INSTITUTIONAL INFLUENCES ON MARKET BEHAVIOR:
DIVERSIFICATION IN INDONESIAN LEASING

by

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Institutional Influences on Market Behavior:

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We examine institutional effects on market behavior by developing and testing hypotheses about the effects of two dominate institutions, the nation-state and the multinational corporation, on market diversification. Analysis of diversification in the Indonesian leasing industry between its establishment in 1975 and 1995 shows that diversification into leasing markets by state-owned firms and U.S. multinationals is mimicked by other firms in the industry. In contrast, firms in the industry avoid following Japanese multinationals into leasing markets. In addition, these institutional effects vary with time: dominant institutions shape market behavior during the earliest stages of industrial growth, but their influence on behavior wanes as an industry ages.
Organizational theorists have a long-standing interest in the social and institutional preconditions for and embeddedness of market behavior, and sociological perspectives on market exchange are becoming increasingly influential in organization theory. Many organizational scholars have investigated, for example, how social structural position and network relations influence market decisions and outcomes. But the so-called "new economic sociology" is still in an early stage of development (Swedberg, 1991; Baron and Hannan, 1994), and a number of interesting questions and issues remain to be explored.

Neoinstitutional theory seems to offer a particularly promising approach for elaborating the sociological characteristics of market behavior. According to Scott (1987a: 508), institutions shape "the means by which interests are determined and pursued. Institutional factors determine that actors in one type of setting, called firms, pursue profits...." Similarly, Alford and Friedland (1991) insist that institutions shape both the ends to which organization behavior should be directed and the means by which those ends are achieved. Powell (1991: 185) claims that "[e]ven the most competitive of activities is possible only because of micro- and macrolevel institutional arrangements that ensure the reproduction of economic exchange." Yet, a neoinstitutional perspective on economic behavior itself is surprisingly underdeveloped. Researchers in the neoinstitutional tradition still hesitate to treat economic exchange or behavior as subject to institutional processes and instead focus almost exclusively on internal organizational structures, procedures and practices.

Our goal in this paper is to extend the scope of institutional theory to encompass market behavior. We focus on two of the most dominant institutions of the second half of this century—the nation-state and the multinational corporation (MNC)—and theorize their influence on competitive market behavior. Organizations scholars have paid considerable attention to the
institutionalizing role of the state (Meyer and Hannan, 1979; Scott and Meyer, 1983; Scott, 1987b; Dobbin et al., 1993). Both theory and research have focused primarily on how the state shapes corporate structures and administrative practices (c.f. Meyer, 1983; March and Olsen, 1984; DiMaggio and Powell, 1983; Carroll, et al., 1988a, 1988b; Meyer and Rowan, 1977). For example, Meyer and Rowan (1977) and Meyer (1983) argued that organizations adopt structures or practices that reflect the rules institutionalized and legitimated by the state. However, organization theory has shown little interest in examining the state’s influence on the market behavior of organizations, even though the state’s economic role has expanded dramatically after World War II (World Bank, 1997).

The MNC has been particularly neglected by organizations scholars, despite its significance as the principal global carrier of practices, techniques and strategies that alter entire economic structures (Ghoshal and Westney, 1993). There are some 45,000 MNCs controlling some 280,000 foreign affiliates, accounting for almost a quarter of world trade, and 70% of the trade in technology and managerial skills (UNCTAD, 1997). MNCs contribute between 25 and 30% of gross domestic product of the world’s market economies (Dunning, 1993: 14). MNCs thus play a major role in linking national economies, shaping domestic and international competition, as well as transferring leading organizational practices across national borders. Many MNCs in fact manage resources in excess of most member-states of the United Nations (Gilpin, 1987).

Like Haveman (1993) we examine institutional effects on market diversification, but we expand the domain of the institutional argument by theorizing about the effects of state-owned firms and multinational corporations on diversification. Our research setting is the Indonesian leasing industry. Indonesia is in some ways a more representative national context for studying
these effects than the United States, which has been the setting for the vast majority of empirical studies in institutional theory and organization science. Compared to the United States, most member-countries of the United Nations have considerably greater state ownership of business organizations and state intervention in the economy. Similarly, MNCs also play a larger economic role in other countries than they do in the United States. Affiliates of MNCs operating in North America account for a much smaller percentage of gross domestic product than affiliates operating in Western Europe, Africa, Latin America, and Asia (UNCTAD, 1997). The MNC has also loomed much larger politically in these regions: Both developing countries like Indonesia and industrialized nations like France have at various times purposively courted and discouraged investment by powerful international firms. Given the economic prominence of the state and MNC in the vast majority of nations, their influence on market behavior would seem to warrant greater examination. We think such comparative work is necessary before a comprehensive theory about the effects of institutions on organizational action is constructed.

INSTITUTIONAL THEORY: EXPANDING THE DOMAIN

Scott (1995: 33) defines institutions as “cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior.” The essence of institutions is patterned behavior derived from coercive, mimetic, and normative pressures (DiMaggio and Powell, 1983). Both actors and their interests are institutionally constructed, with the cognitive dimensions of practical, taken-for-granted action accorded analytical importance (Zucker, 1987; Powell and DiMaggio, 1991). Organizations adopt practices and structures in order to conform to coercive pressure or prevailing norms in their institutional environments (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). Doing so may allow firms access to needed resources
(Pfeffer and Salancik, 1978), even forestalling what would otherwise be inevitable failure (Meyer and Zucker, 1989). Although early criticism of neoinstitutional theory claimed these propositions to be less applicable to market-based organizations, a substantial number of studies of business firms have demonstrated the robustness of the theory (e.g., Palmer et al., 1993; Dobbin et al., 1993; Mezias and Scarselletta, 1994).

Recently, institutional theorists have begun to pay greater attention to how markets are socially constructed or structured. Scott (1992: 140) asserts that "markets that reward organizations for effective and efficient performance are themselves institutionally constituted and structured," supported by rules, norms, definitions and beliefs. Friedland and Alford (1991) contend that interest itself, including profit and income maximization, satisficing and the like, is institutionally contingent. Similarly, Abolafia and Biggart (1991) emphasize that competition is socially constructed. The normative underpinnings of market behavior are historically developed, and competitive action often "will evidence discernible patterns with corresponding norms" (Abolafia and Biggart, 1991:219). Market behavior is culturally embedded in that shared collective understandings shape economic strategies and goals (DiMaggio, 1990; Swidler, 1986); it is structurally embedded in the social connections of economic actors (Granovetter, 1985); and it is politically embedded to the extent that market actions are shaped by the interaction of firms and non-market institutions (Zukin and DiMaggio, 1990).

