palace, and auctioned it off before it was complete.

**Tuushin** is a leading freight company, but also has 2 of the ‘top’ hotels in Mongolia (the Tuushin Hotel and the Continental Hotel) plus a tour company, and is the local agent for DHL courier services.

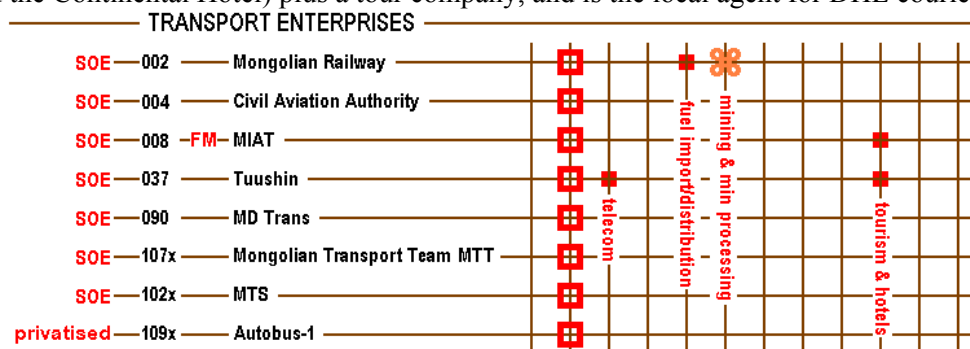


Fig.2: Transport sector specialists in Mongolia’s Top-132 Companies.

### Top Telecom Enterprises

Of the Top-132 companies, 5 have their main activity in the telecom sector (see Table 3). Multisectoralism is weak, constrained by discipline imposed by foreign investors (Mobicom, Skytel) and by the State (Mongol Telecoms). The growth of telecoms exerts a disincentive to multisectoralism ‘for growth’s sake’, and if a company entered other sectors it would be at risk by not keeping up with technology. The exception is Mongol Post that has exploited synergy with the Mongol Post Bank to add banking to the services offered via its post office branches nationwide.

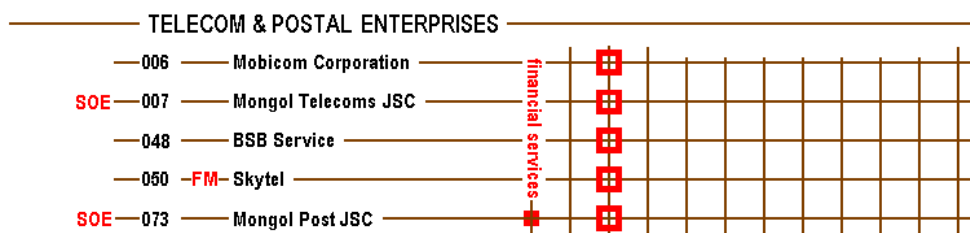


Fig.3: Telecom sector specialists in Mongolia’s Top-132 Companies. Multisectoralism is weak.

### Top Power, Heating, Water, Sewerage Enterprises

Of the Top-132 companies, 7 have their main activity in public utilities and all are State-owned enterprises, SOEs (see Table 4). None display a tendency towards multisectoralism, perhaps limited by regulators. A special case is **Erdenet Thermal Power Plant** being a wholly-owned subsidiary of the giant **Erdenet Mining**, a State-owned enterprise that requires energy for its copper mine.

<sup>22</sup> Source: Mongol Bank Research Paper by Lkhagvajav (2001). ‘Import of Petroleum Oils in Mongolia’ – see Bibliography.

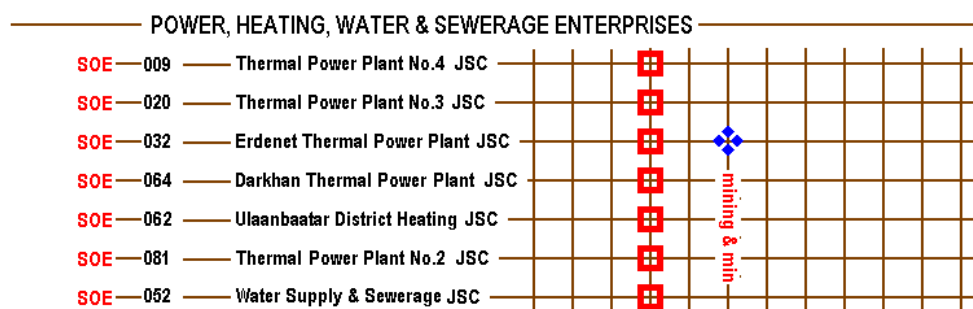


Fig.4: Power, heating, water and sewerage sector specialists in Mongolia's Top-132 Companies. Note the virtual absence of multisectoralism.

### Top Fuel Import & Distribution Enterprises

Of the Top-132 companies, 12 have their main activity in fuel import and distribution (see Table 5).

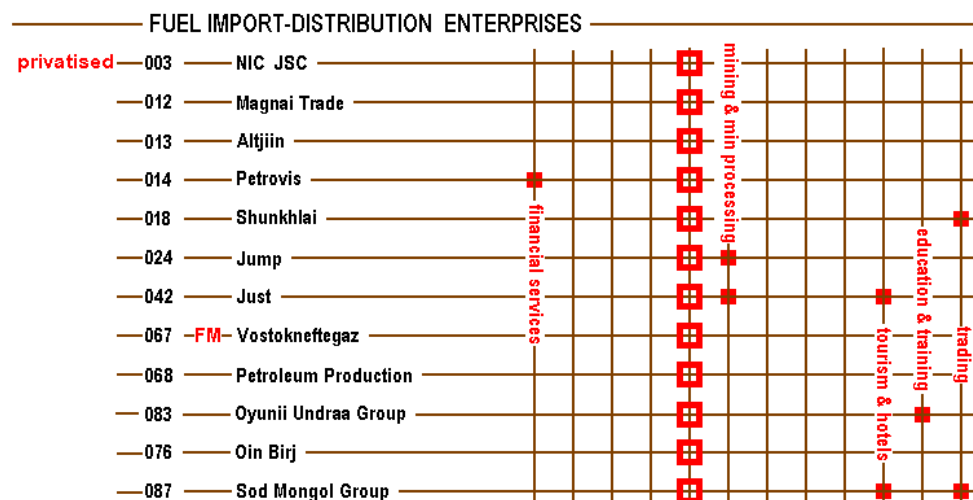


Fig.5: Fuel importing/distribution sector specialists in Mongolia's Top-132 Companies. NIC (003) has now been bought by Petrovis (014), giving a total of 11. Note the tendency of multisectoralism.

NIC held the state monopoly as oil importer/distributor, but the liberalisation of the market has led to the decline of NIC and the rise of private oil importers/distributors.<sup>23</sup>

NIC was privatised and bought by **Petrovis** in 2004, but 11 still seems too many 'Top' enterprises to be engaged in fuel import/distribution, too many to be fully explained by Mongolia's partial deregulation, lack of a domestic oil refinery and need to import all fuel. But it is understandable as it has been, and is, a highly profitable cash-business attracting new ventures that are able to become cash-cows. This seems to have stimulated several of them to become multisectoral, bearing in mind the market for fuel has a finite limit, is now crowded, and is prone to risk due to price shocks in the global market, supply shocks in the supply market of Russia (e.g. the Yukos debacle, Yukos being the main supply), rail freight disputes, and benign interference from government regarding pricing.

In February 2004 NIC was privatised and bought by a consortium led by Petrovis, a competitor created in 1997 and driven by a woman entrepreneur - Ms Oyungerel – who was unseated as head of NIC. In this instance, the entrepreneurial new 'flea' (rank 14) has swallowed the old 'elephant' (rank 3), in an extension of the elephant-flea model of Charles Handy (2001). But it is even more remarkable in that, prior to swallowing the elephant, the cash-cow of Petrovis created the Capitron Bank (rank 84) in 2001.

**Jump**<sup>24</sup> formed in 1996 as a trade and fuel importer/distributor, and became multisectoral almost by accident in 1998 when it took over some gold mines from a customer as debt settlement for fuel. Rather similar is **Just** that formed in 1999 as a fuel importer/distributor, but in 2003 became multisectoral as a meat processor/exporter and a fluorspar miner/exporter. In a different direction, **Sod Mongol** having formed in 1999 as a fuel importer/distributor soon also became a cigarette importer/distributor (UK Gallaher via a Cyprus JV); tour operator; leisure facility operator (Hard Rock disco, pub etc) and owner/operator of the largest cinema in Mongolia.

<sup>23</sup> For a review of the decline of NIC and the rise of private sector oil importers/distributors, see the article by B. Lkhagvajav (2001). *Import of Petroleum Oils in Mongolia*. Research Paper of the Central Bank of Mongolia – see Bibliography.

<sup>24</sup> Jump Ltd is briefly featured in Profile No 10 in Anon (2002) 'Mining and Oil Project Information' – see Bibliography.

Oyunii Undraa merits attention as it is the only one of the fuel import/distribution companies that has diversified into the education sector.

### Top Mining and Mineral Processing Enterprises

Of the Top-132 companies, 25 have their main activity in the mining sector (see Table 6). Of these, 15 are unisectoral, focussed only on mining and/or mineral processing, but 10 are multisectoral with 5 exhibiting strong multisectoralism: Erdenet, Erel, Mongol Gazar, Mongol Alt<sup>25</sup> and Gazar Holding.<sup>26</sup>

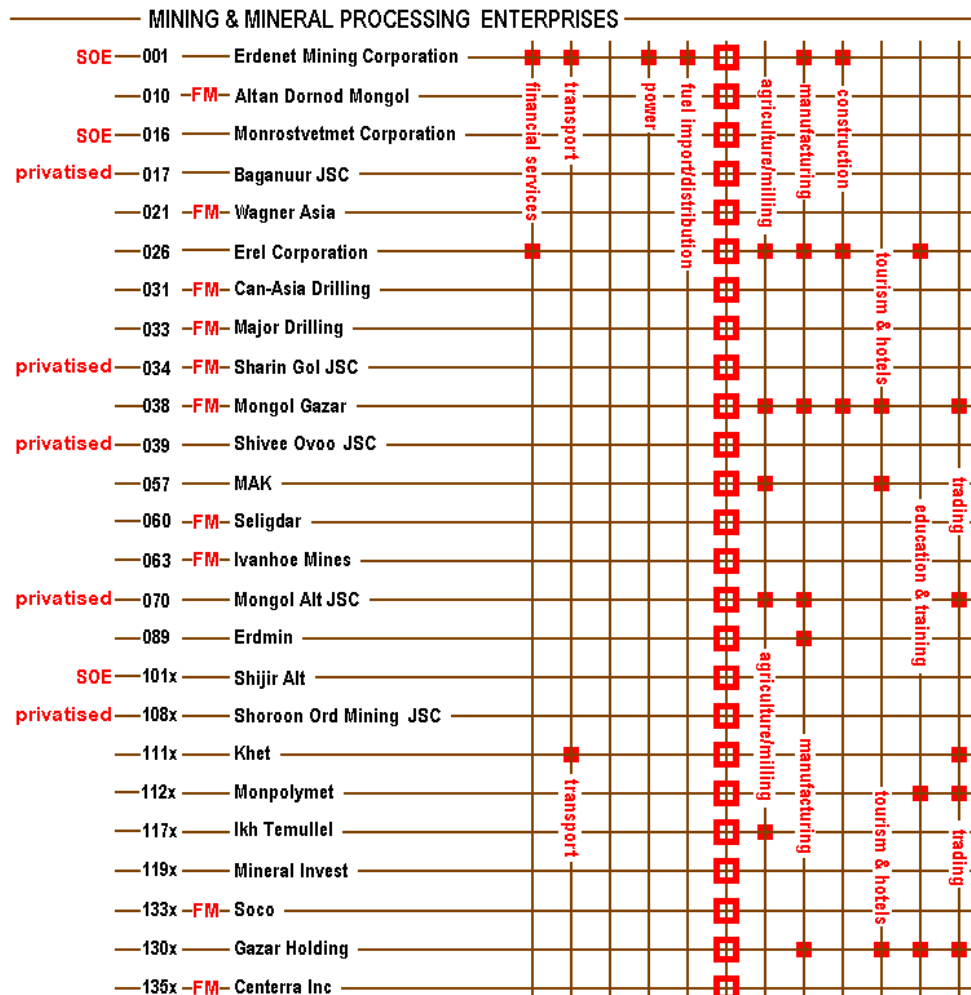


Fig.6: Mineral and mineral processing sector specialists in Mongolia's Top-132 Companies. Note the strong multisectoralism by many enterprises, but the strictly unisectoral focus of others.

