

The Capital Structure and Institutional Isomorphism

Eduardo A. Mendes, Maria Luisa M. Teixeira, Ricardo Q. Gouvêa.

Universidade Presbiteriana Mackenzie at Sao Paulo, Brazil e-mail: eamendes@gmail.com, marialuisa.teixeira@mackenzie.br, ricardo.gouvea@mackenzie.br

Abstract

The most common theories in the literature on capital structure have the main methodological paradigm, quantitative studies with empirical data modeling and algorithmic approach in the modern positivist. This article presents a critical analysis of such approaches by comparing them to approach within the concept of institutional isomorphism, proposed by DiMaggio and Powell, in an institutionalist paradigm. Several gaps were identified in the theories of capital structure and that could cause future studies under an institutional perspective.

Introduction

A number of studies on capital structure seek to explain how companies finance their assets. The aim of most of these studies is to seek a decision-making model that better explains the composition of the capital structure of enterprises. We observed that most of the research in this area is under a modern positivist perspective. In other words, the bulk of studies seeks a relationship of cause and effect between the level and composition of financing companies and various observable and measurable quantitatively. In recent years recognized the importance of analyzing behavioral aspects related to the decision-making process of agents, this area of study, which is conventionally called behavioral finance. However, even the field of behavioral finance has focused on decisions in individual scope. There is a lot of research on the topic who seek an explanation within other paradigms to consider social relations in detriment to the individual decision-making process. That is, studies on the subject, assume to be complete independence of decision makers in relation to the social environment in which they are inserted, as if decision-makers had full autonomy to make decisions more rational settled as logical models that can be measured and modeled mathematically.

Research Problem, Objectives and Plan

This article proposes to present a critical analysis of the ability of these positivist studies. If this paradigm has been full in order to explain the decision-making processes regarding the capital structure of companies, particularly publicly traded companies. Alternatively, we propose the introduction of concepts of institutionalism theory, more precisely the concept of isomorphism proposed by DiMaggio and Powell (1983) as a new way to search for contribution of knowledge on the topic. This article is divided into four sessions. The first introduces the topic. The second presents a brief theoretical referential about isomorphism. The third deals with the main theories about capital structure. The fourth

presents gaps in theories of capital structure that could be studied in the light of institutional isomorphism and concludes.

Literature review

Institutional Isomorphism

According to a survey of Bowring (2009), most of the quotes about institutional isomorphism from the article of DiMaggio and Powell (1983). For these authors the organizations tend to become increasingly similar as the bureaucratization and the strengthening of organizational fields intensifies. This matching process towards a homogenization of organizational characteristics related to their processes, DiMaggio and Powell attributed the concept of institutional isomorphism.

The isomorphism would go against what should be expected of a capitalist economy of increasingly efficient market where the bureaucracy would have a crucial role to resolve the ambiguities and how control of processes and people. At least that would be the principles defended by Weber (1968) cited by DiMaggio and Powell (1983). For the authors, despite the fact that several studies seek to explain and understand the diversity of organizations, these tend to be homogeneous as its fields of work become well established. There are some hypotheses that might explain this trend of homogenization that will be discussed below. According to DiMaggio and Powell (1983), there would be three processes of isomorphism. The coercive isomorphism, Mimetic and normative. Each engine had its own background.

Coercive isomorphism: the coercive isomorphism may result in formal or informal processes of pressure exercised by other organizations to join or organize in collusion or act as orders or determinations of which depend on. It is common also coercive isomorphism being exercised through governmental pressures, whether through the requirement of licenses, certificates, or the requirement for contracting of certain professionals in regulated professions, such as accountants, pharmacists, doctors, engineers, etc. (DIMAGGIO; POWELL, 1983).

The coercive isomorphism can still be exercised by the monopoly group's pressure the dependent undertakings such as suppliers and customers, organizations that are forced to adapt to the processes and requirements imposed by dominant companies so that they are able to sell or buy these companies Mistresses (SEW et al., 1982 apud DIMAGGIO; POWELL, 1983)

Mimetic isomorphism: organizations when encountering uncertainties and dubious goals, adopt isomorphic patterns with respect to its processes with the goal to reduce such uncertainty. The uncertainties would thus be reduced to imitate other organizations consciously or unconsciously. In other words, organizations would imitate the models of processes and management of the other to reduce uncertainties and ambiguities. This process of imitation would by turnover of professionals and labor camps between organizations and especially by the strength of cycles of these professional fields. (ALCHIAN, 1950; DIMAGGIO; POWELL, 1983).