The institutional forces shaping market interests would thus seem to be important foci of empirical research in institutional theory. Yet, the work cited above is almost entirely conceptual, and remarkably few scholars writing from the neoinstitutional perspective have addressed market behavior empirically. While the business firm increasingly serves as the context for many neoinstitutional studies, empirical attention has focused almost entirely on the adoption
or diffusion of organizational structures, rules, and procedures, such as accounting practices in the Fortune 200 (Mezias, 1990), the multidivisional structure among large U.S. corporations (Fligstein, 1985; Palmer et al., 1993), matrix management (Burns and Wholey, 1993), or personnel practices (Edelman, 1990; Sutton and Dobbin, 1996). Very few works explicitly examine institutional effects on market behavior. Levitt and Nass (1989) find that institutional processes in college textbook publishing shape the content of textbooks. Fligstein (1991) provides evidence that diversification strategy is influenced by the backgrounds of CEOs, who developed shared conceptions of control. Haveman (1993), who examines mimicry among California savings and loans, finds that firms imitate other firms that are large and profitable in making market diversification decisions. Dobbin and Dowd (1997) find that public policy affects market entry in Massachusetts railroads: public capitalization and pro-cartel policies increase foundings, while antitrust policies depress them.

Moreover, even in their conceptual work, neoinstitutional theorists often conflate internal structure and strategic behavior, typically using "behavior" to refer to internal practices rather than strategic behavior. For example, DiMaggio and Powell (1991) claim that the new institutionalism is based at the microlevel on a theory of practical action that stresses the unreflective, routine, taken-for-granted nature of most behavior. Yet for them behavior appears to mean the adoption of formal organizational structures and standard administrative rules that have institutionalized qualities: "[S]ociologists view behaviors as potentially institutionalizable over a wide territorial range, from understandings within a single family to myths of rationality and progress in the world system. The new institutionalism in organization theory tends to focus on a broad but finite slice of sociology's institutional cornucopia: organizational structures and processes that are industrywide, national or international scope. Indeed, the new
institutionalism in organizational analysis takes as a starting point the striking homogeneity of practices and arrangements found in the labor market, in schools, states and corporations" (DiMaggio and Powell, 1991: 9. Italics added). Similarly, Orru, Biggart and Hamilton (1991) argue that private business in Japan, Korea and Taiwan operates according to "distinct institutional models that differentially shape organization behavior and structure" and provide a coherent logic for competitive economic action. But they do not directly examine behavior or economic action: all of their evidence is for the structure of business groups to adduce that market competition is shaped by institutional rules. Researchers seem ambivalent about the extent to which market or competitive processes are institutionally embedded. While they often imply that institutional processes operate on both structure and action, they seldom incorporate organizational behavior empirically, or else they use the word "behavior" to refer to internal organizational practices, structures or procedures. In this sense, structure is not sufficiently unbundled from behavior in the literature.

We think it is useful to be explicit about these differences as one step towards understanding the conditions under which institutions affect market behavior. The effects of institutions on the adoption of personnel practices or accounting rules may differ in substantial ways from their effect on market action, especially in the degree and completeness of institutionalization. In the next section, we theorize the influence of the state and the multinational corporation on corporate diversification.

INSTITUTIONAL INFLUENCES ON MARKET BEHAVIOR

Although recent work in organization theory has begun to study corporate behavior in different national settings and treat the multinational firm as a distinct organizational type
(Boisot and Child, 1988; Nee, 1992; Mascarenhas, 1989; Ghoshal and Westney, 1993; Delacroix, 1993; Tan and Litschert, 1994), management science has been accused of being too culturally parochial, largely generalizing from research conducted in the United States (Boyacigiller and Adler, 1991; Dobbin and Dowd, 1997). Other branches of social science such as political science and sociology have long theorized that the state and the multinational corporation have stimulated, channeled, and otherwise affected firm behavior and market competition in various national settings. Thus, organization theory can benefit from this complementary research in developing hypotheses about the influence of state-owned firms and multinational corporations on market diversification behavior.

The Institutional Influence of the State and State Enterprises

All states influence corporate behavior (Shonfield, 1965; Lindblom, 1977; Campbell and Lindberg, 1990). Even in Hong Kong, rated as the most economically free "country" in the world by the Heritage Foundation (Holmes et al., 1997), the government strictly controls the supply of new land for development, and thus its price. More generally, states design rules that constitute markets, sets and influences prices within them, limits the number of market actors, finances those actors, and shapes their evolution and technological trajectory. Historically, the state has played a central, sometimes dominant, role in structuring and creating organizational fields. During industrialization in the nineteenth century, the state created entirely new industrial sectors. The Prussian state initiated state mining, heavy industry, and textile industries (Gerschenkron, 1962). Railroads and telegraph services were organized by the state across Continental Europe and in the United States (Landes, 1969; Dobbins, 1994). The state has also made widespread use of "coercive" mechanisms to shape business behavior. The German state

That the state has had such a pervasive influence is now a commonplace in much of social science, and few would argue seriously that public policies do not shape corporate evolution (Dobbin and Dowd, 1997). Thus, neoinstitutional arguments that might invoke regulatory or legal effects on market behavior are not particularly new theoretically. Perhaps more interesting than the regulatory mechanisms behind institutionalization are the "more subtle and less explicit" elements of normative or coercive isomorphism (DiMaggio and Powell, 1983), such as the cultural expectations or informal pressures that induce market conformity. In Korea, for example, this kind of state influence occurs "when someone in the government decides that a particular action should be taken by a particular firm and communicates this desire with more or less subtlety. This may have the objective of collecting contributions for some quasi-public purpose, but it may also take the form of a quick and expedient solution of a problem which is not generalizable....Informal guidance is ubiquitous, but its quantitative importance is impossible to assess" (Jones and Sakong, 1980: 119-120).
In most economies, state enterprises represent an important indirect mechanism for transmitting such informal coercive or normative pressures. According to the World Bank (1995), state-owned firms account for 13 percent of nonagricultural GDP, on average, in developing countries, roughly the same as in 1980, and roughly 7 percent in industrial countries. These averages mask important differences among countries (Table 1). During 1986-1991, state-owned firms' share of nonagricultural GDP in industrial countries varied from 10 percent in France and 14 percent in Austria, to 1 percent in the U.K. and 6 percent in Italy and the United States. Among developing countries, the ratios were 61 percent in Algeria and 24 percent in Venezuela, but only 3 percent in the Philippines and 2 percent in El Salvador. In Indonesia, state-owned firms' share of nonagricultural GDP was 19 percent. Still, these numbers understate the role of state-owned firms in the economy: they cover only federal nonfinancial entities, thus omitting sectors such as leasing, insurance and banking, sectors in which the state traditionally has large equity stakes; and for the most part they omit entities controlled at the regional, state and municipal levels of government.