### Unisectoral mining enterprises

To gain insight of how and why the mining sector is so strongly polarised between unisectoral and multisectoral companies, the author sought reasons why the 15 unisectoral companies chose not to diversify outside mining. Some are foreign-controlled/owned ventures backed by western stock markets. Such investors generally prefer a sector-focussed company in the belief that it will be more competitive and, in the case of mineral exploration/mining, give shareholders hope of a leap in value if there is a big discovery or a major becomes interested in acquisition. If multisectoral, then the impact of a big discovery would be dulled and diluted and the company would be improbable as a takeover target due to lack of focus. In any case, western investors have sophisticated investment vehicles for spreads, such as unit trusts and pension funds that are able to adjust their flexible portfolio of shares in response to company news or commodity price shifts. In contrast, an investor in a multisectoral company has to accept a fixed portfolio across sectors the company management decides, whereas a fund manager can re-jig a portfolio quickly.

For these reasons, Centerra, Ivanhoe Mines and Soco are unisectoral, with Centerra and Ivanhoe listed in Toronto as mining/exploration juniors, and Soco listed in New York and London as

<sup>25</sup> A profile of Mongol Alt JSC was given in a PowerPoint presentation to investors in 2003 – see Bibliography.

<sup>26</sup> Introductory information on the mining sector can be found in Anon (2002) 'Discovering New Mineral Opportunities in the Country of Chinggis Khan' – see Bibliography.

an oil exploration/production junior. Centerra illustrates the case, being the vehicle created by uranium miner Cameco Inc of Toronto to divest itself in 2004 of its non-core gold assets - as two independent companies it created more shareholder value on the Toronto Stock Market than a unified uranium-gold company could.

*But what then of the 12 other unisectoral mining companies?* The author has explanations why each has remained unisectoral. **Can-Asia Drilling**<sup>27</sup> and **Major Drilling** are straightforward, being capital intensive DFIs whose key customers are the pack of 20+ western stock market junior mineral exploration companies, led by Ivanhoe and Centerra. These all want and get “drillers only drillers” and have a roster of subcontractors for all other activities. Subcontractor competition is fierce, standards are very high and specialisation is vital in order to compete and survive.

**Wagner Asia** is somewhat similar, in being the CAT distributor for Mongolia in the large mining market for earth-moving equipment in a fierce battle for market share with rivals Komatsu, Hyundai, Liebherr and others. Wagner has diversified only into supplying Ford vehicles, and engineering items.

**Shariin Gol JSC** and **Baganuur JSC** are both recently privatised SOE whose core activity is large-scale coal mining, each with one giant coal mine plus attached railhead and sizeable mono-company town. Both have diversified into placer gold mining, but not into non-mining sectors. Now privatised they are tentatively considering diversifying into power generation for feeding into the national grid, rather than rail-shipping coal to power generators in Ulaanbaatar. Electricity cost even after transmission losses would be less than if by rail. This would be not so much diversification as a rational move to get value-added from the coal by selling it as electricity not as raw materials.

**Altan Dornod Mongol** is a special case, a 100% Russian-owned venture only in gold mining but with its Moscow-based owner being a giant new gas distribution company second only to Gazprom.

**Monros** is also a special case, being a Russian-Mongolian JV, a SOE-SOE, created for solely for mining, and the company is a world leader in fluorspar mining – needed by Russia’s steel industry – as well as having a key stake in **Shijir Alt** set up by the 2 governments for the sole purpose of mining a single placer gold deposit of huge size.

**Seligdar**’s strict unisectoral character is easily explained by it being a 100% Russian-owned private enterprise from Siberia, and all its staff are leading specialists in placer gold mining and that is what they have always done and that is what they will continue to do. Seligdar began as a subcontract miner to Mongolian license holders but is now also a placer gold miner in its own right with its own licenses. Arguably, it is a potential future example of ‘industrial inertia’, liable to carry on placer gold mining even when all the richer deposits have been exhausted and the rivals have departed.

**Shivee Ovoo JSC**<sup>28</sup> is a recently privatised coal mine on the edge of the Gobi Desert, and until now has been constrained by State control to not consider diversification. Insufficient information about **Shoroon Ord JSC** and **Mineral Invest** was gathered during this study to permit meaningful consideration of why they have remained unisectoral.

### **Multisectoral mining enterprises**

Turning now to the 5 most extreme multisectoral ‘Top’ companies in the mining sector.

**Erdenet Mining SOE** is Mongolia’s top enterprise, being a Russian-Mongolian JV exploiting one of the top 10 copper mines in the world, currently with 5,900 employees including 600 Russians. Erdenet Mining created Erdenet City, Mongolia’s second-city by size, as a large company-town – a typical soviet ‘monocity’ - building, owning and operating all social and infrastructural facilities, as a SOE multisectoral company. But its multisectoral tendencies went deeper, during soviet times recognising the need to diversify the local economy, and indeed to achieve social balance by creating employment for the women of the male-dominated mining sector, thus creating enterprises in technical training, carpet manufacturing, meat processing, dairying etc. Some of these remain as daughter companies but most have been spun out as non-core stand-alone private enterprises. It might be argued that the elephant of Erdenet Mining has spawned 20-30 fleas using Charles Handy terminology. But this was only the beginning. Erdenet Mining is the only truly big enterprise in Mongolia and in most years is a cash-cow. The local engineering and infrastructure being insufficient, Erdenet Mining has continued to spawn a wide range of joint ventures and for a period created Erdenet Concern – spinning out cash and surplus premises to trigger local economic diversification. The end result has been mixed, with Erdenet Mining accumulating a fresh portfolio of daughter companies across many sectors. Having divested itself of fleas at the end of the command economy, the elephant has created a portfolio of much more diverse fleas in the market economy. For the moment, these fleas are

<sup>27</sup> Source: company brochure of Can-Asia Drilling – see Bibliography.

<sup>28</sup> Source: page 14 in Anon (2002) Coal Sector of Mongolia. Booklet of Coal Authority of Mongolia.

controlled by the SOE but at some point they may be spun out as non-core. Erdenet Mining's multisectoralism is akin to that of large soviet enterprises in more than 100 monocities across the former Soviet Union and therefore unlikely to shed much light on the emergence of Mongolia's private multisectoral companies – apart from showing the tendency of a company, SOE or private, to fill niches around it.

In contrast, **Erel Corporation** is Mongolia's most dramatic success story of a multisectoral venture arising in the market economy. Established as the Erel Co-operative in 1989, it started in geology exploration assisted by a short-term bank loan and identified 40 placer gold deposits, some large. In 1991 it reorganised as Erel Ltd and produced a remarkable 2.4 tons of placer gold between 1993 and 1997. With a \$12m investment loan from the Itochu Corporation of Japan for Japanese earth-moving equipment, Erel was able to rapidly develop its Bayangol Mine producing 1.4 tons of placer gold in 1997, a further 1.4 tons the following year and declining to 281 kilos in 1999 as the mine approached exhaustion. Erel ploughed its profits into many subsidiaries across many sectors and in 1998 reorganised itself as the Erel Group with >2,500 employees. By 2001 the Erel Group had >3,000 employees with >10 subsidiaries, including: 2 placer gold mines, Erel Cement Factory JSC (bought in 1990's at privatisation auction); Concrete Slab & Block Factory JSC (bought in 1994 at privatisation auction); Erel Toosgo Factory JSC (brickwork bought in 1990's by privatisation); Bitumen & Asphalt Plant (started in 1990's); Erelstroi Company engaged in construction and house-building (started in 1998); Engineering Repair Workshops; Construction Materials Company - sand & gravel mining & crushed aggregate; Erel Bank (started in 1997); and Erel Daatgal Ltd - insurance company. Erel also started a sizeable private school and even a successful pop group.

*Why and how did Erel become so remarkably multisectoral so quickly?* It was the strongest private company in Mongolia having got into placer gold mining early backed by a \$12m loan from Itochu Corporation. Erel was one of the few local companies with cash to buy controlling blocks of shares in public companies at privatisation active in cement, concrete products and brick manufacture, leading it into the construction sector. Having cash "early" in an economy in transition propelled Erel into banking and insurance, with Erel School being the first private school in a profitable niche.

Overall, the growth of Erel was opportunistic, and now it is facing tough competition from new entrants into gold mining, brick production, construction, banking, insurance and education. Even today, Erel has a very small top management team. The jury is out on Erel being a temporary phenomenon of a market in transition and destined for collapse or dismemberment.

**Mongol Gazar** was a late entrant to mining. It began in 1992 as an importer of consumer and food products, and as an exporter of cashmere, camel and sheep wool, cow hide and leather to Japan, China, Belgium and France. It created a JV - **Hasebe International Ltd** with the Hasebe Group of Japan, leading to the purchase in 1994 of the 'Altai Hotel' SOE, renaming it the Flower Hotel which is today one of the most popular 4-star hotels in Ulaanbaatar catering especially for Japanese visitors. Only in 1996 did Mongol Gazar turn to placer gold mining and was soon employing 220 miners (direct and subcontract) in Khentii Aimag. But severe operational difficulties due to frozen ground and other factors forced Mongol Gazar to pull out with losses, and the company almost crashed. The following year, Mongol Gazar acquired 71% of Ikh Uusgel JSC, a public company specialising in metal fabrication company to serve as the base for mining operations. Start-up of the Ulziit Teel was difficult, largely due to permafrost, and for a second time Mongol Gazar almost crashed. This led to **Wagner Asia** who had leased them CAT earth-moving equipment, taking over the mine and Mining License. Wagner Asia for a while was a successful gold miner before selling the property to **Altan Dornod Mongol**.

Mongol Gazar bounced back yet again in 2000, soaring to 1<sup>st</sup> place amongst gold producers due to developing the exceptional Harguit Mine able to cheaply produce more than 1 ton of gold a year. A staggering 2.3 tons of gold (dore) were mined in 2000, the first mining season!

*But how did Mongol Gazar bounce back?* They were financed by a \$20m investment of the Itochu Corporation of Japan for Komatsu excavators, trucks and bulldozers in a battle for market share between Komatsu and CAT. Itochu were reported to have been repaid in a single mining season!