Normative isomorphism: A third force of isomorphic change is in the professional field, which DiMaggio and Powell (1981) refer to regulatory pressures. Perrow (1974) considers that professionals within the same organization may present major differences in profile compared to other professionals in the same organization than in relation to colleagues from the same profession from other organizations. For example, an accountant who works in a particular organization must submit a profile more akin to other counters who work in other organizations than in relation to an engineer who works in the same organization.

Another source of normative isomorphism is given through the selection of personnel according to DiMaggio and Powell (1981) companies choose to hire professionals of high

performance of the same category and of the same industry, which in itself guarantees a great homogenization among professionals. Generally the higher the hierarchical level narrower organizational field is and the greater the isomorphic process in relation to the profile of these professionals, suggesting that the professionals who are at the top of the hierarchical pyramid are virtually indistinguishable.

Uniformity of professional fields would be a factor to support the process of institutional isomorphism. Soon, are the professional conduct that would be behind the organizational processes?

Tutors of organizational changes: DiMaggio and Powell (1983) conclude that the isomorphism of organizations could then be observed empirically. To these authors would be possible to predict the fields more homogeneous in terms of organizational structure, processes and behavior. A series of hypotheses is suggested as being predictive of isomorphic fields in organizations. Such assumptions relate to the size, technology and the use of external resources. However, the authors did not test them empirically.

Implications of isomorphism for organizational research.

Implications of isomorphism for organizational research: institutional isomorphism theory has contributed to the organizational Sciences in order to provide and expand a broader view of the power relations within organizations and how organizational similarities can be important for understanding the role of innovation processes and economic relations between organizations and their respective fields.

Beckert (2010) makes a critical article of DiMaggio and Powell (1983) in relation to predictive forces targeting isomorphism that point only towards homogenization. Beckert argues that some studies show a tendency of heterogenization and homogenization simultaneously defended by DiMaggio and Powell, this process according with the globalization of the economy, observed in recent years. Soon, academics should handle models that provide for both the isomorphism as the opposite effect that the same forces can cause.

“..Strong exogenous powers, perceived functional or normative attraction of institutional models,

Cognitive and normative congruencies among institutional entrepreneurs across national boundaries, the legitimation of institutional models among stakeholders, and direct competitive pressures in undifferentiated markets are conditions favorable to institutional homogenization. On the other side, the prevalence of powerful defenders of indigenous institutional rules, incongruent cognitive and normative frames of actors in different national settings, institutional complementarities, the interest of power holders in institutional differences, the lack of legitimacy for specific institutional models and sector-specific demands, as well as differentiated products and the structural autonomy of firms are conditions favorable to divergence. (BECKERT, 2010)”

Academic research and empirical findings.

In Brazil, Caldas and Fachin (2005) claim to be a major gap in relation to the debate in the years 1980 and 1990 functionalist. Contrary to what happened in other countries, here the undergraduate and postgraduate taught a functionalism outdated, more pre contingentalist. The books on "Administration theory" ignore any further development to structuralism or systemic contingentism the end of the Decade of 1970.

In Brazil took place discussions related to deterministic models versus voluntarism models, with clear bias deterministic models related to adaptation and selection of the institutions in relation to the external environment. Also important was the debate between rational models and regulatory models – institutional debate the concept of organizations *versus* institutions.

An interesting point about what has been discussed in recent years about institutional theories lies in the theory of Agency. The theory of Agency would be closer to the neo institutionalisms theories by proposing a model more distant from determinist extremes for intermediate positions. Also the concept of isomorphism, with proposed in the work of DiMaggio and Powell, could be considered as being one of the main foundations of the neo institutionalism to differentiate contingentism chains and its administrative branches. The isomorphism would go beyond simple difference in vision of organizational action in relation to the environment. Soon, the institutionalism can still represent a wide range of potential research in Brazil for two reasons:

The first, as a platform to broaden the theoretical knowledge of the field, in the international scientific breakthrough of this theoretical line; the second, perhaps more realistic in the case of Brazil, is the use of institutional theory as a vehicle for understanding social phenomena liable of institutionalization.

For Caldas and Fachin (2005) the second reason would be the most promising, since the institutionalism might be used to fill gaps where models would have less rationalist explanatory power. So, has used the Mimetic isomorphism to understand the most diverse organizational elements, ranging from the management fads to scientific theories and models between organizational fields. In addition, the coercive isomorphism has been used to understand the institutionalization of models ranging from the bureaucratization of various fields such as the adoption of quality programs and in the implementation of sustainability programs, professionalization of family businesses and of third sector organizations, in the case of normative isomorphism as theoretical basis.