State firms may act to stabilize the economy, or they may provide products or services that are deemed in some diffuse way to be in the "national interest" (Aharoni, 1986), such as services to unprofitable regions and clients, subsidies to low income consumers, and investments in new technologies and industries considered too risky by private firms (Vuylsteke, 1988). But state-owned enterprises are beginning to play more complex institutional roles as they become more autonomous from direct state control (Lioukas, Bourantas and Papadakis, 1993). In the so-called transitional economies of Eastern Europe and China, managers of government-owned enterprises are being given greater discretion over the allocation of company resources. In these
economies, strictly formal constraints on state-owned firm behavior is being supplanted by the informal constraints of codes of conduct, norms of behavior, and convention (Peng and Heath, 1996). Even where privatization occurs, the state often retains a modest or even controlling share, which tends to blur the lines between state and private industry. The presence of state-owned enterprises in an industry may thus influence other firms in subtle and informal ways. In China, for example, state-owned firms are becoming more autonomous at the same time they face a fragmented state, with conflicting pressures emanating from central, provincial, county and city authorities (Hay, et al., 1994). As a consequence, state firms are less subject to clear and unequivocal policy commands. In environments where regulations are not specific, decision makers take into account the expectations of authorities (Boisot and Child, 1988). Instead of reacting to explicit policies, economic actors may interpret state firm behavior as representing authorities’ preferences and take these preferences into account when making their own strategic decisions. Thus, the influence of state firms on each other and on other market actors can be complex and indirect. In this sense, corporate expectations focus upon the monitoring and sanctioning by a set of differentiated state actors.

The State and Diversification Behavior

In economies with a moderate degree of state ownership, such as Indonesia, the state fully or partially owns firms that engage in direct competition with other firms. As a consequence of their ownership by the state, state-owned firms may hold an important “exemplar” status in the sense that their actions in some way reflect important policy goals or socially legitimate aspirations. Because state-owned firms engage in strategic behavior such as market diversification, other firms may avoid or follow them in their diversification decisions. In this
section we examine more closely the role of the state as an exemplar in diversification decisions.

The state can coordinate action of firms to which it is connected through ownership ties; in diversification decisions, it can coordinate action in the markets. By establishing the presence of state firms in various markets, the state can thereby signal its policy intentions to other firms in an industry. Where state agencies have relaxed direct control over enterprise decision making and operations, thereby granting state firms more autonomy, strategic action is more likely to be governed by implicit rules of socially appropriate market behavior or informal guidance than by explicit regulatory or legal sanction. At the same time, however, private firms often seek out the approval of the state in order to ensure future support such as favorable legal and regulatory treatment from the government. Thus the action of state-owned firms may be interpreted as legitimate and sanctioned by the state and attract the attention of other firms. For example, the visibility of these firms may be increased by their personal relationships and their perceived stronger ties to the state, and thus their actions may be accorded more media attention. In an uncertain environment, foreign firms and private firms may imitate the actions of state firms so that their own actions will be perceived as legitimate.

The influence of state enterprises may depend on the extent of their presence in the market. The state can have varying levels of ownership in firms, from complete ownership to very small equity positions (World Bank, 1995). We would expect organizations in which state ownership constitutes a large percentage of the total ownership to influence action to a larger degree than firms with a small percentage owned by the state. Firms with high degrees of state ownership can be expected to be more influential because their actions are more visible and salient to other firms and their personnel are more likely embedded in the fabric of social action.

Thus, we hypothesize:
Hypothesis 1: Firms are more likely to diversify into markets where there is a larger state presence than markets where state presence is smaller.

The Multinational Corporation as Social Institution

The state constitutes one powerful institutional agent. The multinational corporation represents another. MNCs are among the world's most important social institutions. They are largely responsible for linking national economies into global forms of capitalist interdependence (Gilpin, 1987), making them "major agents of organizational and social change in modern society" (Ghoshal and Westney, 1993: 21). MNCs have also influenced the dynamics of both national politics and international economic diplomacy (Krasner, 1985). They have been known to achieve their own ends through political action, alternating between the state and national entrepreneurs in the formation of political alliances (Stepan, 1978; Gilpin, 1987; Wade, 1990).

Foreign ownership also has symbolic and politically sensitive effects because it invariably taps ideological sentiments, either a nationalist response against foreign firms or the often uneasy relationship between state and indigenous private capital (Gilpin, 1987). MNCs are also central sources and carriers of cultural change, often inducing deep anxieties. As a consequence, states act in often ambivalent ways toward multinational firms and have historically made legal and regulatory distinctions between national and foreign owned enterprises.

While the influence of the state on market behavior derives from its authority, the status of MNCs in the eyes of domestic firms is due to their perceived success and technical capabilities. Relative to firms in host countries, MNCs have superior competencies and are the principal vehicles for transferring technology, managerial practices and professional norms
Internationally (Dunning, 1993; Cantwell, 1989; Bartlett and Ghoshal, 1992; Kogut and Zander, 1993). Superior firm-specific assets, access to a wider array of locational assets, and ability to reap economies of scale and scope at the firm level can make MNCs more efficient than domestic firms (Dunning, 1993). They can even be more competent than firms in industrialized countries. For example, compared to their local competitors, MNCs in the United Kingdom were found to enjoy considerably higher labor productivity (Davies and Lyons, 1991). These qualities induce behavioral mimicry. DiMaggio and Powell (1983) argue that firms within an organizational field imitate the practices or structures of other firms that are seen as having qualities that are desirable and legitimate. Burns and Wholey (1993) present evidence that organizations emulate prestigious others. As Meyer (1994) points out, in the world of organizations, elite and successful organizations across nations may thus become targets of imitation. Haunschild and Miner (1994) have identified three types of mimicry behavior in which firms engage—frequency, trait and outcome based imitation. In trait and outcome based imitation, exemplar firms hold special status in determining the behavior of other firms. More than state enterprises or indigenous private firms, MNCs serve as such corporate exemplars.

The MNC and Market Diversification

Because MNCs hold a special place as exemplars, their market diversification decisions may be viewed by other organizations as strong signals of appropriate action and may also be viewed as a signals of successful strategic choice. However, some scholars have argued that it may be theoretically meaningful to distinguish among MNCs according to their home countries. Firms are "imprinted" when founded (Stinchcombe, 1965), and their actions and practices reflect the organizing principles of their surroundings (Kogut, 1992; Westney, 1993). This suggests that
MNCs from some countries may be guided by institutional logics and take strategic actions that differ from MNCs from other countries and thus have different institutional influences on market behavior. Among MNCs, those from the U.S. and Japan play particularly important institutional roles.

Mimetic isomorphism leads us to consider the role of U.S. multinational firms as exemplars. The United States has been the source of the most influential and far flung MNCs for most of this century. Wilkins (1974: 329) notes that in 1929 Europeans were "impressed" by mass production, standardization, and scientific management introduced there by U.S. companies. Thirty-five years later they were still being impressed, this time by the "technological and managerial advantage" of U.S. multinationals (Wilkins, 1974: 436). Westney (1993: 64) has made the point that although U.S. dominance in global industries has receded, "the institutional agencies of mimetic isomorphism remain dominated by the U.S.A." Internationally, U.S. MNCs are still critical global sources of innovation and managerial and technical know-how (Pavitt, 1991). This is especially true in financial services, an industry in which U.S. MNCs have maintained their reputation as exemplars. U.S. financial firms are exposed to extremely competitive domestic markets and are less sheltered by the kinds of home-country protections and barriers to competition enjoyed by financial companies from other countries. This environment has made U.S. financial institutions the most innovative and imitated in the world (Saunders and Walter, 1994). Moreover, "U.S. financial institutions continue to be relatively attractive to some of the best and brightest professionals domestically and internationally -- helped by a relatively 'open' and 'inclusive' culture as compared with German or Japanese competitors" (Saunders and Walter, 1994: 63).