*How did Mongol Gazar become multisectoral?* It was already multisectoral as early as 1994 as a trading house and with a hotel JV, when it was easy to engage in any sector – too many opportunities for too few entrepreneurs with too little cash. Then it became a placer gold miner financially backed by Itochu and, after twice nearly going bankrupt at mining, eventually created a cash-cow. This financed its successful diversification into agriculture and a now-stalled major attempt to commence

hard-rock gold mining<sup>29</sup>. In spite of becoming multisectoral, the company is still operated with the mind-set of an autocratic sole proprietor, and in 2004 began struggling with loan repayment problems being aired publicly in the media by the new foreign owners of the **Trade & Development Bank**.<sup>30</sup> The jury is out on the future of Mongol Gazar due to the failure to broaden the management team or to delegate responsibilities.

**Gazar Holding**<sup>31</sup> got into placer gold mining in 1992, remarkably early, and used the cash-cow to become by 1997 a powerful multisectoral holding company having bought controlling interests in 4 public companies, Suljmel JSC, Darkhan Nekhii JSC, Bayankhongor JSC, and Sicom Security JSC engaged in knitwear manufacture, sheepskin processing, gold mining and brokerage on the Mongolian Stock Exchange, as well starting a Korean JV for opticians, a British JV for catering and a portfolio of subsidiaries engaged in gold mining, tourism and trading<sup>32</sup>. Since its peak in 1997, Gazar Holding had some setbacks – it is now only a small gold producer, the British JV has been dissolved, the Stock Exchange is moribund, and knitwear manufacturing has ceased. Gazar Holding has been overtaken by the emergence of more powerful companies. Recently the group has recovered somewhat, led by the revival of sheepskin manufacturing by Darkhan Nekhii<sup>33</sup>, the start-up of the Venture Centre as a modern office complex, and the success of a new Korean JV in restauranting. Although still viable and profitable, Gazar Holding is an example of a multisectoral company that has not maintained its market share in all its sectors, and has slipped from being one of the Top-10 private enterprises to being perhaps 150<sup>th</sup> or so. Is this the inevitable fate awaiting Erel and Mongol Gazar?

**TAS Group** got into placer mining early, in 1992, and by 1998<sup>34</sup> had become Mongolia's largest private enterprise, a sprawling multisectoral giant, with >4,000 employees spanning coal mining, gem processing, crystal resonator manufacture, tourism, fuel import/distribution, warehousing, restaurants, 'TASburgers', wool/cashmere processing, knitwear manufacture, dairy products, meat processing, livestock rearing, hospital, higher education and banking. By 2000 TAS was in deep financial trouble by the main shareholder exhausting the cash-flow by default on gambling debts. By 2002 TAS Group had ceased to exist, with the daughter companies either bankrupted, seized as debt payments or in terminal decline. Given the unique nature of the collapse of TAS, it cannot be used to indicate the fate of other multisectorals, except to show their vulnerability to management if that management is too small or the ownership too narrow. In effect, it suggests that if a quick and nimble flea grows too quickly into a multisectoral giant it gains elephant-like characteristics of slowness and cumbersomeness – and vulnerable to collapse if the management remains flea-sized.

### **Top Agriculture and Milling Enterprises**

The study failed to find a single agricultural enterprise strong enough to merit inclusion in the Top-132 companies. This is due to the collapse of the industrial-scale soviet grain production, livestock rearing and dairying. Generally these are now fragmented and barely profitable. Instead the author found 4 Top companies that are "close" enough to agriculture to be classed as 'Agriculture and Milling' (see Table 7). Only one, Altan Taria, has become multisectoral albeit in a curious manner.

**Altan Taria JSC** is based in Ulaanbaatar and its main asset is Mongolia's largest flour mill. An entrepreneurial SME with strong Czech trading connections bought the controlling block of shares in this public company. The flea swallowed the elephant, to use the model of Charles Handy (2001), and transformed the sluggish elephant into a competitive giant by dislodging the conservative management, injecting working capital, introducing western marketing methods, refurbishing the flour mill, buying into grain farms to raise production and ensure quality and supply, meanwhile retaining the importing of consumer goods, and diversifying into large construction projects (e.g. Star Apartments) and food processing. In contrast, the rival flour mill, **Selenge Guril Tejeel JSC** has not diversified in the absence of injection of substantial capital and only recently returned to profitability.

<sup>29</sup> The dream of Mongol Gazar to be a hard-rock gold mining company can be seen in an interview given by Ts Enkhburen, Chief of External Relations of the company – see Bibliography.

<sup>30</sup> See 'Public Announcement by Trade & Development Bank of Mongolia' in the: Mongol Messenger newspaper 2004.

<sup>31</sup> In spite of some similarity between their names, there is no connection between Mongol Gazar (= 'Mongol Land') and Gazar Holdings (= 'Land Holdings').

<sup>32</sup> Source: Company brochure of Gazar Holdings published in 2000 – see Bibliography.

<sup>33</sup> An account of the recovery of Darkhan Nekhii JSC is presented in a report edited by Jonathan Simon – see Bibliography.

<sup>34</sup> Source: advertisement by TAS Group, pages 56-57 in: Reference Book on Mongolian Investment 1999 – see Bibliography.

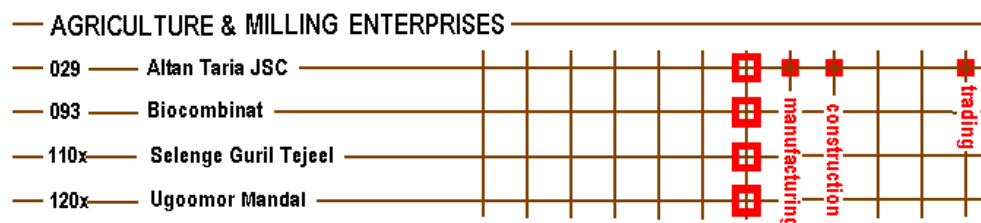


Fig.7: The meagre showing of agricultural and agroprocessing sector specialists in Mongolia's Top-132 Companies. Of them, only Altan Taria JSC has become multisectoral.

### Top Manufacturing Enterprises

Of the Top-132 companies, 23 have their main activity in manufacturing (see Table 8). Of these, only 7 are strictly unisectoral ventures, 16 exhibiting varying degrees of multisectoralism. The study investigated why so many manufacturing companies have diversified into non-manufacturing sectors, and why have 7 resisted this trend.

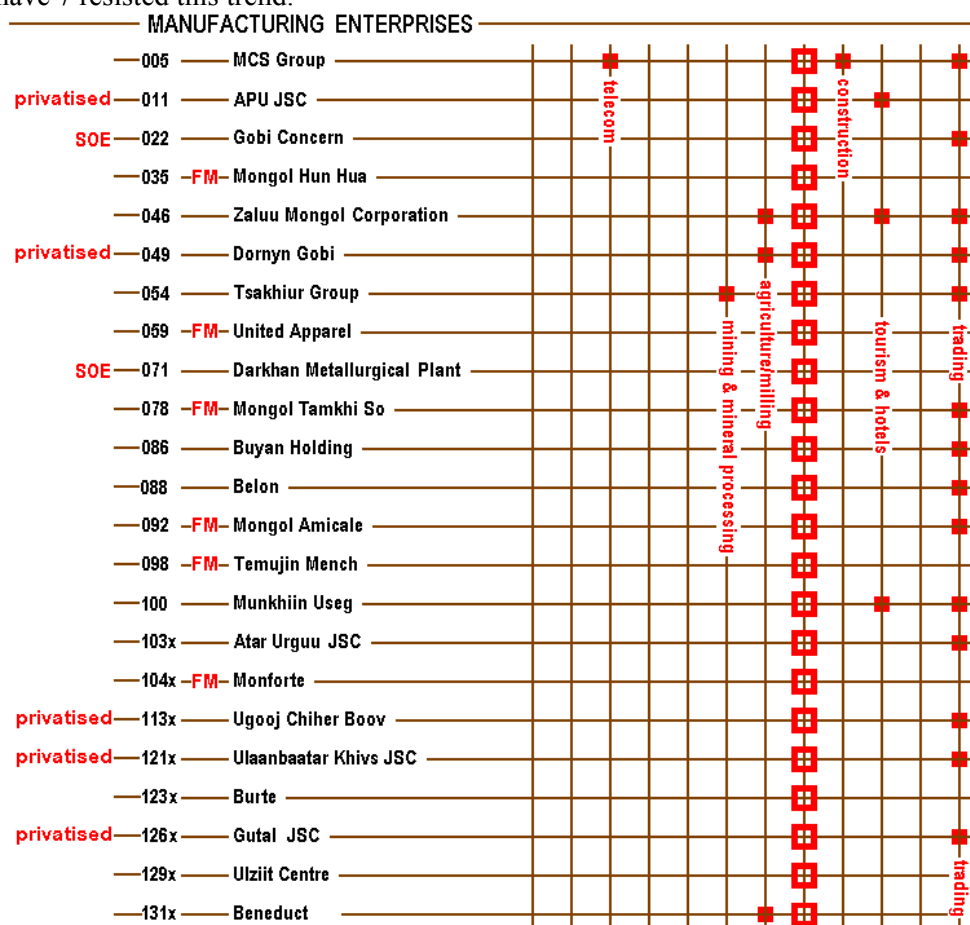


Fig.8: The strong showing of manufacturing sector specialists in Mongolia's Top-132 Companies. Of the manufacturing ventures, MCS, Zалуu and Belon are highly multisectoral.

### Strictly unisectoral manufacturers

Four sewing ventures are strictly unisectoral taking advantage of Mongolia's textile quotas under the Multifibre Tariff and Trade Agreement to export finished garments to North America. With such a background, the owners would have no reason to permit multisectoralism. The Multifibre agreement ends in 2005 and these companies are expected to close or severely downsize due to the units costs in Mongolia being significantly higher than in China (transport, electricity, heating, worker output). **Mongol Hun Hua** has 100% DFI from Hong Kong and started as recently as 2000, with 1,100 employees almost immediately, dedicated to exporting garments to the USA (80%) and USA (20%) to major stores such as Wal-Mart, One Step Up etc. **United Apparel** with 100% DFI from the Crystal Group of Hong Kong (40,000 employees worldwide) is a trouser sewing factory that started as recently as 2000 with 1,000+ employees exporting trousers to the USA (99%). **Temujin Mench** was set up as early as 1992 with 100% Chinese DFI and now has 3 factories with 1,250 employees. With production dedicated to exporting to the USA, it is inevitable that severe downsizing and possible closure will occur in 2005 with the ending of the Multifibre agreement. **Ulziit Centre** was set up in

1991 and now has 500 employees engaged solely in sewing garments for export to the United States, so it will also face severe problems in 2005 with the expected loss of all its current markets. Presumably as a response, the Ulziit Centre is attempting to leap into a very different subsector, namely meat processing.<sup>35</sup>

Somewhat similar is **Mon-Forte**, a USA JV specialised in manufacture of high-fashion cashmere garments for the North America market via its USA parent Forte. Fortunately no quotes apply and success depends on buying raw material from the herders, processing, garment manufacture and sales in USA. Recently Mon-Forte began to disintegrate, first by withdrawal of the Mongolian partner, Datsan Trade to focus on placer gold mining and then by acute shortages of cashmere raw materials at sensible prices.

Rather different is **Burte**, a 100% Mongolian-owned enterprise formed in 1994 with 3 sewing factories, focussed on the domestic market for military and police uniforms and clothing for the general public. It is unclear why it has not diversified.

**Darkhan Metallurgical Plant** is a large SOE established with Japanese Government finance in 1994 currently with 500 employees, serving the domestic market for steel bars, billets, and angles. The nature of its operations and ownership render diversification implausible at least in the short-term.