Until the publication of the work of DiMaggio and Powell 1983 most articles and research in organizational theories were focused on studying internal aspects of organizations, without worrying about your external interactions (MIZRUCHI; FEIN, 1999).

After the publication of this article, several surveys were carried out as the aim to ascertain organizational phenomena in various isomorphic forces.

Connolly et al. (2009) have assessed if public-private partnerships (PPP) could be explained in the light of isomorphism. The authors proved to be coercive and Mimetic isomorphism exists in the case of PPP's held in Ireland. In this case, it was proven a strong tendency to adopt the policy of use of PPP's even in situations where the return of the amount invested to taxpayers would not be advantageous. Institutional forces of homogenization would explain such pressures, once politically, the PPP's were regarded as effective solutions while government modernization tools. In the case of Northern Ireland, the authors observed the presence of coercive isomorphism and the Republic of Ireland; it was observed the Mimetic isomorphism as being prevalent in public-private partnerships.

Freitas Guimarães (2007) proved-through empirical research for documental analysis of the operational processes of the Tribunal de Contas da União (TCU) Brazil-be relationship between legitimacy and institutionalization in a context of isomorphism. In the Brazilian case, found that the isomorphism would have a character of legitimizing the audit processes of this organ. However, the authors highlight that legitimacy would be cognitive, getting the moral legitimacy of the process in a background.

In the field of business strategies, strike (1998) the concept of managerial cognition research in relation to strategic market positioning. The reason of the study would be the fact information pertaining to future and likely market movements in relation to competition, customers and suppliers submit great complexity for measurements and research. Managers tend to develop mental models in order to combine industries in groups called *clusters*, in order to facilitate such analyses and reduce the degree of uncertainty in the decision-making process. Organizations to abandon a market position which are generally adopt a position of other groups of references instead of creating their own and new placements. This process of

imitation takes place by a process of mimetic isomorphism between groups of a same cluster or industry. The author found inverse correlation between degree of information and intensity of mimicry among companies. That is, the less accurate and available are the information, the higher the level of uncertainty on the part of the agents and the greater the likelihood of following companies in the same sector. Such mimicry would imply a greater degree of mimetic isomorphism, as proposed by DiMaggio and Powell (1983).

The Mimetic contagion occurs at a time when companies in the figure of their agents, evaluate strategies adopted by other organizations as successful and use them with the premise that also will obtain the same success without rationalizing the costs and benefits of imitation itself. This fact was found in empirical studies proposed by the same author.

In other research on changes motivated by isomorphic changes, Charlop (2009) through surveys on the changes in NYSE (New York Stock Exchange) between the years 2000 and 2007, sought to examine whether changes might be explained in the context of mimetic isomorphism, normative and coercive. This research was supported the thesis that changes on the NYSE would have strong isomorphic causes, primarily related to changes in the technological platform, hiring professionals, regulation and mergers and acquisitions. To the author, there would be signs clear institutional isomorphism predictors. See also Kock (2005).

Capital structure

Static trade-off Theory

After the articles of Modigliani and Miller (1958, 1963) and Miller (1977) a theoretical current began to emerge, whose main argument was the chance of static balance between debt and equity so that the company reached an equilibrium point. From that putting the equilibrium marginal gains arising from the increase of indebtedness would be negative. And what would such gains provided by more debt if MM has proven that there is no difference in how the company finances its assets to the value of the company? While MM claim that, the capital structure does not change the value of the company these same authors confirmed there are market imperfections that imply relaxations of his theory. These relaxations would be taxes and the risks of financial difficulties of companies.

The tax benefits of debt imply on deduction from taxable profit of the companies. Soon, the higher the debt, the greater the financial costs and consequently lower income taxes. This unpaid tax would automatically appropriate for shareholder in what could be considered an "asset" in fiscal terms. Soon, two companies could have different values. A company with a level of indebtedness may present a greater market value by valuing the future gains arising out of tax benefits that level of debt. In addition, contrary to what envisages Modigliani and Miller (1958) shareholders are not able to reproduce that tax relief tax, if opt into debt domestically, they will not have the benefit of this debt tax on dividends earned from a company that had no debt.

Financial distress costs would be the costs arising from excessive and indebtedness, ranging from legal costs of a possible bankruptcy, Concordat or simple renegotiation with creditors the indirect costs as sales fall and result due to loss of reputation of the company in terms of market rumors.

