

## Funding Innovative Activities in Firms: The Ownership Structure and Governance Linkage - Evidence from Mongolia

**Authors :** Ernest Nweke, Enkhtuya Bavuudorj

**Abstract :** The harsh realities of the scandalous failure of several notable corporations in the past two decades have inextricably resulted in a surge in corporate governance studies. Nevertheless, little or no attention has been paid to corporate governance studies in Mongolian firms and much less to the comprehension of the correlation among ownership structure, corporate governance mechanisms and trend of innovative activities. Innovation is the bed rock of enterprise success. However, the funding and support for innovative activities in many firms are to a great extent determined by the incentives provided by the firm's internal and external governance mechanisms. Mongolia is an East Asian country currently undergoing a fast-paced transition from socialist to democratic system and it is a widely held view that private ownership as against public ownership fosters innovation. Hence, following the privatization policy of Mongolian Government which has led to the transfer of the ownership of hitherto state controlled and state directed firms to private individuals and organizations, expectations are high that sufficient motivation would be provided for firm managers to engage in innovative activities. This research focuses on the relationship between ownership structure, corporate governance on one hand and the level of innovation on the hand. The paper is empirical in nature and derives data from both reliable secondary and primary sources. Secondary data for the study was in respect of ownership structure of Mongolian listed firms and innovation trend in Mongolia generally. These were analyzed using tables, charts, bars and percentages. Personal interviews and surveys were held to collect primary data. Primary data was in respect of corporate governance practices in Mongolian firms and were collected using structured questionnaire. Out of a population of three hundred and twenty (320) companies listed on the Mongolian Stock Exchange (MSE), a sample size of thirty (30) randomly selected companies was utilized for the study. Five (5) management level employees were surveyed in each selected firm giving a total of one hundred and fifty (150) respondents. Data collected were analyzed and research hypotheses tested using Chi-Square test statistic. Research results showed that corporate governance mechanisms were better and have significantly improved overtime in privately held as opposed to publicly owned firms. Consequently, the levels of innovation in privately held firms were considerably higher. It was concluded that a significant and positive relationship exists between private ownership and good corporate governance on one hand and the level of funding provided for innovative activities in Mongolian firms on the other hand.

**Keywords :** corporate governance, innovation, ownership structure, stock exchange

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