We argued above that the nationality of an MNC brings with it a specific set of
institutional effects on behavior. As Fligstein (1991: 317) notes, "[i]f the significant actors in an
organizational field adopt [a] course of action, others will follow suit and that new course of
action will come to define successful behavior in the field." Actors connoting modernity also will
be imitated (Strang and Meyer, 1993). Because U.S. firms maintain a reputation for innovation
and managerial talent, mimicking their diversification moves would at once remove the
uncertainties underlying strategic alternatives and confer legitimacy on the imitator's decision
making processes. Thus, if mimetic processes explain market diversification, we would expect
that the presence of U.S. firms would increase the likelihood of diversification by other firms.
Again, the extent of the presence in the market is likely to moderate the strength of the signal, as
well as the availability of information about the actions of the firms. Thus a large firm with a
large share of U.S. ownership is more likely to influence strategic behavior than a small firm with
very little foreign ownership. Specifically,

Hypothesis 2: Firms are more likely to diversify into markets where there is a larger U.S.
presence than markets where U.S. presence is smaller.

Japanese MNCs are also theoretically distinct. As Fruin (1992: 318) states, Japanese
companies "look different, behave differently, are engendered by and engender different
institutional values than Western firms." They are embedded in interorganizational networks
based on operational and strategic interdependence (Imai and Itami, 1984; Lincoln, 1990; Gerlach,
1992). This distinctiveness extends to Japanese multinationals, which tend to recreate the home
country organization set (Encarnation and Mason, 1994; Ozawa, 1979; Franko, 1983). Japanese
multinationals are more likely to encourage their suppliers to follow them abroad than their
Western counterparts, in part to avoid dealing with indigenous suppliers (Okada, 1991). Florida and Kenney (1991) find that Japanese suppliers to the automobile industry generally follow their transplant customers overseas. Japanese MNCs also have a higher propensity than Western MNCs to import components and subassemblies from the home country (Kreinin, 1988; Wassman and Yamamura, 1989) and a greater reliance on expatriate managers than Western firms (Pucik, et al., 1989). Taken together, the institutionalization abroad of Japanese interorganizational structures can act to exclude outsiders, both local business and other multinational firms. To the extent that Japanese firms dominate a sector, and thus structure the field of that sector, diversification into that sector by non-Japanese firms is discouraged. Thus, we hypothesize an effect opposite to that of U.S. multinationals:

Hypothesis 3: Firms are less likely to diversify into markets where there is a larger Japanese presence than markets where Japanese presence is smaller.

Industry Formation, Legitimation and the Waning of Institutional Influences

Haveman (1993) demonstrated, in a novel application of population ecology, that density affects market diversification. (See also Baum and Korn, 1996). She utilized reasoning similar to that found in classical applications of the relationship between density and founding rates. Ecologists argue that as the number of firms in a population increases, the legitimacy of the population also increases, eventually approaching some asymptotic maximum (Hannan and Carroll, 1992; Hannan and Freeman, 1988). As legitimacy of a population of organizations increases, so too does the firm founding rate. Conversely, as the number of firms in a population increases so too does the level of competition, which decreases firm founding rates. These dual
processes of legitimation and competition produce early growth in the founding rate within a population of organizations followed by a decrease in the rate due to rising competition. Haveman (1993) extends this reasoning to diversification and argues that a market's legitimacy is signaled by the number of firms in the market and that this legitimation induces new market entrants. Similarly as a market becomes crowded with competitors the entry rate decreases as a result of competition. Empirically, we would expect that:

Hypothesis 4: There exists an inverse U-shaped relationship between entry into new markets and the density of firms within that market. The entry rate initially will increase with density within the market. Subsequently, the entry rate will decrease.

The growing legitimacy of the organization form, as measured by density, has a parallel in the persistence of specific kinds of institutional influences on market behavior. We have argued above that state and multinational firms have unique influences on the behavior of other firms in an industry. These effects may be particularly strong early in an industry's formation. Haunschild and Miner (1997) distinguish between three different types of imitation that affect the actions of organizations – frequency-based mimicry, trait-based mimicry, and outcome-based mimicry. The positive relationship between legitimacy and density dependence is suggestive of frequency-based mimicry. When the frequency of any form is low within a population or market, other forms of imitation may become paramount. Arguments surrounding density dependence suggest that when the number of organizations in a new industry is small, new organizations must carve their own roles and form connections to an environment that is either ignorant of or does not acknowledge their existence (Hannan and Carroll, 1992; Stinchcombe,
Similarly, as Aldrich and Fiol (1994) point out, founders of entirely new activities must establish legitimacy. But because the industry is new, "pioneering founders cannot base initial trust-building strategies on objective external evidence" (Aldrich and Fiol, 1994: ) such as frequency or density. Instead, they mimic important institutional actors -- trait-based imitation. State and multinational firms can offer models of appropriate behavior to a new industry and help to establish its taken-for-granted character vis-a-vis the external environment. The characteristics or traits of firms that enjoy state or multinational ownership are prime targets for imitation practices.

Although important during an industry's early years, the strength of these influences is likely to diminish with time. As patterns in the frequency of action become more apparent over time, density may become a clearer signal of successful action, thus perhaps containing outcome information previously unavailable, or certainly legitimate action. After some period of time through processes of social construction, entrepreneurs and managers can develop new meanings that may eventually alter or ignore institutional norms. That is, we might expect extant trait-based norms or isomorphic pressures to become deinstitutionalized or simply less important to actors making strategic moves (Zucker, 1991; Oliver, 1992). Deinstitutionalization refers to "the process by which the legitimacy of an established or institutionalized organizational practice erodes or discontinues" (Oliver (1992: 564). Organizations may thus challenge, discard, or abandon institutionalized organizational practices (Oliver, 1992). The role of trait-based imitation will thus decrease as the industry ages. Therefore, we hypothesize:

Hypothesis 5a: The likelihood that firms diversify into markets where there is a larger state presence than markets where state presence is smaller decreases with the age of the industry.
Hypothesis 5b: The likelihood that firms diversify into markets where there is a larger U.S. presence than markets where U.S. presence is smaller decreases with the age of the industry.

Hypothesis 5c: The likelihood that firms do not diversify into markets where there is a larger Japanese presence than markets where Japanese presence is smaller decreases with the age of the industry.