Second Myers (1984) the theory "trade-off" seeks to find a balance that seeks to maximize the value of the company considering a relationship of choice and waives between equity and third party capital.

Since then the trade-off theory has been studied as a robust theory about capital structure since this theory is based on rationality of managers. The TOT assumes that managers seek to maximize the value of the company to determine an optimal capital

structure, which aims mainly to balance costs of financial, difficulties (financial distress) and tax benefits of debt (tax shields). Soon the great structure of capital would be given as a function of costs and benefits resulting from indebtedness. Leland (1998) defines the trade-off theory as the company's effort to achieve an optimal capital structure resulting from the tax benefits of debt and low costs of bankruptcy. This way the shareholders aim to maximize their wealth at the expense of minimization of earnings of creditors (debt holders) and the Government. In his research, Leland proposed a theoretical model whose simulation examined the relationship between capital structure and investment risk.

Pecking Order Theory

Myers (1984) noted that companies in the same sector tend to have certain level of similarity of capital structure, however there was still according this author an empirically robust model to explain the capital structure of companies regardless of the sector of activity and based on endogenous factors, which could be extrapolated as a theoretic model on capital structure. According to this author, the theories so far, notably the trade-off theory did not present such empirical robustness and power of generalization.

The trade-off theory left important gaps to be answered, particularly regarding the question of underleverage, informational asymmetry and agency costs, which notably showed impact funding decisions undertakings. On the basis of such gaps, Myers (1984) and Myers and Majluf (1984) propose the bases of what came to be called pecking order theory (theory of the hierarchy of factors) which will be hereinafter as pecking order. Such a theory has some fundamental assumptions based on empirical evidence as the fact companies opt for internal resources as the first source of funding and that companies tend to prioritize capital safer sources by finance, obeying a hierarchy of factors namely: Funds generated internally (retained earnings); Issuance of debt and other obligations; Foreign issuance of new shares.

According to the pecking order, companies do not present a great capital structure as defends the trade-off theory, since the count on internal sources of funding as a priority; the company would be abdicating possible tax benefits of debt. Soon, the issue of level of indebtedness would be resulting from conditions of profitability and availability in the company box, which on certain occasions, it could be said that the conditions for the determination of capital structure would be more than endogenous exogenous as predicts the trade-off theory.

The pecking order model explains important issues such as the relationship between indebtedness and negative profitability, seen in several empirical studies. This relationship is easily explained because a high profitability promotes greater cash generation through retained earnings that would promote the behavior expected by the pecking order for companies to prioritize this source of funding. However, the reason why managers choose safer capital sources and not always less expensive is the first question to be answered by this theory.

According to Myers (1984), the question of informational asymmetry and the value of the cash reserves would be the main motivating the choices established by the pecking order model.

Informational asymmetry explains the fact companies relegate the issuance of shares as last option of financing. The managers because they know that the market does not offer the same level of information that these regarding their companies avoid issuing shares for consider that the market will undervalue them to compensate for such informational lag what is known in economics as costs of adverse selection. Several empirical studies reporting this understatement after announcements of stock emissions. Harris and Raviv (1991) corroborate the main considerations about the informational asymmetry, because they consider that the reactions in stock price due to the degree of asymmetry interferes directly in the level of

financial leverage and that's why companies tend to follow a hierarchy of factors for its assets. According to Moore (1993) the retained earnings would be effective to reduce costs of adverse selection to seek external sources of capital at times of high informational asymmetry.

Myers (1984) explains the issue of cash reserve or financial gap. Cash is as a valuable asset in performance unfavorable operating situations. Lenders feel more comfortable to lend resources to companies with better liquidity situation and good cash reserves. This financial clearance offers two advantages: companies can capture debts under better conditions; and in these situations fall performance, companies with better liquidity level would also have its stock price less affected, which would be an advantage not possible in the case of the use of issuance of new shares as a source of funding.

More recent empirical studies corroborate the pecking order model. Shyam-Saal and Myers (1999) concluded empirically that American companies finance their assets heavily with internal funds and issuing debt at the expense of external emissions capital (shares). Lemmon and Zender (2010) also claim by means of empirical findings that the POT is the more robust theory to explain the structuring of corporate capital. By studying the pecking order model under the optics of credit constraints and the heterogeneity of the characteristics of the company, the author concludes that the fact that smaller companies with rapid growth and opt for external actions to the detriment of issuance the issuance of debt is due more credit restrictions. These companies rely on high decreases in stock prices after announcement of emissions, which is consistent with the question of informational asymmetry and adverse selection costs, Fundamentals of pecking order.