### **Multisectoral for access to raw materials**

Only 2 of the 23 Top manufacturing sector companies have become multisectoral in order to create backward linkages to secure a supply of local raw materials and exert quality control: **Zaluu Mongol** engaged in the production and processing of timber and vegetables, and **Beneduct** engaged in the cultivation and collection of berries.

Under the soviet system there were significant backward linkages between manufacturers and their source of raw materials. These linkages were destroyed with the collapse of the soviet system and with the exception of Zaluu Mongol and Beneduct none of the manufacturing sector companies in the Top-123 has built new linkages. This is a serious in view of difficulties faced by all Top agro-processing factories engaged in the manufacture of woollen carpets (e.g. **Ulaanbaatar Khivs**), meat products (e.g. **Dornyn Gobi**) and cashmere/camel garments (e.g. **Buyan, Mongol Amicale** and **Mon-Forte**) to secure a flow of raw materials and manage prices and influence quality.

This highlights one of the main problems of agro-processing with livestock rearing now mostly only by scattered nomadic herders with the contraction and fragmentation of all the soviet livestock-rearing farms. According to a UNIDO report (2002) only 4% of Mongolian livestock (live animals, carcasses, hides and wool) are used by industrial agro-processing in Mongolia, with a staggering 96% exported as raw materials to China or used solely by the nomads. At first sight this implies that industrial agro-processing output could expand 24-fold! This is largely an illusion, as all the agro-processors complain of a shortage of raw materials, due to being out-competed on price and terms by Chinese traders, or defeated by the huge distances and logistics involved, or deterred by lack of control on quality or delivery. These factors prevent even the Top agroprocessors from using their full production capacity, and the hope that an export-driven agroprocessing economy shows little sign of materialising.

### **Multisectoral for access to domestic sales**

Of the 16 multisectoral companies, 6 are multisectoral solely by virtue of having created forward linkages into the trade sector, all having tied retail outlets as 'factory shops'. In the author's opinion, the emergence of factory shops is a response to the problems facing local manufacturers in accessing local retail outlets. Retailing was weak at the start of the market economy and is now dominated by powerful trading companies that either favour their own tied local supplier (e.g. Nomin Group own the State Department Store which only stocks carpets made by Erdenet Khivs JSC which it also controls) or import large volumes of foreign manufactured goods and foodstuffs. Setting up a chain of factory retail shops is an obvious response by local manufacturers. It may also indicate the small size of the local market that means market share has to be high to survive and in several instances may indicate export-orientated industries facing problems in export volume and margins consequently seeking additional volume in the domestic market for their otherwise idle surplus capacity.

**Gobi Concern** is a big SOE formed in 1981 with funding from the Government of Japan, and is vertically-integrated (except for raw materials), producing cashmere garments for the global luxury market for quality garments of fine fibres. Gobi Concern has a substantial national chain of about 20 retail outlets ('Gobi Shops') in order to capture the lucrative local market for cashmere clothing, not only in high demand by tourists but in even higher demand by Mongolians due to the severe winters

<sup>35</sup> Source: see Anon (2004) regarding investment proposal for slaughterhouse – see Bibliography.

and for cultural reasons. It has a strong competitor, **Mongol Amicale**, a USA-Mongolian joint venture, also vertically-integrated (except for raw materials) that in recent years switched from cashmere to camel wool garments. It has also started a chain of 8 retail outlets ('Goyo Shops') and similarly qualifies, just, as multisectoral.

**Ulaanbaatar Khivs JSC**<sup>36</sup> is a major vertically integrated (except for raw materials) manufacturer of woollen carpets with 370 employees and - being excluded from the Nomin-owned State Department Store - has 2 factory retail shops that reputedly account for 70% of its carpet sales. **Gutal** is a privatised shoe-manufacturer specialised in children's shoes, and with a factory retail shop dating from soviet times and, as Ulaanbaatar is now flooded by imports of children's shoes from not only China but also Korea, Germany and Russia that increases the value and relevance of retaining the factory shop. **Ugooj Chiher Boov**<sup>37</sup> is a large bakery and sweets factory distributing through many independent retailers but it also has a chain of 20+ retail outlets of its own. Similarly **Atar Urguu JSC**, a large confectionary and bread manufacturer owns at least 4 retail outlets, and this public company is now part of the multisectoral Beren Group.

#### **Mildly multisectoral manufacturers**

'Mildly multisectoral', but not in the 'factory shop manner', is **Munkiin Useg**, a successful printing and publishing company that has set up a bar-restaurant-billiards centre in Darkhan city. Otherwise by the nature of its business it sells its products satisfactorily through the vast number of small and large independent retailers and newspaper kiosks, so would be no purpose in having any factory shops.

Also 'mildly multisectoral' is **Dornyn Gobi**<sup>38</sup> with 2 large slaughterhouses, one in north Mongolia and one in the Gobi, both on the Russia-China rail line. Carcasses and meat products are exported by rail to Russia and China, and animal skins to China. The company has diversified its manufacturing into small-scale vodka production and flour milling, and it has significant trading activity as an importer from Russia of industrial equipment.

A hard-to-classify company is **APU**, specialising in vodka production but also some beer and soft drinks. This SOE became 40% owned by the multisectoral **Genco Group** and ceased to be strictly unisectoral. In 2003 a controlling block of 51% of its shares it was bought by a consortium led by **Shunhklai**, a private corporation engaged in fuel import/distribution. APU is therefore now a member of the Shunhklai group but is still 40% owned by the Genco Group.

#### **Strongly multisectoral manufacturers**

Three manufacturing companies are strongly multisectoral: Zалу Mongol, Tsakhiur and MCS.

**Zалу Mongol** was established in 1991 and started in trading and small-scale diverse manufacturing, and now has more than 10 daughter companies in Darkhan and Ulaanbaatar engaged in: importing consumer goods (notably cigarettes and alcoholic drinks); catering; foodstuff retailing; flour milling; noodle production; wool processing; timber processing; and hotel; plus a powerful Swiss JV producing Chinggis Beer by a mini-brewery and now with substantial chain of bars and restaurants. Currently the group has 480 employees.

Sharing the same pair of cities - Darkhan and Ulaanbaatar - as its base, the **Tsakhiur Group** has grown to more than 1,000 employees between 6 daughter companies straddling manufacturing, mining and trading. Even within the manufacturing sector straddles several sub-sectors with no obvious synergies - soap manufacture and cardboard box making, plus bone meal production in a Chinese JV.

The **MCS Group**<sup>39</sup> is remarkable multisectoral company, assembled by an entrepreneurial team exposed to western-style management practices. In spite of this background, these entrepreneurs broke from the western model of entrepreneurship in which focusing on one sector is the norm. Instead the MCS entrepreneurs have leapt from sector to sector, driven by entrepreneurship energy and not from any necessity. Formed in 1993 and focused on consultancy in the energy sector, MCS now spans energy engineering, procurement, information technology, manufacturing, distribution, construction, printing and retailing. How has MCS achieved such phenomenal growth? Partly from entering the fast-expanding sub-sectors of electronics sales, office furniture sales, telecom services and printing/publishing. MCS was able to seize the opportunity to buy control upon privatization of Spirits Bal Buram SOE that has been the sole producer of pure grain spirits for the last 30 years, occupying over 90% of domestic spirits production. This gave MCS a platform to become the bottling franchisee

<sup>36</sup> An analysis of the Ulaanbaatar Khivs JSC is presented in a report edited by Jonathan Simon - see Bibliography.

<sup>37</sup> An analysis of the Ugooj company is presented in a report edited by Jonathan Simon - see Bibliography.

<sup>38</sup> Source: company brochure of Dornyn Gobi issued in 2002 - see Bibliography.

<sup>39</sup> Profiles of MCS have been examined in two MCS company brochures - see Bibliography.

of Coca-Cola Company. Meanwhile MCS became exclusive distributor of Procter and Gamble, a leader in the manufacturing and distribution of widely used household products around the world. In addition, using its core skills in engineering, MCS has entered the construction sector for offices and apartment blocks. Currently the MCS core sector is manufacturing, but it started in consultancy services and then information technology.

**Top Construction Enterprises**

Of the Top-132 companies, only 4 have their main activity in construction (see Table 9). This is surprisingly few considering that a construction boom began in the capital city of Ulaanbaatar several years ago and shows no signs of abating. The boom is demand-driven, due to the shortage of buildings for offices, retailing, storage and housing. The demand for housing is driven by Mongolia’s demographic profile, and with the average age of a Mongolian being only 19.8 years there is a 3-4% increase in demand for housing each year. Half the urban population live in the ‘ger-districts’ dominated by felt tents (gers) in fenced off-yards lacking water and sanitation. The ger areas are displaying gentrification by families building their own house as soon as they can afford it. However the main driver for the construction companies is the unsatisfied demand for new apartments, for detached houses for the ‘nouveau rich’, new retailing units and new hotels. In coping with the construction boom, none of the 4 ‘Top-132’ unisectoral construction companies exhibit any tendency towards multisectoralism.

*But why are there only 4 construction companies in the Top-132?* The study revealed that 13 other ‘Top-132’ have diversified into construction to take part in the construction boom, and some have become large players in construction notably Erel (from mining) and MCS (from manufacturing/services).



Fig.9: The weak showing of construction sector specialists in Mongolia’s Top-132 Companies. This is due competition with 11 multisectoral ventures from Top-132 Companies diversifying themselves into construction, plus large numbers of smaller multisectoral companies.

**Top Tourism and Hotel Enterprises**

Of the Top-132 companies, only 4 have their main activity in tourism and/or hotels (see Table 10). The low number is partly explained by Mongolia having only a small - but profitable and growing - tourism market, with only a very short peak season. The main reason appears to be two-fold. Firstly an astonishingly large number of hotels have been built in Ulaanbaatar since 1995, with a 1997 survey documenting a remarkable 120!<sup>40</sup> Hotel construction has continued unabated and the author estimates more than 200 exist today in the capital. As with the construction industry, “getting into” the tourism/hotel business has been seen as having a low barrier to entry<sup>41</sup>, and many companies with multisectoral tendencies now have at least one hotel and at least one ger tour camp, including 16 multisectoral ventures from the Top-132 Companies. Unfortunately a negative consequence is that the tourism/hotel sector is dominated by multisectoral generalists rather than tourism/hotel specialists, and therefore few tourism facilities meet international standards of customer care or efficiency - of the 200+ hotels in Ulaanbaatar, none belong to international chains and none are international franchises. Perhaps Ulaanbaatar is the last capital city in the world where this applies.

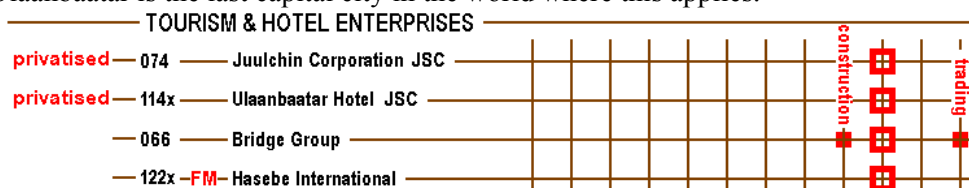


Fig.10: The weak showing of tourism/hotel sector specialists in Mongolia’s Top-132 Companies. This is due to competition with 11 multisectoral ventures from Top-132 Companies diversifying themselves into this sector, plus dozens of smaller multisectoral companies.

<sup>40</sup> Anon (1997). *Visitor Accommodation Survey of Ulaanbaatar*. Report prepared by the Mongolian Business Development Agency (MBDA) for the International Finance Corporation (IFC).