THE INDONESIAN LEASING INDUSTRY

We test these hypotheses with data covering the history of the Indonesian leasing industry from its formation in 1975 until 1995. By best estimates equipment leasing is a $430 billion global industry, placing it, perhaps surprisingly, second only to loans as a source of finance internationally (World Leasing Yearbook, 1998). In the United States, the world's largest leasing market, leasing represents over 30% of business investment in equipment. Companies lease a wide variety of general purpose business equipment including machine tools, computers, and medical and telecommunications equipment. Leasing is also a common source of finance for factory and office buildings and is the principal way airlines acquire aircraft. The organizations that constitute the industry are quite diverse in size and strategic focus. Some leasing companies are highly diversified, serving a wide variety of equipment markets; others occupy specialized niches in oil equipment or aircraft leasing. Some lease out a lot of so-called "small ticket" items, while other leasing companies are profitable leasing out only a handful of very expensive equipment.

The basic concept of a lease is straightforward. It is a form of installment credit. The
ownership of the item being financed is vested in the lender -- called the lessor -- and the right of use is vested in the borrower, the lessee. The lessee pays a lease rental at a regular interval in advance, typically monthly, quarterly or semi-annually. At the end of the lease contract, the lessee in some countries may buy the equipment; in other countries it is either illegal to do so or against the interest of the lessee because of tax or commercial considerations. Lease contracts specify the duration of the lease, the payment terms, and how to treat the "residual" -- the value of the equipment at the end of the term. Leasing companies raise the capital to finance these investments by borrowing from banks or through investor syndicates; unlike banks they have no access to deposits.

Contracts vary in their complexity depending on the value, technology, rarity, use and mobility of the equipment, as well as the currency in which the lease is written. Yet, there are two main types of contracts. One is a finance lease, with the leasing company merely a financing entity: the lessee identifies, orders and maintains the necessary equipment and pays the lessor a rental; the lessor raises the money, accepts the invoice from and pays the equipment supplier. The rental covers the full cost of the equipment, plus interest and the lessor's profit. The second type of contract is an operating lease, where the leasing company buys the equipment and leases it to the lessee at a rate and term that do not cover the lessor's cost, interest and profit. After the term is completed the lessor takes possession of the equipment and re-markets it. The lessor thus assumes some risk on the value of asset.

Although tax laws can make leasing an attractive source of financing, leasing offers lessees several advantages over bank loans (World Leasing Yearbook, 1988). One of the most important is that equipment users do not have to make large up-front deposits, allowing them to channel available capital to additional uses. In addition, leasing companies traditionally have been more
flexible than banks with regard to contract terms and quicker in making contract decisions. These advantages in turn offer lessees more control over cash flow and greater budgetary certainty, especially when maintenance costs are fixed in an operating lease contract. Finally, short-term leases help companies avoid technological obsolescence or other problems associated with changed market conditions.

While leasing is an ancient form of financing that predates banking, the modern leasing industry originated with the development of the railway in Britain and the United States in the 19th century, and railway car leasing companies were among the first of a new corporate form, the registered limited liability company (Clark, 1978). Soon thereafter manufacturers also began to use leasing to expand their markets or to protect a monopoly advantage, as did the Bell Telephone Company after 1877 when it decided to use only the lease to provide equipment to its customers. During the 1950s and 1960s, independent leasing companies emerged and created an observably distinct industry. US Leasing Corporation was established in 1952, followed by Mercantile Leasing (1960 in Britain), Deutsche Leasing (1962 in Germany), and Orient Leasing (1962 in Japan). While independent leasing corporations such as these continue to be important competitors, since the 1970s the leasing subsidiaries of large multinational banks and, more recently, business corporations like General Electric and AT&T have come to play much larger global roles.

During the 1970s, modern leasing also began to spread to developing countries, including Indonesia, where it has become an important mode for financing purchases of capital equipment. A 1974 decree set the basic requirements for the establishment of leasing companies in Indonesia, and the first three companies entered the business the next year. By the end of 1981, only five more leasing companies were established. In 1981 the government encouraged new entry into the
industry, especially from foreign companies with leasing expertise. Foundings subsequently doubled in both 1982 and 1983, and the number of leasing companies reached over 70 in 1985. By 1995 the industry was composed of 248 companies financing Rp. 8.8 trillion of equipment purchases (Figure 1). In terms of annual leasing volume Indonesia ranked 13th worldwide in 1996 (World Leasing Yearbook, 1998). In the early years of the industry, the lease of manufacturing, transport and construction equipment accounted for the lion's share of business. In later years office equipment became a large market as computer use became widespread, especially in banking and insurance.

The first domestic firms to enter the leasing industry were state companies, such as the national oil company, followed by Indonesian banks controlled by industrial conglomerates. With one exception, all leasing companies with equity held by the state -- whether by the government directly, by state banks, by pension funds for state employees, or by other state enterprises -- are incorporated as private limited liability companies and are subject to the same laws and regulations as other private leasing companies. They are legally autonomous from the state and are not chartered to carry out state policies. Thus, leasing companies with state ownership are not considered sovereign borrowers and so do not have privileged sources of finance sanctioned by the state. Both state entities and Indonesian conglomerates typically formed joint ventures with foreign financial institutions. For foreign firms, a joint venture with local interests was a requirement for entry to the Indonesian market, and the local partner had to have a minimum 15% equity stake. Almost all of the foreign companies entering the Indonesian market were affiliates of major financial, trading or industrial houses in their respective countries. Some of the world's largest or best known corporate names were so represented: Sumitomo Bank,
Bank of America, Industrial Bank of Japan, Citibank, Banque Nationale de Paris, Deutsche Bank, American Express, Dai-Ichi Kangyo Bank, Credit Lyonnais, and Chase Manhattan Bank. Increasingly, Indonesian conglomerates and owners of small manufacturing or service companies established leasing companies without foreign equity participation. Figure 2 summarizes by year the number of state, foreign and local private leasing companies.

**FIGURE 2 ABOUT HERE**

The industry was regulated by the Ministry of Finance, which also issued leasing licenses. Leasing companies were required to offer lessees the option to purchase the leased asset at the end of the lease period. Leasing companies were prohibited from accepting deposits, extending loans or guarantees, or engaging in other banking-related activities. There were no requirements regarding the length of lease periods, whether variable or fixed rates of interest were used, or type of currency. Because of the industry's youth, however, Indonesia had no legislation specifically aimed at leasing, and the 1974 decree was too broad to govern the industry effectively. Thus, the industry became subject to discretionary administrative actions. During the period under study, the leasing industry association, which was formed in 1982, lobbied the government to introduce legislation to clarify murky regulations and reverse several others the association claimed were unnecessarily restricting the growth of the industry. Several regulatory changes were enacted at the end of 1988, and they drastically changed leasing activities and allowed a broader scope of financing. Leasing companies could apply for a permit from the Minister of Finance to become a finance company to offer the following services: venture capital, securities trading, factoring, credit cards, and consumer financing.
METHODS

Data

Capon et al (1988) argued that a market distinction as opposed to a product distinction is a powerful way to assess and characterize diversification. A firm diversifies into a new market when it sells a new product to typically different customers. Customer markets in the leasing industry are composed of different industries in which the leasing firms own and lease equipment. For this study, we examine firm entry into seven different product markets in the Indonesian leasing industry: transportation, industry, construction, medical, office, mining, and agriculture. Certain markets were closed to leasing during this period, including sea and air communications. The data come from annual reports published by the Indonesian Ministry of Finance, are presented by firm, and encompass the life of the industry. Our study uses the population of firms from the founding of the industry in 1975, when the first few companies entered, through 1995, the last year for which systematic data were available.