Market Timing

Korajczyk et al. (1990) had already established that prior to the launch of new actions, most notably in initial public offerings (IPO), the stock price tend to have abnormal high. These authors found no correlation between levels of indebtedness and the launching of actions, which can be concluded to be the need for new investments and not to reduce the levels of leverage the main motivation for the completion of the IPO. Korajczk et al. In addition, reported high rates of market relative to the book value of the companies prior to the IPO and that such content tends to fall after issue.

Ritter (1991) evaluated the behavior of the stock return in terms of prices in different moments, from the time of the IPO until moments later. Ritter notes that companies tend to issue stock through initial public offerings in high moments in their sectors of activity. At these moments the investors tend to over-identification with the future performance of these companies what causes these investors, pay a price considered "abnormal" in relation to expected fundamentals. This hypothesis was tested and confirmed by the authors to observe empirically that after the IPO the returns of these actions before overrated tend to fall consistently over time. Such a finding would represent a window of opportunity for these companies, because they would be getting resources to a lower cost of capital than the other possible sources.

The main impact of findings of Ritter (1991) is that this phenomenon contradicts directly the pecking order theory that predicts that the market will tend to underestimate emissions of equity since such undervaluation would be a way for investors to offset the costs of adverse selection stemming from possible levels of informational asymmetry on the market between managers and investors.

Loughran and Ritter (1995) reported significant performance differences between companies in a given period (between 1970 and 1990) and issuing companies during the same period. The idea was to buy stock price performance and their respective returns for shareholders of these two samples. The companies presented a significantly below income

compared to undertakings not broadcasters. To show a dimension of under-performance noted, investors would acquire stocks of companies that held IPO would have to shell out 40% more compared to companies during this period so that their returns were assimilated.

Loughran and Ritter (1995) also concluded that the performance related to IPO's differs over time. Companies that issued shares in warm periods, i.e. in periods where there is large number of observed emissions presented under-performance taller than their counterparts who issued in cold periods, i.e. in periods where low volume emission was observed. It manages, according to Ritter and Loughran (1995) that such heated periods represent moments of timely so that businesses can capitalize via external emissions at lower cost than at other times. The authors also reported having strong inverse correlation between the Q of Tobin and the level of performance loss after IPO.

Based on the findings of Ritter (1991), Ritter, and Loughran (1995) it can be concluded that companies appear to be a desirable behavior to determine the ideal time to issue shares, what in the jargon and in American literature is called "market timing". This market timing occurs in periods where there are certain market imperfections. Such market imperfections had not yet been interpreted as being necessarily a result of informational asymmetry.

Following the precept that the capital emission would be depreciated for cheaper sources of capital due to high costs imposed by the devaluation of shares after announcement due to a matter of adverse selection as stated by Myers and Majluf (1984). Bayless and Chaplinsk (1996) found through empirical study be a window of opportunity offered by heated moments of market where considerable increase in the number of emissions. These heated moments would have consistent fall in costs of adverse selection to seasonal emissions of shares due to the decrease in the level of informational asymmetry. These findings do not violate the pecking order since the window of opportunity would do in specific moments of low informational asymmetry.

Hovakimian, Opier, and Titman (2001) concluded that the stock price seems to be an important determinant in the level of indebtedness of companies. When the stock price is, low companies can repurchase shares causing the leverage level increase. This behavior was checked exclusively in the case of repurchases and not for new issues, namely, the low stock price must directly affect the behavior of repurchases more than the behavior of new issues. Recent empirical study of caves and Haan (2011) shows that emissions of actions seem to follow a pro-cyclical behaviour in relation to macroeconomic performance.

From the fact that the market presents these deficiencies, Baker and Wurgler (2000) imply that decisions about the capital structure of companies will suffer direct influence of these market inefficiencies. The authors raise the hypothesis that financing decisions undertakings may be a consequence of efforts to determine the timing of market and thus provide capititation of own resources at a lower cost than other sources. This theoretical model the authors termed equity market timing.

Ananalysis and Conclusions.

In the context of corporate finance, we propose two models for the analysis of organizational behavior. In a first model, we have actors who make decisions as individuals who were always looking for basement of their decisions through calculations of costs and benefits for the various alternatives, choosing the one that best maximizes the usefulness of these agents or of which they represent as managers making decisions on behalf of shareholders. (HECHTER, 1990). In a second model, the agents would take decisions based on criteria and motivations not always rational.