<sup>41</sup> Companies with tourism experience accounted for less than half of the 100 tourism investment projects summarized in Anon (1998) *Investment Project Profiles – Tourism* (see Bibliography).

### Top Education and Training Enterprises

None of the Top-132 companies has their main activity in the education/training sector. Several might be expected, as several of the leading universities colleges and research institutes are medium to large enterprises. These include the National University, Pedagogical University, Polytechnic University, Agricultural University, and the Mongolian National Academy of Sciences (including its many research branches). All these State-owned enterprises but are still not regarded by Government as being SOEs. Large in size and well-established, they present a subsidized competitive barrier to entry by the Top-132 companies. But there is an ongoing rapid expansion of the education/training sector, with unsatisfied demand and ability to pay triggering the start-up of 30+ small private universities and perhaps 300+ small private language schools. For small private educational businesses the barrier to entry is low as start-up costs are low and demand is high.

Of the other 131 companies in the Top-132 list, only 5 - Erel, Monpolymet and Gazar Holding (all from mining) plus TBD Anduud (trading) and Oyunii Undraa have entered the education/training sector, but of these only Erel can be considered to be a substantial player. Why only Erel amongst the top multisectoral companies? It may partially be because of the ease of entry and the consequent swamping with large numbers of small private players (fleas), making it difficult for large players (elephants) to enter. This is a provisional explanation and much more study of the structure and dynamics of the educational sector are required.

### Top Trading Enterprises

Of the Top-132 companies, 30 have trading as their main sector – wholesale, retail and/or import/export.



Fig.11: The strong showing of trading sector specialists in Mongolia's Top-132 Companies.

### Start of private trading sector companies

With a 'population' of 30 companies, some discussion and analysis of the behaviour of the entrepreneurs driving the trading sector specialists may be possible.

Regarding their point-of-entry into trading, most became importers of fast-moving consumer goods (notably cigarettes, matches, lighters, canned beer, bottled vodka, bottled mineral water, canned soft drinks, TETRAPAK™ milk, TETRAPAK™ juice, canned and bottled foodstuffs, detergents, soaps, shampoo, toothpaste, medicines, make-up, and nappies). But a significant number commenced by importing office goods (notably paper, toner, floppy disks, CDs, computers, printers, scanners and software), clothing (shoes, coats, shirts, trousers, socks etc), jewellery (especially ear-rings and rings), white goods (fridges, microwaves, TVs etc), kitchen furniture, toys and construction materials.

*But how did the stronger successful trading companies emerge?* It seems that the origin of successful trading companies can be divided into three very different categories.

The first category of trading companies are derived from State trading organisations directly (e.g. **Material Impex JSC**) or indirectly via skilled trading managers departing and using their Russian trading connections (e.g. **Altai Trading**, **TBD Anduud**). Whether this type of trading company is necessarily led by an entrepreneur is unclear. They may be just 'good managers' averse to risk-taking, exploiting their contacts in the vast soviet industry, importing familiar products and gaining market share in a near-vacuum devoid of real competition, in effect "*pushing an open door*".

The second category of trading companies are derived from foreign direct investment (DFI) by foreign traders/manufacturers seeking a strong market presence, notably cars (e.g. **Mongolian Star Melcher**) and alcohol (e.g. **Cass Town**). Again whether this type of trading company is necessarily led by an entrepreneur is unclear. They may be just 'good managers' averse to risk-taking, implementing a 'standard' recipe guided by the foreign manufacturer.

The third category of trading companies are derived from intense competition between the tens of thousands of Mongolians who resorted to cross-border suitcase trade. The winners are expected to be all strong entrepreneurs. They learned how to succeed in business the hard way, travelling to Russia, China and Korea to buy items and return home accompanying the goods, notably by train, jeep or plane. Thousands continue this trading, notably many hundreds of black market traders and shop-keepers, but also hundreds who go to Beijing, Seoul, Taiwan and Singapore to buy electronic goods, furniture and clothing. Most are entrepreneurs to some degree, but only a fraction successfully made the transition to being a chain of retail outlets or capturing measurable market share. Confronted by limitless competition, the only viable strategy for sustainable success has been to gain the 'sole distributorship' for leading brands, and so gain advantages over all rivals, namely: a corporate image of quality, better margins (being the distributor), economy of scale (container-loads), ability to raise finance, access to training by the manufacturer etc. Good examples of this include **Naran Trade**, **Bishreft Holding** and **Noyod Group**.

### Multisectoral trading companies

Some patterns can be discerned in the 'risk-taking' of managers of Top-132 Companies whose main activities are in the trading sector, regarding which other sectors they have led their enterprises into - 16 of these companies are exclusively in trading, but 14 have jumped into additional sectors.

*The most favoured 'extra' sector is manufacturing* (11 companies), a new finding with important positive implications for Mongolia's small and fragile manufacturing base. These investments by Top Trading Companies include at least 23 manufacturing plants. Eleven of these supply the booming construction with bulky low-value materials that would otherwise be expensive to import - bricks (3), ceramics (1), building materials (3), window frames and doors (3) and furniture (1). Six invested manufacturing plants process local foodstuffs for the domestic market: foodstuffs (2), meat (1), meat products (1), vodka (1), beer (1) and soft drinks (1). Three invested manufacturing plants produce domestic items - electronic white goods (1 - 'Monel' who makes a small volume, but imports far more bearing its Monel brand), felt and quilts (1), woollen carpets (1) and printed materials (1). Only a single invested manufacturing plant - pet food (1) is devoted to exports, although the other 22 achieve considerable import substitution and cut local prices for consumers, but only 5 of them create a plausible platform for considering future exports (meat, meat products, felt goods, quilt goods, woollen carpets and perhaps ceramics and furniture).

From this analysis it is clear that Top Trading Companies are collectively major investors in manufacturing, but almost exclusively for consumer goods and construction items for domestic consumption.

*The second most favoured 'extra' sector is tourism/hotels* (9 companies), with complex implications for Mongolia's tourism sector, as already noted. The most important investments by Top

Trading Companies have been in the former SOE Juulchin Corporation (Tavan Bogd), Chinggis Khan Hotel (Altai Trade) and the Best Hotel (Bishrelt Trade).

*The third and fourth most favoured 'extra' sectors are mining and construction* (6 companies in mining and 7 in construction). Regarding entry into the mining sector, with the exception of Altai Trade (hard-rock gold), all investment by Top Trading Companies has been for the extraction of construction raw materials (sand, gravel and bricks). Rather than joining in the placer gold rush that has attracted 135 companies, the entrepreneurs driving the Top Trading Companies have completely ignored the placer gold boom sector. This 'conservatism' is seen again in their almost complete aversion to diversification into fuel import/distribution, only one of the 29 Top Trading Companies having done so. Yet a significant number of these entrepreneurs have taken their companies into the mining of construction raw materials (6), construction itself (7), hotels/tourism (9), agriculture/milling (6) and financial services (5). The data-set is small but suggests that the entrepreneurs driving the 30 Top Trading Companies are risk-takers willing to 'leap' their enterprise into a new sector, but only if the investment opportunity creates linkages with trading, either backward linkages (construction materials, agricultural products), forward linkages (financial services), infrastructural linkages (construction) or synergistic with a trading operation (hotel/tourism).

Apart from organic growth, a favourite means of breaking into new sectors by the Top Trading Companies has been by the acquisition of controlling blocks of shares in public corporations (JSCs) and then injecting finance and new capital. Remarkably at least 11 public companies have been absorbed into multisectoral companies by this means: For instance, Beren Corporation<sup>42</sup> have gained controlling blocks of shares in Nekheesgui Edlel JSC, Atar Urguu JSC and Guril Tejeel Bulgan JSC, while Genco Group<sup>43</sup> have gained controlling blocks in 4 public companies – APU JSC, Bayangol Hotel JSC, Makh Impex JSC<sup>44</sup> and Talkh Chikher JSC.

Meriting special attention is **Tavan Bogd**<sup>45</sup>, a Japanese JV that started in 1997 as a general importer of foodstuffs, and is now the largest tour operator in Mongolia having bought a controlling stake of the former SOE Mulching Corporation, become a major producer of flour from its modern Ulaanbaatar Mill, and diversified into construction and light manufacturing (printing). Of the 23 Top Companies with significant foreign management (FM), Tavan Bogd is the only one that has become strongly multisectoral. This might suggest an influence of the Japanese trading house conglomerate style of business.

Meriting attention for very different reasons is the **Bars Group**, a multisectoral company with its main focus in the trading sector. It is unique being a registered non-governmental organisation (NGO) and therefore not-for-profit. It appears to be a secondary cooperative, owned by its members who are 13 private 'for-profit' businesses engaged in: export/import, wholesale market, security, insurance, non-bank financing (NBFI), art gallery, real estate, warehousing, hotel management, and a Chinese joint venture manufacturing plastic windows and doors. The Bars Group and its members have expanded so fast that it would require more study to determine if the driver has been agglomeration of entities or spin-out of daughter enterprises. Tentatively it seems to be a successful blend of the two.

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<sup>42</sup> Source – 2001 company brochure of Beren Corporation - see Bibliography.

<sup>43</sup> Source – company website of Genco Group, [www.gencogroup.com](http://www.gencogroup.com)

<sup>44</sup> An analysis of Makh Impex JSC is presented in a report edited by Jonathan Simon – see Bibliography.

<sup>45</sup> Source: company website of Tavan Bogd Trade – [www.tavanbogd.com](http://www.tavanbogd.com)

## Discussion

### Introduction

This study is the first time multisectoral companies have been the subject of analysis in Mongolia. Therefore the study was somewhat a voyage of discovery, and being such a large and previously unexplored territory, perhaps the main achievement has been to prepare a path for many other researchers to follow. Overall the findings challenge most assumptions made about Mongolia's business environment and the role within it that local entrepreneurs play. Indeed the study has resulted in many new and important questions that open up whole new avenues for investigation.

Having opened a Pandora's box about the business environment and the role of local entrepreneurs, the following discussion can focus on what appears to the author to be some of the most interesting implications. The discussion is not intended to be the 'last word' on the topic of this study, but is certainly the 'first word'.

### Global Search for Relevant Business Structures

Having satisfactorily demonstrated the prevalence of multisectoral business structures in Mongolia, it is important to discuss the global context, and a desk study shows that a sharp global split exists:

*In North America and Western Europe*, multisectoral companies are very rare, and most business conglomerates (such as Johnson & Johnson) on scrutiny are more-or-less confined to a single sector, or limited to two or three sectors between which clear synergies exist, although a famous exception is the well-studied business empire of Sir Richard Branson<sup>46, 47</sup>. Sharply focussed unisectoral companies being the norm in 'the west', an internet study shows that most business scholars<sup>48</sup> have largely ignored multisectoral companies with the implicit assumption that multisectoralism is an inferior business strategy. Some scholars have considered multisectoral strategies, but only as a virtual last resort "when an industry consolidates and becomes mature" and a western company may then attempt 'concentric (related) diversification' or 'conglomerate (unrelated) diversification' according to Wheelen and Hunger.<sup>49</sup> In contrast, Mongolian entrepreneurs seek multisectoralism very early in their activity.

*In Asia and the developing world*, multisectoral companies are very common, and often so prevalent as to be a dominant element in the economy. This might again suggest that multisectoralism is only a transitional phase in the 'inevitable' march towards a western-style market economy. But many of the multisectoral companies are key elements in the success of the economies of South Korea, Japan, Singapore and Taiwan. Confronted with such large and successful exceptions, western business analysts have hived them off into an 'Asian', 'Korean' or 'Japanese' business model.<sup>50</sup>

In view of this global dichotomy of business structures, in which 'the west' is characterised by unisectoralism and 'the rest' are characterised by multisectoralism, it is evident that the Mongolian economy is aligned with 'the rest'. It is helpful to consider where 'the rest' are and to illustrate this the following incomplete world map has been compiled from numerous sources.