Our hypotheses address the likelihood that a firm will diversify into a particular market, thus in our analysis we are interested in data constructed at the firm-market level of analysis. The data are pooled across markets with each entry consisting of a firm-market-year datum.

Dependent Variable

The dependent variable in the model is the hazard rate of diversification. The event of diversification into a market is coded as the first year a firm reports a lease contract in the market.

Independent Variables

Measuring the impact of state enterprises and multinational corporations on
diversification requires an indirect approach, one that establishes the plausibility of the argument that one kind of organization imitated one type of institution but not another. An established method for examining imitation is to measure the proportion of companies previously adopting a structure or routine. Tolbert and Zucker (1983) use the cumulative level of adoption of civil service reform to explain subsequent adoption. Haveman (1993) measures the presence or absence of role-model organizations to investigate mimicry. Burns and Wholey (1993) measure the cumulative adoption of matrix management programs. We also focus on prior adopters and measure presence by calculating a weighting of the amount of assets held by each actor. We do this because we believe that these institutional effects are dependent on the size of the firm and the percentage of the holdings of the state or MNC. This is consistent with a "mass-dependence" characterization where firms that have more state or MNC ownership, along with firms that are larger, are theorized to have a proportionately larger impact on behavior (Barnett and Amburgey, 1990).

We measure state, U.S. and Japanese presence in a market by weighting the value of firms' market-specific leasing contracts by the percentage of state, U.S., or Japanese ownership in the firms. Specifically,

$$p_{m,t} = \frac{\sum_{i} c_{p,i,t} a_{i,m,t}}{\sum_{i} a_{i,m,t}} \times 100$$

where $p_{m,t}$ is our measure of state, U.S., or Japanese presence in market $m$ in year $t$; $c_{p,i,t}$ is the percent of state, U.S., or Japanese ownership in the $i$th firm in year $t$, and $a_{i,m,t}$ is firm $i$'s assets.
Following Haveman (1993), we measure *density* as the number of firms active in the market at the beginning of each year. New firms are included in this measure of density.

**Control Variables**

*Prior Diversification.* Haveman (1993) also argues that firms may pursue different growth strategies. Some firms may opt to diversify within the industry by entering new markets. Other firms may choose to stay in one predominate market. Consistent with Haveman's (1993) findings, we expect that the number of markets in which a firm is active will be positively related to the probability of entering a new market. Prior diversification is measured as the number of markets in which the firm is actively participating in the previous year.

*Ownership.* With dispersed ownership, shareholders have insufficient incentive to monitor firm strategy (Alchian & Demsetz, 1972; Hoskisson, et al., 1994). Under such conditions of weak governance, risk is shifted to managers whose compensation packages give them the incentive to increase firm size (Hoskisson and Turk, 1990) and to diversify using free cash flows (Jensen, 1986; Russo, 1991). In contrast, firms with more concentrated ownership will be less likely to pursue strategies of growth because ownership and control are more tightly bound. With the owners more able to control their firms, growth and diversification may not be seen as risk reducing strategies. We expect that the more concentrated the top ownership, the less likely the firm will be to enter new markets. The ownership concentration is measured by the percentage ownership of the top owner in each firm.

*Size.* Size has been found to be related to strategic activity. The strategic management field uses size as a control variable in most multivariate studies because of its correlation with
diversification through the effects of economies of scale and market power (Grant, et al., 1988; Chatterjee and Wernerfelt, 1991). Size is measured as the inflation adjusted log of total firm assets in 1980 rupiah.

**Period effects.** As demonstrated by Dobbin and Dowd (1997), public policy can shape competition. We control for two public policy initiatives that directly affected the leasing industry. The first occurred in 1981 when the government encouraged foreign firm entry into the industry. The second initiative came at the end of 1988 when the government broadened the scope of financing to include additional activities not previously allowed. We include dummy variables for 1981-1988 and 1989-1995; the omitted category is the period before 1981.

**Analysis**

The primary analysis used in this study is event history analysis. Event history analysis is useful for examining the causal processes leading to a distinct event. Several different types of event history models have been used for modeling various time dependent events. Gompertz and Weibull models have been used to examine monotonic time dependence (Tuma and Hannan, 1984; Hannan and Freeman, 1989); whereas log-normal models have been used to examine simple non-monotonic time dependence (Levinthal and Fichman, 1988). We have selected a Cox proportional hazard model to test our hypotheses.

Examining plots of the counts of entry by market and type of firm against year offers no clear picture of time dependent functions. Because there is surely some time dependence about which we have no clear information, we use the Cox proportional hazard rate model (Cox, 1972). The Cox model assumes a time-dependent nuisance function that is proportional to other variables. This nuisance function is unestimated. Specifically,
\[ h(t) = q(t)e^{Bx(t)} \]

where \( h(t) \) is the hazard rate, \( q(t) \) is the unestimated nuisance function, and \( Bx(t) \) is the vector of time-changing covariates. This equation can be interpreted as yielding the instantaneous probability of market entry given no market presence before. The full model that is estimated follows:

\[ r(t) = q(t) \exp(\beta_1 d_{i,t} + \beta_2 d_{i,t}^2 + \beta_3 s_{i,t} + \beta_4 u_{i,t} + \beta_5 n_{x,t} + \beta_6 a_{80,x,t} + \beta_7 c_{x,t} + m) \]

where \( r(t) \) is the rate of market entry for firms in year \( t \), \( q(t) \) is an unmeasured nuisance function, \( d \) is market density in market \( i \) in year \( t \), \( s \) is state presence in market \( i \), year \( t \), \( u \) is U.S. presence in market \( i \), year \( t \), \( j \) is Japanese presence in market \( i \), year \( t \), \( n \) is number of active markets for firm \( x \) in year \( t \), \( a \) is assets in 1980 dollars for firm \( x \) in year \( t \), \( c \) is top ownership concentration for firm \( x \) in year \( t \), and \( m \) is a vector of dummy variables indicating market. This Cox model is estimated using STATA statistical software.

Censoring is common problem in event history analysis. We avoid any left-censoring problems because we have complete information on the entire population from its founding; our data are right-censored which does not present a problem in the analysis (Tuma and Hannan, 1989; Allison, 1984).