According to the first assumption, agents would be always rational in their decisions. Some time ago has been questioned the rationality of agents in the decision-making process related to everyday financial dilemmas. One of the fields of knowledge that has contributed in relation to such questions are the so-called behavioral finance.

The research of Kahneman and Tversky that resulted in a Nobel Prize in economics in 2002 can be regarded as a watershed in relation to recognition of behavioral sciences – such as psychology and anthropology – for its utility and application in the field of Economics and finance.

According to Kahneman (2003) economists tend to criticize the researches in psychology for generate a series of errors and behavioral biases that compromise-economic models where one assumes as main hypothesis, the rationality of economic agents.

The heuristics are explained in a model proposed by Kahneman and Shane Frederick (2002) whose main ideas are: most trials and most choices are made intuitively; the rules that govern the intuition usually are similar to the rules of perception. The discussion on judgments and choices will reside extensively in Visual analogies.

The heuristic model, according to these same authors, are commonly observed in situations of uncertainty that usually involve decisions and judgments related to pricing perceptions, quantitative dimensions, variations, frequencies, probabilities and Visual interpretations.

Second Conlisk (1996), there are several studies in which ordinary individuals are subjected to decisions involving correct results and objectives, according to which economists define as problems relating to economic agents. Moreover, the question they ask is: These individuals, regardless of their knowledge and alleged rationality play satisfactorily in these tests. The answer is no.

Conlisk (1996) concludes that only the complete rationality would be able to ensure total accuracy in the choice and judgment of economic dilemmas, however the rationality is limited to restrictive conditions such as cost of deliberation, time, complexity, incentives, and experience and market discipline. Soon, the heuristics would play an important role in simplifying a complex reality, which would require efforts and restrictive conditions to market reality and all its limitations.

Here we propose two different looks on the decision-making model of agents. Let us now enter a third look. This third would under an optical based institutional theory. Therefore, we would have three conceptual dimensions, which would enable us to consider the following types of decision purely rational Decisions; Decisions cognitively biased and its heuristics; Institutional acceptance decisions predictors of isomorphic changes.

The institutionalization would cause the agents acted in order to follow social norms accepted without any questions in relation to their personal interests. As with Tolbert and Zucker (1999), we propose an analysis in the middle ground between these three models conceptually opposites. I.e. why decision-makers could be hanging for the rational question, why would they be hanging for the behavioral biases and prays for the issue of socialization or institutionalization. Being perfectly possible actions that represent intermediate paths.

The focus on institutional issue as proposed by isomorphic DiMaggio and Powell, the next step would be to identify some loopholes that could be exploited by institutional theories to determine the following research methodologies that should be proposed in order to study the gaps identified in this paper. What methodologies would be feasible of being employed by researchers and academics who would contribute with theories of capital structure?

For easy viewing of the predictive hypotheses of isomorphic changes proposed by DiMaggio and Powell (1983), compiled in table 2.

Basically we can conclude that the main capital structure theories seek to explain how managers make decisions regarding capital structure which best maximizes the value of the

company to the shareholder or the structure that best maximizes the value of the managers' own well-being, a clear conflict of Agency between managers and shareholders.

Maybe there are important gaps about these theories that could count on the institutional paradigm as a third way between the interests of shareholders and the interests of the managers. Under an institutionalism approach, managers do not act with conscious intent to maximize your well-being and as a form of social legitimation of their attitudes here reflected in their decisions. Soon, isomorphism mechanisms would be behind some decisions not explained by individual level analyses, i.e. considering the interests of agents as being disconnected from an institutional context.

An important gap not explained by the theories presented here would be in knowing the real reasons why the managers seem to act the same way when you study the capital structure of many different industries and concluded that such industries or sectors, boast strong degree of homogeneity between the companies of which they are composed. (GUPTA, 1969). Such similarity is a result of similar environmental conditions that such enterprises face or is a consequence of isomorphic behaviors, whether for reasons of coercive or even normative, Mimetic?