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<sup>46</sup> Robert Dick, Kets de Vries and Raoul de Vitry d'Avaucourt (2000) *The house that Branson built: Virgin's entry into the new millennium* – see Bibliography.

<sup>47</sup> The diversification of Branson's Virgin Group is described in many business text-books such as by Valerie Zeithaml and Mary Jo Bitner (2003). *Virgin Atlantic Airways - Ten Years After* – see Bibliography.

<sup>48</sup> For instance, in their textbook on *Competitive Strategy* of 344 pages, John Pearce and Richard Robinson (2003) devote less than half a page (p.182) to multisectoral companies in South Korea and Japan.

<sup>49</sup> Wheelen, Thomas L.; and J. David Hunger (2001). *Strategic Management and Business Policy*. – see Bibliography.

<sup>50</sup> For instance, Andrew Mair in his 1997 paper about Honda Motors, discusses a 'Japanese management model' as being diametrically opposed to the 'western managerial model', but makes little reference to the influence of multisectoralism and unisectoralism in the evolution of both.

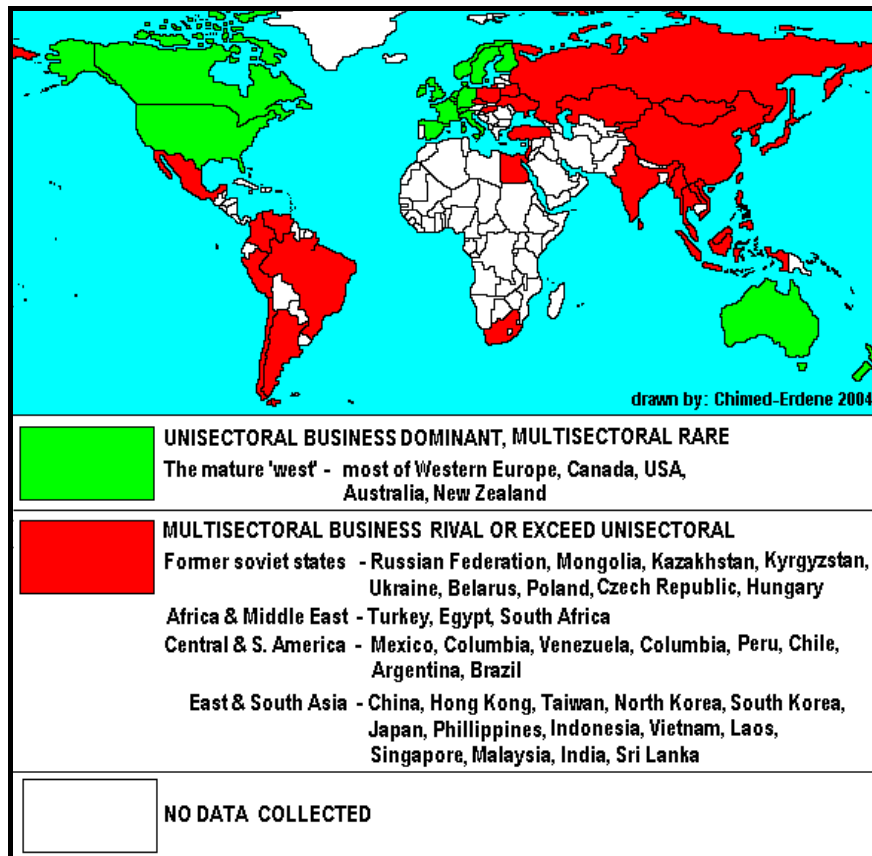


Fig.12: Map of the bipolar world of business management structures, divided between successful unisectoralism and successful multisectoralism. This map is incomplete being based on an internet search by the author plus limited fieldwork. No such map has been found as yet in any publication. It is expected that most, but not quite all, of the blank areas of the map will be assignable to multisectoralism once reliable data has been gathered.<sup>51</sup>

<sup>51</sup> sources: Mongolia, Kazakhstan, Kyrgyzstan – author’s observations; India – Manikutty (2000), Ward (2000); Indonesia – Shin (1993); Phillipines – Business Week (1982); Korea – Dent and Randerson (1997), Hwang (2000), Hwang et al (2000); Chile – Khanna et al. (2000); Argentina – Gullen (2001); general – Kim et al (2002).

### Multisectoral Companies and Local Factors

The study has set out the major comparative disadvantages that confront private businesses in Mongolia: the thinly spread domestic market, the illusion of giant markets to north and south, the vast porous borders, the seasonal expansion-contraction of the economy accompanied by inflation-deflation, the severe long winters, the dry short summers, the vulnerability to shocks, and the stubbornly high cost of energy, fuel, labour, transport and finance – and the counterproductive stock market. Faced with such a tangled mass of disadvantages, the author advances the hypothesis that in order to survive and grow, businesses in Mongolia have been forced to acclimatise themselves accordingly. This leads to the hypothesis that ‘successful’ Mongolian enterprises may be fundamentally different in structure and operations from ‘successful’ companies in Western Europe or North America. This hypothesis does not appear to have been formulated before.

*If valid*, the hypothesis has major implications for understanding the Mongolian business environment, how to train business managers, and – not least – implications on the international and domestic competitiveness of local enterprises.

*If invalid*, the hypothesis still has some interesting implications. It would suggest that the same business structure and operations as found in Western Europe and the USA prevail in Mongolia, and therefore the western business model is successful (or at least inevitable) even in this harsh and extreme business environment.

*In essence, the question is: has the uniqueness of Mongolia’s business environment created a unique ‘local species’ of business with its own distinctive structure and operation, or has the western species of business proved dominant and suppressed local distinctiveness?*

It seems to the author that the importance and prevalence of multisectoral companies in the Mongolian economy that these constitute a ‘local species’ of business rarely seen in the consumer-driven market economies of Western Europe and North America.

Having demonstrated the existence of multisectoral companies as being new, powerful and widespread in Mongolia, only now it is possible to discuss the role of entrepreneurs in creating them and, to be controversial, *which came first the chicken or the egg - or in this case the multisectoral companies or the entrepreneurs?*

First it is necessary to decide if the business leaders of the most pronounced multisectoral companies are really entrepreneurs in the western sense of D’Alessandro (2004) and, if so, do they display the competencies that are characteristic of successful entrepreneurs? Indeed can the mere existence of a recently created multisectoral company be used as an indicator that it is driven by an entrepreneur (or team of entrepreneurs)?

The author concludes that, apart from Erdenet Mining SOE, all the leading multisectoral companies are indeed driven by entrepreneurs who fully satisfy the profile of *successful entrepreneurs* as researched by Winslow and Solomon (op cit) and each has all, or nearly all, of the 9 competencies characteristic of successful entrepreneurs as proposed by McBer & Co. (1996).

This conclusion is not the end of the study, or the beginning of the end, but merely the end of the beginning. In addition, many, but certainly not all, of the unisectoral Top companies are also driven by successful entrepreneurs. This suggests that there may be 2 distinct types of entrepreneurs in Mongolia, here termed ‘leapers’ and ‘nichers’.

**Nichers** are entrepreneurs whose mission is a determination for their venture to be the ‘best’ in terms of size, quality, efficiency, reputation and profitability in its niche. Clear examples of entrepreneurs driving an enterprise to success in a *single* sector are:

Khaan Bank – turnaround of a failing SOE upon privatisation (Mr. Peter Morrow);

BSB – start-up and expansion of an SME in computer services (Mr. A. Sukhdorj);

Anod Bank – transformation of a lombard into a commercial bank (Mr. D. Enkhtur);

Altjin – start up of a chain of petrol stations (Ms. G. Altan); and

Monkhangai Group – beginning with one small shop, now a chain of 16 (Ms. M. Gerelt-Od).

**Leapers** are entrepreneurs whose mission is a determination for their venture to become successful in a wide portfolio of niches scattered across several or many sectors, with little or no obvious synergy between the resultant divisions. These entrepreneurs are motivated by an overriding desire for growth to be achieved as rapidly and ruthlessly as possible, by seizing the ‘best’ opportunities regardless of sector. In this manner are born the multisectoral companies. Clear examples of entrepreneurs driving an enterprise to success in *several to many* sectors are:

Mongol Gazar – placer gold mining then diversified into many sectors (Mr. B. Erdenebat);

Erel – placer gold mining then diversified into many sectors (Mr. Myanganbayar);

MCS – consultancy services then diversified into many sectors (Mr. J. Odjargal); and

Zaluu Mongol ('Young Mongol) – youth travel then diversified into many sectors (M. Sonophil)

But this nichers-leapers model starts to disintegrate when western entrepreneurs are considered for in western economies leapers are rare and very few achieve the success of Richard Branson (an icon for Winslow and Solomon's profile of an entrepreneur, and an icon as a habitual leaper) with his seemingly endlessly elastic Virgin brand. In Mongolia, the MCS, Nomin, Petrovis and Erel brands now appear to be gaining similar elasticity.

For the nichers-leapers model to be tenable, there has to be a convincing explanation why Mongolia appears to be full of entrepreneurs that are habitual leapers. They are not using Branson as a role model, as few have heard of him in Mongolia. They are not the product of a western-style anti-establishment 'hippy' culture of the 1960s that Winslow and Solomon (1995) was a trigger to the ongoing entrepreneurial culture of the USA. Rather the author suggests that the upsurge of entrepreneurs in Mongolian society is a product of an economy-in-transition culture, in which people were suddenly free of State control and able to make their own decisions. The majority remained as conventional managers and passive workers but a sizeable minority saw their chance and took it as a generation of entrepreneurs. This explanation is neat, but awaits study to verify it.

Even then, *why are so many of the Mongolian entrepreneurs classifiable as leapers?* Mongolia is dominated by multisectoral companies – true for large enterprises, SMEs and microenterprises. For instance, analysis of 135 placer gold mining companies shows that between them they at least 500 daughter companies scattered across all sectors from tourism to sausage production, and the households of the employees of these 135 companies typically have 1 to 3 microenterprises in non-mining sectors. In addition, most government employees typically have a second source of income often in a very different sector. What does it all mean, and can they all be leapers? Well yes and no! The majority of these individuals are PUSHED, i.e. are leapers driven by financial necessity rather than by innate entrepreneurship in the conventional sense. Yet it does mean that the new orthodoxy in Mongolian culture is that having at least 2 different jobs is normal, and that for an enterprise to be multisectoral is "nothing special".

The author tentatively suggests that this new post-soviet cultural background lowers the threshold of individuals to become entrepreneurs, and for a significant proportion of these entrepreneurs to be leapers by instinct – perhaps far more so than in the much more rigid western economies.

Returning to the 135 placer mining companies, *why should they spawn so many daughter companies outside of mining? Surely that would overstretch management and capital?* Not so in the context of Mongolia! The long duration of the harsh Mongolian winter forces nearly all of the 135 companies to confine their mining days to when water (not ice) is available, typically 155 days a year (early May to end September). Yet the cash flow is so strong that by the end of the mining season they have paid off any bank loans (at 4% per month interest) and the company is at a standstill but a cash-mountain in a good year. Putting the cash in the bank is pointless as it attracts only token interest, and anyway a cash-hoard would attract 35% tax from the tax authorities. The vast majority of the 135 companies have adopted the same strategy – to spend all the cash hoard to create 100% owned start-up daughter companies in other sectors and/or to buy controlling blocks of shares in Public Companies either via the Stock Exchange or in privatisation. Often one or more of the daughter companies (but not the parent company) is a JV. The following spring, the mining company gathers as much cash as it can from its daughter companies as possible (sometimes destroying them in the process) in order to have enough liquidity to pay for the fuel, re-equipping and labour ready for mining once more. Shortfalls are of course common, neatly solved by using the fixed assets of the wholly-owned daughter companies as collateral, along with the Mining License and mining equipment. The author has examined many placer mining companies and has yet to find a Mongolian-owned one that breaks this rule.