RESULTS

Table 2 presents means, standard deviations and correlations for the variables. Table 3 presents the results for the analysis of the hypotheses. Five models were run. Model 1 is the baseline model consisting of only control variables. The results for diversification into new markets are positive and significant for prior diversification, firm size, and the period since 1988.
Models 2-5 represent significant improvements over the baseline model. In Model 2, only one variable was added – the count of active firms in the market. The addition of this variable significantly improves the fit of the data to the model and suggests that the more firms there are in a market the more likely will other firms enter. We find the same general effects for prior diversification and firm size, but the effect becomes negative for the post-1988 period. Thus, by controlling for the count of the number of firms in a market, firms are less likely to enter markets after 1989 than before 1980.

Model 3 tests hypotheses 1-3, and again we see overall improvement in fit of the model with the addition of three variables, state, U.S., and Japanese presence. Hypothesis 1 postulated that firms are more likely to enter markets where there is a large state presence. We find support for this hypothesis. The multiplier for state presence is 1.01 (corresponding to \( \exp(-.0073) \)). This means that for every one percent increase in state presence in a market, the likelihood of state firm diversification into the market is multiplied by 1.01 from the previous level. The effect of U.S. presence on market diversification is practically identical to that of state presence. We find that firms are more likely to enter markets with a greater proportion of U.S. firm assets. This provides support for hypothesis 2. We also find support for hypothesis 3. Whereas United States presence in a market increases the likelihood that a firm will diversify into that market, Japanese presence in a market decreases the likelihood that a firm with diversify into the market. The multiplier for Japanese presence is .99 (corresponding to \( \exp(-.0058) \)), suggesting

---

1 The test statistic for relative goodness of fit to the data, the chi-square likelihood ratio, is -2 times the difference in log-likelihood distributed chi square with degrees of freedom equal to the difference in the number of variables in the model.
that for every one percent increase in Japanese presence, the firm is .99 as likely to enter the market (multiplier = $e^{-0.0058}$). We have consistent results for count of firms in the market, prior diversification, and firm size; the period effects evaporate.

Model 4 interacts the institutional variables with industry age. We find strong evidence for diminishing influence of institutional effects. Once we add interaction terms, the influence of both state firms and U.S. multinationals on market entry decreases as the industry ages. For state firms (hypothesis 5a), the results show that before year 12, the higher percentage of state-owned assets the higher the rate of entry into markets at an ever diminishing level. After year twelve, the higher the percentage of state owned assets the lower the rate of entry into new markets. For U.S. firms (hypothesis 5b), the turning point occurs after year 19. The Japanese effect (hypothesis 5c) is quite interesting. We find inconsistent results for the Japanese MNCs. Until year 6, firms are likely to enter markets where the Japanese presence is large, after which they are less likely to. This means that the Japanese influence on market entry is nearly always negative. As in Model 3, we have consistent effects for count of firms in the market, prior diversification, and firm size. We do not find period effects.

Hypothesis 4 receives weak support in Model 5. Density of the market is positively related to diversification behavior within the range of data. The squared term is significant, but the turning point is out of the range of the data. In other words, the more firms in a market, the more likely another firm is to diversify into that market. This result is generally consistent with previous work that examines density and diversification (cf. Haveman, 1993). The other results remain generally consistent with previous results. The effects of the control variables are also consistent. Prior diversification is significant and positively related to diversification. Size is significant but, contrary to many previous studies, the larger the firm the less likely it is to
diversify into new markets. The percentage share held by the top owner and the period effects are insignificant once the model is fully specified.

DISCUSSION

The results presented here indicate that certain institutional forces guide corporate market behavior, in this case diversification. For economies with a variety of sources of ownership, our results suggest that it is theoretically promising to characterize the state and multinational corporations as important institutional forces. We show that the state may influence the behavior of organizations through less direct or explicitly coercive mechanisms than is theorized in much of the study of institutional processes in organizations. Our results suggest that the state may exert influence through another channel, that of corporate ownership, and it appears that the presence of the state may be a legitimating force in the market diversification of other companies in the same industry. The state, in this situation, may serve as a market stabilizing force, allowing firms to offer leasing services to customers that the state seemingly deems important. The state need not pass laws or exert heavy-handed regulation in order to influence the behavior of firms in an industry. It may instead rely on more subtle legitimating actions.

The presence of both Japanese and U.S. MNCs have been shown to influence market diversification behavior. Leasing companies seem to be more likely to enter markets where the U.S. has a larger presence. This leads to the conclusion that the U.S. MNCs may indeed be exemplars, behaving in ways that signal legitimate and proper behavior to the population of local private firms (DiMaggio and Powell, 1983). The presence of Japanese firms, on the other hand, seems to inhibit entry. The Japanese intercorporate structure has been replicated in Indonesia, with leasing companies going abroad to serve their Japanese industrial customers, thereby
deterring local private companies from entry.

Moreover, we find that more than one type of isomorphic process can operate concurrently. As Scott (1987a) points out, there is not one but many institutional environments, and each activity can be the focus of conflicting and contradictory institutional definitions and demands (Friedland and Alford, 1991). Leasing firms both imitated multinational organizations perceived as successful and followed state firms for purposes of legitimation—taken-for-granted compliance with state signals. Since the industry was not authorized until 1974, frequency-based imitation was more difficult (or noisier) early in the evolution of the industry. Firms may thus have sought legitimacy by imitating state enterprises and were rewarded for establishing correct processes (Scott, 1987a).

Our results also offer evidence regarding the evolutionary nature of institutional effects as an industry forms and ages. We observe a deinstitutionalization of the influence of state and U.S. firms on market behavior. That is, their effect diminishes over time. During the early stages of the leasing industry, the entry behavior of each of these two institutions is mimicked by others. This homogeneous industry-building stage ends relatively quickly, however, beginning with a turn in the effect of Japanese firms on market entry, after which leasing companies are much less likely to enter markets with large Japanese presence. A similar negative effect by state and U.S. firms develops much later, with U.S. firms having a positive institutional/legitimating effect for a much longer period than Japanese and state firms.² There also seems to be a parallel between density dependence and the time varying nature of institutional effects on market behavior: their

² It will be interesting to see whether the Indonesian financial crisis and democratization will prepare the ground for reinstitutionalization. On the one hand, such a radical undermining in market confidence may very well cast Indonesian firms from their moorings and motivate them to reattach themselves to preexisting institutions. But the new push for democratic institutions, on the other hand, may in fact make the behavior of state-owned leasing firms irrelevant.
effects are strongest as an industry gains legitimacy, after which they wane as competitive processes become more important in determining organizational fates. Ecologists have not specified density dependence in temporal terms, but Hannan (1997) suggests it as a logical possibility. Thus, we see our results as consistent with the dynamics observed in ecological analysis.

A word or two of caution is in order in the interpretation of these results. First, their generalizability must be considered. The setting for this study is a new industry in a developing economy. Whether these results extend to more developed economies and mature industries is open to question. While a developing economy in the very early stages of industry growth provides a rich testing ground for examining institutional influences, and these influence may not operate the same in other economies or in other industries. Second, we do not yet know the precise mechanisms by which the state or various MNCs influence the behavior of firms. It is possible that board interlocks or personnel movement or broad or industry specific media coverage is the linkage between "presence" and the diversification effect.