Table 1 – predictive Hypotheses of isomorphic changes

Event-1	"The higher the degree of dependence of an organization in relation to another, she will become more similar to this organization in terms of structure, environment and behavioral focus."
Event-2	"The more centralized supply of resources to the Organization, the greater the possibility for the Organization to become an isomorphic manner to resemble organizations whose resources depends."
Event-3	"The more uncertain the relationship between means and ends, the greater the likelihood of the Organization shaping up in other organizations it deems successful."
Event-4	"The more ambiguous the goals of an organization, the greater the degree to which this will shape the other organizations it deems successful."
Event-5	"The greater the confidence in academic credentials for the managerial personnel and functional choice, the greater the degree to which the Organization will become more similar to other of your field."
Event-6	"The greater the participation of organizational managers in trade and professional associations, the greater the likelihood of the Organization be, or become, similar to other organizations in its field."
Chance B-1	"The more an organizational field relies on a single source (or more sources, but similar) for the supply of vital resources, the greater the level of isomorphism."
Chance B-2	"As more organizations in a field interact with government agencies, the greater the degree of isomorphism in the field as a whole."
Chance B-3	"The smaller the number of visible alternatives of organizational models in a field, the higher the rate of isomorphism in this field."
Chance B-4	"The more uncertain or ambiguous technologies are the targets of a field, the higher the rate of change isomorphic."
Chance B-5	"The higher the degree of professionalisation of a field, the greater the amount of changes institutional isomorphic."
Chance B-6	"The higher the degree of structuring of a field, the greater the degree of isomorphism."

Source: DiMaggio and Powell (1983).

To support the degree of similarity in an econometric perspective, there are several studies researching the influence of independent variables that indicate some characteristics of these companies in relation to their level of indebtedness. The variables grouped in constructs: size, tangibility and profitability show that industries where companies have high tangibility and greater size of its assets with greater ease to be in debt for presenting may level of real guarantees. Companies with high leverage tend to have a lesser degree of indebtedness by presenting larger availabilities of the box that would corroborate the model of *pecking order*. In these cases, is the question of whether managers would be acting influenced by institutional forces or by pure analytical rationality from the knowledge of such theories? Namely, a financial planner would do an analysis of the characteristics of the industry to which your company would be subjected and so take the best decisions, which were in the interests of the shareholders or their own managers. In relation to the hypothesis raised by DiMaggio and Powell (1983), we observe that the hypothesis B-1 – see table 1 – could be tested in future studies to ascertain the presence of isomorphic forces. Once companies from the same industry can fully depend on the same sources of vital resources.

Some interesting findings researched by Mizruchi and Stearns (1994) and previously recorded by Jensen and Meckling (1976) show that companies that received funds from third parties in the past tend to keep indebtedness with the same intensity in the future regardless of the economic environment changes that will occur and regardless of industry to which they belong. What couldn't be explained considering the rationality of managers or even cognitive biases currently studied in the field of behavioral finance? Such behavior could be an indication of mimetic and normative isomorphism to be studied in the future. Some predictive hypotheses proposed by DiMaggio and Powell (1983) could be tested, as the odds: B-5 and B-6 shown in table 2.

Another point to be discussed regarding the degree of similarity in relation to the level of indebtedness of companies from the same economic sector or with similar structural characteristics would be the review of the methodology of analysis. Generally, the study of capital structure using multiple linear regressions in *cross section* or Panel. What is observed is that the degree of explanation measured by R square regression models cannot explain the almost totality of empirically cases observed, leaving a series of noise and spurious variables in these models that could be better understood through qualitative studies and why not, in an institutional context.

A question that intrigues us is the fact that some studies (Mizruchi, 1982; Haunschild; Miner, 1997; Villadsen, 2010; Villadsen; Hansen, 2011) indicate the influence of the profile of the Board of Directors of companies such as determinant in the level of external indebtedness. Companies whose directors have done initially career in banking or that its top executives have training or origin of the financial area have a higher level of indebtedness with financial institutions. Once again, you need to search in the future if such fact is due to the higher level and access to information in this professional profile that ultimately influence the greater use of a larger debt, which would check the *tradeoff theory* or if there would be reasons of professional field related normative isomorphism as DiMaggio and Powell (see table 2, hypotheses-5,-6 and B-5).