As company policy then, typical placer gold companies strive to become multisectoral in order to be tax efficient and to increase the collateral base required by banks when mining requires more pre-production seasonal finance. In addition, by building up a portfolio of subsidiaries in other sectors it reduces the parent company's vulnerability to risk of shocks or turbulence in its main sector.

From this study, it seems that entrepreneurship is forced to emerge in a placer gold mining company – by ruthless natural selection whereby the company is liable to be crippled by end-of-season tax burden and then lacking enough collateral to get mining again at the start of the next season. For this reason, more than 50 examples of placer mining companies exist that have had to suspend production indefinitely due to tax haemorrhage and/or insufficient collateral to merit bank finance to start-up the next season, and are finally compelled to sell their gold mines!

The author draws attention to a paradox. The bulk of the 135 placer gold companies have the characteristics of being driven by entrepreneurial risk-takers (all mining is indeed risky...) and one expression of this is their predominantly multisectoral character. The paradox is that the multisectoral character is driven by the necessity to survive, not by entrepreneurial spirit. But once compelled to become multisectoral is it plausible that their managers/owners are in the process compelled to become entrepreneurs if they are not entrepreneurs already? In the absence of further research, it remains a tantalising possibility that the harsh climate of Mongolia spawns entrepreneurs but this raised the dilemma of whether becoming multisectoral stimulates entrepreneurship or whether it simply speeds up the selection process whereby entrepreneurs and their companies succeed.

Other factors are of course apparent. In a mature consumer-driven economy it would be implausible to imagine a cohort of Branstons emerging, due to virtually all niches being occupied by nichers determined to protect and increase their market share. But Mongolia is an immature minerals-driven economy reminiscent of the historical gold rush eras of Canada, Yukon, Alaska, New Zealand, Australia and elsewhere, typified by weak or even non-existent competition across many, even most, niches. In those times, as in Mongolia today, the gold miners had enough cash, indeed cash mountains, and were able to swiftly and successfully gain a strong presence in many sectors. Interestingly, the present study indicates that not only is the mining sector the dominant sector in Mongolian economy but also that the main source of current investment in agriculture, agroprocessing and construction is by the leaping in of multisectoral companies – the most prominently being the gold mining ventures. In the absence of a viable Stock Exchange, and in the absence of pension funds, insurance funds, unit trusts, venture capital or affordable bank finance or leasing, the multisectoral companies are serving as surrogate venture capitalists, albeit creating their own multisectoral portfolio rather than (with the special exceptions of Petrovis-Capitron Bank and Erel-Erel Bank) lending to other ventures.

Now the big challenge rapidly confronting most multisectoral companies, especially those so diverse that few obvious synergies exist, is how to adapt to a more competitive business environment in which their occupancy of each niche is challenged head-on by sharply focussed competitors who specialise in that niche. As each niche becomes crowded with strong nichers, it may become impossible for multisectoral companies to remain competitive, especially if they got into the niche by cash plus opportunity without any barrier to entry. Gaining market share or dominance in an empty niche permits a company to be inefficient and disorganised, and ill-prepared for competition. Especially so if the multisectoral company is led by a single charismatic entrepreneur and there is no obvious successor.

But six of the multisectoral companies - MCS, Petrovis, Nomin, Belon, Beren, Genco and Erel – seem to have the management skills and financial experience to convert themselves into venture capital funds by reducing their shareholdings to minority status in their subsidiaries. But many of the others appear to be too enmeshed in the day-to-day operations of their daughter companies to relinquish control willingly. As a strategy for survival, many multisectoral companies have formed niche JVs to conserve cash and gain niche-technology and international management skills. Remarkably few have done so by joining an international franchise chain. A common survival strategy seen is to leap into the 8 easy-entry sub-sectors where cash cows are, or have been, very common – placer gold mining, oil import/distribution, consumer goods import/distribution (especially cosmetics, toiletries, cars, cigarettes and drinks), hotel/tourism, construction, modern agriculture/agroprocessing, and cashmere trading. But, apart from placer gold mining that enjoys full access to a global market for gold without any marketing cost or selling effort, only cashmere trading is export-driven. The remainder are fast becoming overcrowded with players all chasing the same limited number of consumers in what is a very small and thinly-spread market.

Of the multisectoral giants, TAS has collapsed and disappeared, Gazar Holding is a shadow of its former self having downsized drastically, while both Erel and Mongol Gazar are currently in difficulty with a suggestion of overstretched and inadequate management. Yet MCS, Nomin, Petrovis/NIC/Capitron and many other multisectoral companies are growing strongly and are leaders in important subsectors. It seems that multisectoral companies if not here to stay, are at least here for a long time yet.

As yet, none of Mongolia's multisectoral companies have any role model to inspire them, as the subject of multisectoralism is not on the curricula of any business courses in Mongolia. If it was, they would gain encouragement and ideas from successful role models: *trading houses* in India such as Tatra, Mahindra and Reliance; Astra in Indonesia; *chaebols* in Korea such as LG, Daewoo, Samsung and Hyundai; Ayala and San Miguel in the Philippines; Tatung and Formosa Plastics in Taiwan; Siam Cement in Thailand; *holding companies* such as Koc, Sabanci and Alarko in Turkey; or *grupos* in

Latin America such as Desc, Alfa and Vitro in Mexico, and many more in Chile. Mongolia's multisectoral companies may yet have a strong future if they can find and adapt suitable role models- multisectoral companies generate more than 46% of Korea's industry revenues and their combined assets amount to 47% of the entire economy of Korea<sup>52</sup> and multisectoral companies are claimed to be "the backbone of the economies in Latin America."<sup>53</sup>

Having determined the existence, scale and success of multisectoralism in Mongolia for the first time, and discovered it to be a viable alternative model for entrepreneurs and business management to follow, Mongolian entrepreneurs are at last free to learn about successful paths used by multisectoral companies around the world (see Bibliography section). There can no longer be justification for unquestioningly transplanting into Mongolia the North American and Western Europe model of unisectoralism – there is a role for multisectoral companies and there are many success stories about them worldwide albeit with extremely few in western business textbooks.

Some caution is required as more research needs to be done. As demonstrated in Chapter 2, Mongolia is an extreme case in terms of negative business environment and the author considers that these extreme local factors may have triggered some of the multisectoralism as a defensive strategy. Furthermore the author has not, as yet, found any other country where multisectoral tendencies have been triggered so strongly as by placer gold mining and this is probably unique to Mongolia in this century.

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<sup>52</sup> Source: page 2 of research paper by Kim, Kandemir and Cavusgil – see Bibliography.

<sup>53</sup> Source: research paper by Andrade, Barra and Elstrodt (2001) – see Bibliography.

## Recommendations

### Recommendations for Business Lecturers/Trainers

Some recommendations for business lecturers and trainers in Mongolia are:

1. to include in the curricula the importance, emergence, status and future role of multisectoral companies in the Mongolian economy; and
2. to reconsider the implicit assumption that unmodified western business models are applicable to the business environment in Mongolia.

### Recommendations for Business Advisers/Consultants

Some recommendations for business advisers and consultants in Mongolia are:

1. to clarify with their business client the nature and extent of multisectoralism displayed in the company, and in any business plans consider IF the multisectoralism strengthens the company's competitive position by consolidating forward and backward linkages or gives synergies between sectors OR risks overstressing management across too many sectors;
2. to conduct a training needs analysis of the management team of the parent company and also in each sector;
3. to confront the book-keeping and taxation issues of spanning different sectors;
4. to consider converting the multisectoral entity into a venture capital fund by diluting the stake in each daughter by selling shares, offering managers shares or by joint ventures; and
5. for multisectoral entities that have as daughters one or more public-quoted companies listed on the Stock Exchange (MSE), to consider the pros and cons of issuing more shares to raise cash for the daughter or to relinquish shares to raise cash for the parent company.

### Recommendations for Multisectoral Managers

Some recommendations for managers of multisectoral companies in Mongolia are:

1. to formulate a strategic vision for the company, ranging from focussing on one sector and divesting from all other sectors, to creating a strong multisectoral brand analogous to Virgin in the west, perhaps as MSC and Nomin are embarked upon in Mongolia;
2. to recognise that every sector and niche will become full of competent niche players leading to intense competition, and decide and implement an Action Plan to slow down the entry of new players and combat them upon arrival;
3. to recognise that to remain competitive in more than one sector, the sector managers must be capable, trained and entrepreneurial, and motivated by bonuses and issuing of shares. If the sector managers are not AT LEAST AS GOOD as those of niche players then they must be replaced by recruitment beyond the current circle of business associates and relatives;
4. to recognise that the domestic market is tiny and will become overcrowded by competitors, that domestic market share will soon peak, and to achieve long-term growth at least one division should seek export-led growth in world competitive minerals, manufactured goods or services;
5. to commission a study by an external consultant regarding the multisectoralism of the company, including an assessment of each manager, a SWOT analysis of each sector, how to maximise any synergies and an Action Plan for change; and
6. to organise a seminar on multisectoralism, drawing upon local and global examples.

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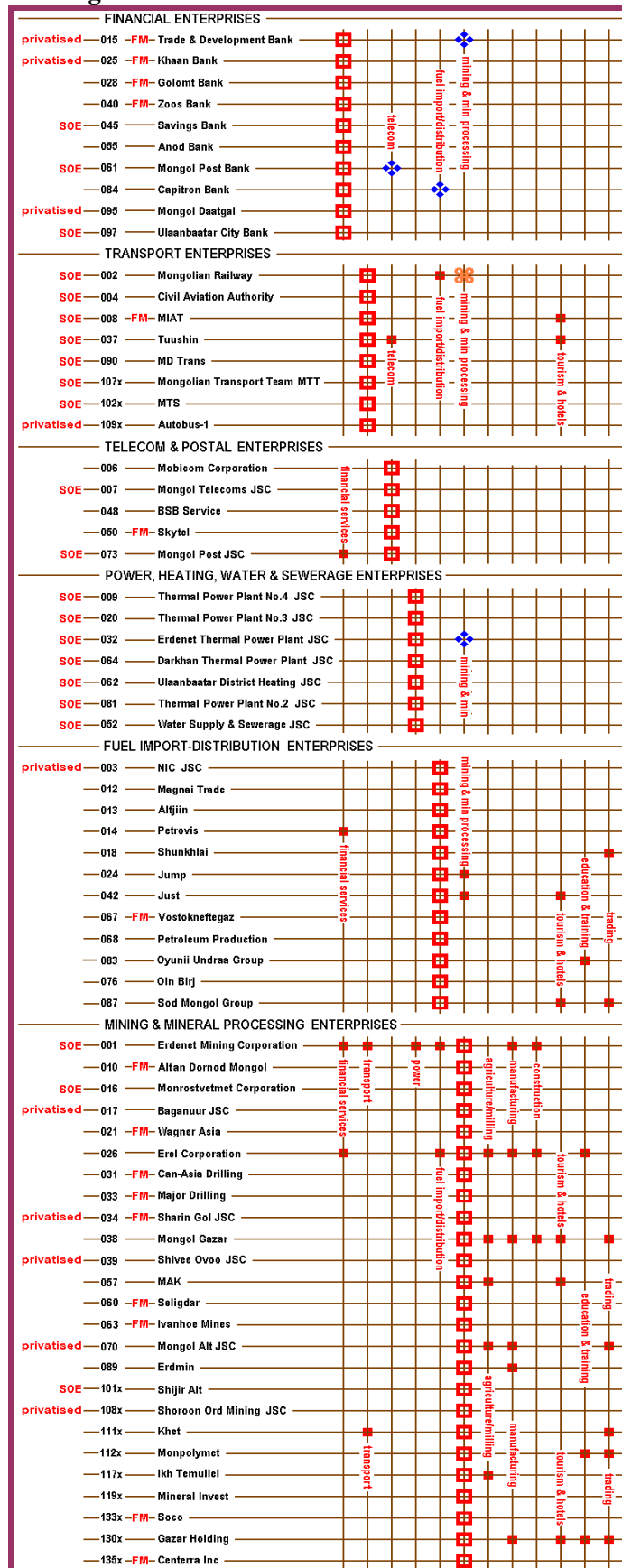
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# ANNEX 1 GROUPING OF TOP COMPANIES INTO SECTORS