CONCLUSION

In this study we examine the institutional influences on market entry behavior. In using a longitudinal study design and applying a dynamic modeling technique, we have made a first step toward clarifying the nature of the legitimating forces of the state and the MNC. Several points seem pertinent to future research in the area. First, this study indicates that actions of state and multinational corporations guide the behavior of firms. As organizations scholars begin to devote more empirical attention to the global economy, we need to further develop our theoretical understanding of the mechanisms by which these powerful actors influence market behavior. For
example, as the world's economies continue to become more intertwined, we may no longer be able to examine corporate behavior in isolation from the international institutional environment and the institutional environments of the countries that house the headquarters of large MNCs. These firms may be subject to imprinting (Stinchcombe, 1965; Scott, 1987a), transporting structures and behaviors developed in their home markets to other countries (Kogut, 1992).

Second, this study provides an initial examination of the role of institutional forces in guiding the behavior of organizations in the earliest stages of industrial growth. Further theoretical and empirical examination of this period would seem to be especially fruitful in guiding our understanding of the role of institutional processes in the growth of new industry. Relatedly, our study offers a preliminary examination of processes that may be called deinstitutionalization, and which have received scant empirical attention (Oliver, 1992). It is by nature a time varying process, and we have demonstrated one way to capture it in the context of market diversification. Other practices and behavioral patterns are likely not equally institutionalized. But the approach could be extended to other circumstances of deinstitutionalization.
Figure 1. Number of Leasing Firms in Indonesia
Figure 2. Number of Firms by Type of Ownership

- Foreign (left scale)
- State (left scale)
- Local Private (right scale)
Table 1. Share of State-Owned Enterprises in Nonagricultural Gross Domestic Product

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>61.3</td>
</tr>
<tr>
<td>Egypt</td>
<td>39.0</td>
</tr>
<tr>
<td>Venezuela</td>
<td>24.4</td>
</tr>
<tr>
<td>Morocco</td>
<td>21.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>21.0</td>
</tr>
<tr>
<td>India</td>
<td>19.2</td>
</tr>
<tr>
<td><strong>Indonesia</strong></td>
<td><strong>18.9</strong></td>
</tr>
<tr>
<td>Nigeria</td>
<td>18.5</td>
</tr>
<tr>
<td>Austria</td>
<td>14.3</td>
</tr>
<tr>
<td>Chile</td>
<td>13.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>12.0</td>
</tr>
<tr>
<td>South Korea</td>
<td>11.5</td>
</tr>
<tr>
<td>France</td>
<td>10.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>9.5</td>
</tr>
<tr>
<td>West Germany#</td>
<td>7.2</td>
</tr>
<tr>
<td>Taiwan</td>
<td>6.8</td>
</tr>
<tr>
<td>United States</td>
<td>6.1</td>
</tr>
<tr>
<td>Philippines</td>
<td>3.1</td>
</tr>
<tr>
<td>El Salvador</td>
<td>1.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.0</td>
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</table>

# 1978-1991
Source: Table A.2 in World Bank (1995: 272-275)
Table 2. Summary Statistics and Correlations

<table>
<thead>
<tr>
<th></th>
<th>Obs.</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Minimum</th>
<th>Maximum</th>
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<tr>
<td>Density in market</td>
<td>6492</td>
<td>38.39</td>
<td>23.91</td>
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<td>100</td>
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<tr>
<td>State presence</td>
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<td>10.34</td>
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<td>76.22</td>
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<td>Japanese presence</td>
<td>6305</td>
<td>23.56</td>
<td>13.57</td>
<td>0</td>
<td>70</td>
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<td>US presence</td>
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<td>3.99</td>
<td>8.02</td>
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<td>68.06</td>
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<td>6492</td>
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<td>1.92</td>
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<td>7</td>
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<tr>
<td>Percent top owner</td>
<td>6464</td>
<td>62.68</td>
<td>22.22</td>
<td>9.97</td>
<td>100</td>
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<tr>
<td>Log of assets</td>
<td>4523</td>
<td>2.91</td>
<td>1.46</td>
<td>-2.11</td>
<td>7.59</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Density in market</th>
<th>State presence</th>
<th>Japanese presence</th>
<th>U.S. presence</th>
<th>Number of markets</th>
<th>Percent top owner</th>
<th>Log of assets</th>
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</thead>
<tbody>
<tr>
<td>Density in market</td>
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<td>-0.1272</td>
<td>1.0000</td>
<td>-0.0618</td>
<td>1.0000</td>
<td>0.0631</td>
<td>0.1627</td>
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<tr>
<td>State presence</td>
<td>-0.1272</td>
<td>1.0000</td>
<td>-0.1493</td>
<td>-0.0036</td>
<td>0.2085</td>
<td>-0.0006</td>
<td>0.0958</td>
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<tr>
<td>Japanese presence</td>
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<td>0.2085</td>
<td>1.0000</td>
<td>-0.2876</td>
<td>-0.0499</td>
<td>0.0201</td>
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<td>U.S. presence</td>
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<td>1.0000</td>
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<td>0.2069</td>
<td>-0.1102</td>
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<tr>
<td>Prior diversification</td>
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<td>-0.0499</td>
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<td>0.0201</td>
<td>0.0201</td>
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<tr>
<td>Percent top owner</td>
<td>0.0631</td>
<td>0.0201</td>
<td>0.0305</td>
<td>0.0958</td>
<td>-0.1102</td>
<td>-0.0351</td>
<td>1.0000</td>
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<td>Log of assets</td>
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<td>0.0298</td>
<td>-0.0006</td>
<td>1.0000</td>
<td>1.0000</td>
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Table 3. Results for Firm Diversification

<table>
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<tr>
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<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
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<tbody>
<tr>
<td>Prior diversification</td>
<td>.569***</td>
<td>.605***</td>
<td>.604***</td>
<td>.598***</td>
<td>.600***</td>
</tr>
<tr>
<td></td>
<td>(.022)</td>
<td>(.022)</td>
<td>(.022)</td>
<td>(.022)</td>
<td>(.022)</td>
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<tr>
<td>Percentage top owner</td>
<td>.002</td>
<td>-.001</td>
<td>-.001</td>
<td>-.001</td>
<td>-.001</td>
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<tr>
<td></td>
<td>(.002)</td>
<td>(.002)</td>
<td>(.002)</td>
<td>(.002)</td>
<td>(.002)</td>
</tr>
<tr>
<td>Log of assets</td>
<td>-.159***</td>
<td>-.140***</td>
<td>-.143***</td>
<td>-.109**</td>
<td>-.104**</td>
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<tr>
<td></td>
<td>(.037)</td>
<td>(.037)</td>
<td>(.038)</td>
<td>(.037)</td>
<td>(.038)</td>
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<tr>
<td>1981-88</td>
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* Significant at p≤.05
** Significant at p≤.01
*** Significant at p≤.001

Standard Errors are in parentheses.
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