## Top 132 Companies in Mongolia



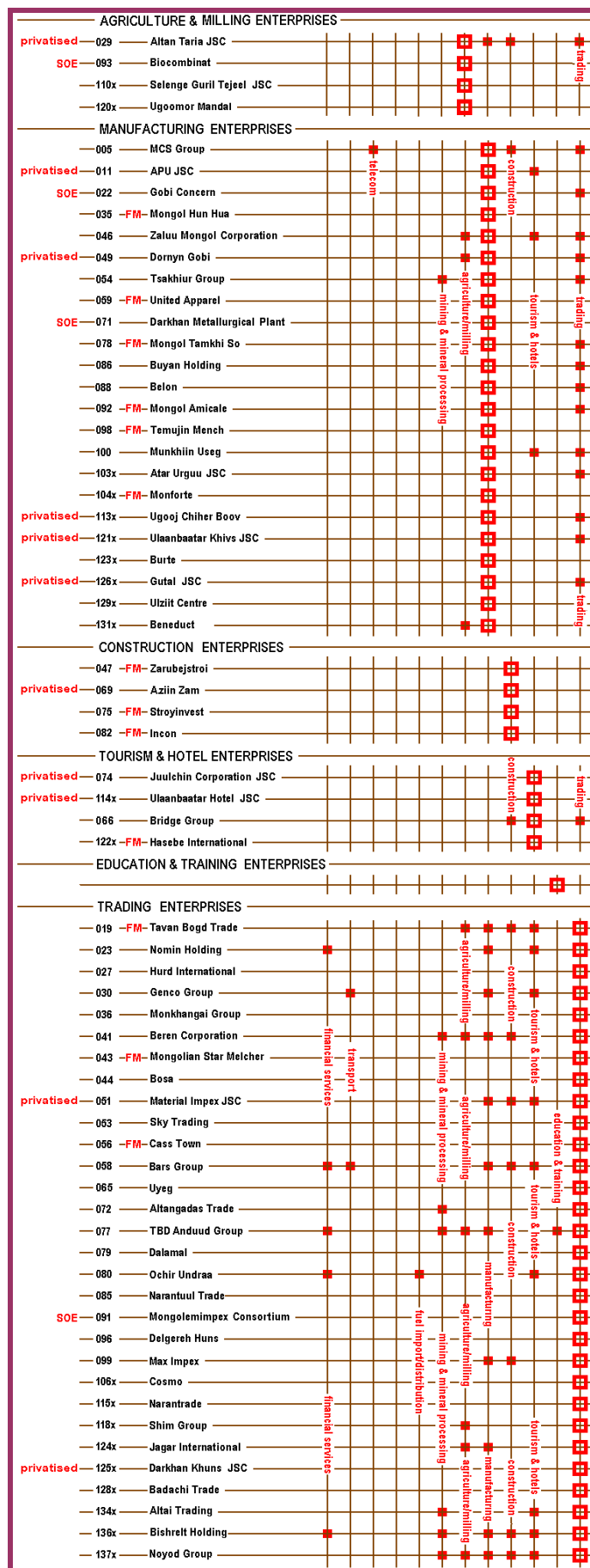


Fig.13: Grouping by sector of Mongolia's Top Companies. The large symbols indicate the main sectoral focus of the enterprises, smaller symbols denote other sectors the enterprises are active in.

## ANNEX 2 INDICES OF MULTISECTORALISM

### Top 132 Companies in Mongolia

Rank of Enterprise	Enterprise	Sector Spread Index	Sector Weight Index	Public Company Index	Public Companies controlled
		(0 to 6)	(0 to 5)		
1	Erdenet Mining Corporation	6	1	1	0
2	Mongolian Railway	0	0	1	0
3	NIC	0	0	1	0
4	Civil Aviation Authority of Mongolia	0	0	1	0
5	MCS Group	3	4	2	2
6	Mobicom Corporation	0	0	1	0
7	Mongolian Telecoms	0	0	1	0
8	MIAT	1	1	1	0
9	Thermal Power Plant No.4	0	0	1	0
10	Altandmodmongol	0	0	1	1
11	APU	0	0	1	N/A
12	Magnai Trade	0	0	0	0
13	Atlijn	0	0	0	0
14	Petrovis	1	2	1	1
15	Trade & Development Bank	0	0	1	0
16	Monrostvetmet Corporation	0	0	0	0
17	Baganuur JSC	0	0	1	0
18	Shunlai	1	2	0	1
19	Tavan Bogd Trade	4	5	0	1
20	Thermal Power Plant No.3	0	0	1	0
21	Wagner Asia Equipment	0	0	0	0
22	Gobi JSC	1	1	1	0
23	Nomin Holding	3	5	0	0
24	Jump	1	2	0	0
25	Khaan Bank	0	0	1	0
26	Erel Corporation	5	5	3	3
27	Hurd International	0	0	0	0
28	Golomt Bank	0	0	0	0
29	Altan Taria JSC	3	4	1	1
30	Genco Group	3	5	4	4
31	Can-Asia Drilling	0	0	0	0
32	Erdenet Thermal Power Plant	0	0	1	0
33	Major Drilling Mongolia	0	0	0	0
34	Sharin Gol JSC	0	0	1	0
35	Mongol Hun Hua	0	0	0	0
36	Monkhangai Group	0	0	0	3
37	Tuushin	1	1	0	0
38	Mongol Gazar	5	4	1	1
39	Shivee Ovoo JSC	0	0	1	0
40	Zoos Bank	0	0	0	0
41	Beren	4	5	3	3
42	Just	2	2	0	0
43	Mongolia Star Melchers	0	0	0	0
44	Bosa	0	0	0	0
45	Savings Bank	0	0	1	0
46	Zaluu Mongol Corporation	3	5	0	0
47	Zarubejstroi	0	0	0	0
48	BSB Service	0	0	0	0
49	Dormyn Gobi	2	2	1	0
50	Skytel	0	0	0	0
51	Material Impex	3	2	1	0
52	Water Supply & Sewerage System	0	0	0	0
53	Sky Trading	0	0	0	0
54	Tsahiur	2	4	0	0
55	Anod Bank	0	0	0	0
56	Cass Town	0	0	0	0
57	MAK	2	2	0	0
58	Bars Group	5	4	0	0
59	United Apparel	0	0	0	0
60	Seligdar Mongolia	0	0	0	0
61	Mongol Post Bank	0	0	1	0
62	Ulaanbaatar District Heating	0	0	1	0
63	Ivanhoe Mines	0	0	0	0
64	Darkhan Thermal Power Plant	0	0	1	0
65	Uyeg	0	0	0	0

66	Bridge Group	2	4	0	0
67	Vostokneftgaz	0	0	0	0
68	Petroleum Production	0	0	0	0
69	Aziin Zam	0	0	0	0
70	Mongol Alt	3	2	0	0
71	Darkhan Metallurgical Plant	0	0	1	0
72	Altangadas Trade	1	1	0	0
73	Mongol Shuudan JSC	0	0	1	0
74	Juulchin JSC	0	0	1	0
75	Stroyinvest	0	0	0	0
76	Oin Birj	0	0	0	0
77	TBD Anduud	5	5	3	3
78	Mongol Tamkhi	2	4	0	0
79	Dalamal	0	0	0	0
80	Ochir Undraa	3	1	0	0
81	Thermal Power Plant No.2	0	0	1	0
82	Incon	0	0	0	0
83	Oyunii Undraa	1	1	0	0
84	Capitron Bank	0	0	0	0
85	Narantuul Trade	0	0	0	0
86	Buyan Trade	1	0	0	0
87	Sod Mongol Group	2	4	0	0
88	Belon	1	2	0	0
89	Erdmin	1	3	0	0
90	MD Trans	0	0	0	0
91	Mongolemimpex Consortium	0	0	1	0
92	Mongol Amicale	1	1	0	0
93	Biocombinat	0	0	1	0
95	Mongol Daatgal	0	0	1	0
96	Delqereh Huns	0	0	0	0
97	Ulaanbaatar City Bank	0	0	1	0
98	Temujin Mench	0	0	0	0
99	Max Impex	2	3	0	0
100	Munkhiin Useg	2	3	0	0
101	Shijir Alt	0	0	1	0
102	MTS	0	0	0	0
103	Atar Urquu JSC	1	1	1	0
104	Monforte	0	0	0	0
106	Cosmo	0	0	0	0
107	Mongolian Transport Team	0	0	0	0
108	Shoroon Ord Mining JSC	0	0	1	0
109	Autobus-1	0	0	1	0
110	Selenge Guril Tejeel JSC	0	0	1	0
111	Khet	2	5	0	0
112	Monpolymet	2	2	0	1
113	Oguuj Chiher Boov JSC	1	1	1	0
114	Ulaanbaatar JSC	0	0	1	0
115	Narantrade	0	0	0	0
117	Ikh Temuulel	1	3	0	0
118	Shim Group	1	2	0	0
119	Mineral Invest	0	0	0	0
120	Ogoomor Mandal	0	0	0	0
121	Ulaanbaatar Khivs JSC	1	1	1	0
122	Hasebe International	0	0	1	0
123	Burte	0	0	0	0
124	Jagar International	2	1	0	0
125	Dakhan Khuns	0	0	0	0
126	Gutal JSC	1	1	1	0
128	Badarchi Trade	0	0	0	0
129	Ulziit Centre	0	0	0	0
130	Gazar Holding	4	5	4	4
131	Beneduct	0	0	0	0
133	SOCO	0	0	0	0
134	Altai Trading	2	4	1	1
135	Centerra	0	0	0	0
136	Bishreht Holding	5	5	0	0
137	Noyod Group	5	5	0	0
<b>TOTALS</b>		<b>116</b>	<b>139</b>	<b>65</b>	<b>30</b>
<b>AVERAGE INDEX SCORE</b>		<b>0.88</b>	<b>1.05</b>	<b>0.49</b>	<b>0.23</b>
<b>HIGHEST INDEX SCORE</b>		<b>6</b>	<b>5</b>	<b>4</b>	<b>4</b>
<b>LOWEST INDEX SCORE</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Fig. 14: Indices of multisectoralism of Mongolia's Top Companies: Sector Spread Index; Sector Weight Index; Public Company Index; and Public Companies controlled