The institutional isomorphism could also contribute to clarify some dilemmas not answered as they confront the theories of *equity market timing* and the *pecking order*. The main point of convergence of these two theories is given in the question of informational asymmetry. According to Baker and Wurgler (2002), the managers take advantage of the degree of informational asymmetry in relation to the market for issuing shares at times when the market assesses the company for not stopping at the same level of information that the market offers. Which leads us to interpret right opportunism where the ingenuity of the market on investors' figure would be rationally and intentionally exploited by managers of

companies with consent of the former shareholders. This fact was proven empirically in various studies, as explained earlier in this article. However, these results in relation to the informational asymmetry are going in the opposite direction to look at the model of the *pecking order*. The *pecking order*, the managers would do the opposite, would issue shares in any situation by having the assumption that the market will always wrong to assess an alleged issuance of capital because investors starting from principle that the company always be worth less than the managers do they think she is worth, by these possess insider information. Acting so investors would be protecting yourself from a possible market opportunism defended by *equity market timing*. Future studies in the light of institutionalism might clarify the reasons of these market movements that strongly influence firms' capital structure, as suggested by Alti (2006) by studying such movements during "hot" and "cold". In the case of *market timing*, such studies should propose to understand if the movements of euphoria that always repeats in IPO's and that always lead investors to submit repetitive sub performances after the acquisition of these assets. Such behaviors could have as source behavior odorant receptors belong. On the other hand, is it sheer naive, assuming that the market is not efficient and investors would always in the same direction? Here we define a clear hypothesis in relation to predictive isomorphic change forces according to DiMaggio and Powell. Other hypotheses related to isomorphic Mimetic forces could be designed.

According to our surveys, little has been studied in relation to the domination that certain undertakings engaged in a cost-effective manner, policy or resource dependency on the other. It is known that in some sectors, large corporations make a series of demands in terms of certificates, licenses and accounting parameters for those small suppliers if they want to enable the work to these large corporations. Among the requirements and accounting parameters required for debt levels that small businesses must present to enable to provide the large groups, which would demonstrate a clear indication of isomorphic cognitive forces (hypotheses-1 and A-2, table 2).

We conclude questioning why not employ institutional theories in the field of finance theories in greater depth than has been done so far. Maybe fit there some criticism to the institutionalism paradigm itself. We here in the deepening in these reviews. We propose only questioning if the methodological procedures are robust enough to handle gaps raised. According to Davies and Powell (1992) and DiMaggio (1991) cited in Tolbert and Zucker (1999) has given little attention to issue of variables and quality of the methodology of studies based on institutionalism paradigm. Institutional theory has not yet managed to develop a robust methodology to standardize research methods and variables. The authors have used case studies and longitudinal models of various types. Studies on institutionalization until that moment fret in answering whether the given phenomenon or not institutionalized. Little attention was given to the variables defining the degree of institutionalization, i.e. which variables should be considered and what degree of homogenization between sets of organizations. (ZUCKER, 1977; TOLBERT; ZUCKER, 1999).

Despite the diverse possibilities of research in theory of finance and more specifically in the theory of capital structure can be developed under an institutionalism paradigm, still a lot we have to study and discuss research methodologies would be most appropriate in order to promote new visions that effectively can make space in front of academics and scholars of finance for so long conditioned to work on some paradigmatic approaches already established.

References.

1. ALCHIAN, a. Uncertainty; evolution, and economic theory. *Journal of Political Economy*, 58: 211-21, 1950.
2. BAKER, M; WURGLER, j. (2002). Market timing and capital structure. *Journal of Finance*, 57 (1): 1-32.
3. BECKERT j. Institutional Isomorphism Revisited: Convergence and Divergence in Institutional Change. *American Sociological Association*, 2-28. 2010.
4. BOWRING, m. a./Constructing Theory: A Look at the Institutional Theory that Positivism Built-in. *Journal of Management Inquiry*. 9, 3, 258-70. 2000.
5. CONLISK, John. Why bounded rationality? *Journal of economic literature*. Vol. XXXIV, June 1996, p. 669-700.
6. DiMAGGIO, P; POWELL, W. The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. IN: POWELL, W.; DiMAGGIO, P.J. (ed.) *The new institutionalism in organizational analysis*. Chicago: University of Chicago Press, 63-82, 1991.
7. FREITAS, Carlos Alberto Sampaio; GHOSH, Thomas Aquinas. Isomorphism, institutionalization and legitimacy: operational auditing at the court of auditors. *BAR, Braz. adm. Rev.*, Curitiba, v. 4, n. 1, Apr. 2007.
8. GREVE, h. r. Managerial cognition and the mimetic adoption of market positions: what you see is what you do. *Strat. Mgmt. J.*, 19: 967-988, 1998.
9. GUPTA, Manak C. The effect of size, growth, and industry on the financial structure of manufacturing companies. *Journal of finance*, 24: 517-529, 1969.
10. HARRIS, Milton; RAVIV, Arthur. The theory of capital structure. *The Journal of finance*, 1991
11. HAUNSCHILD, P. R; MINER, a. s. Modes of interorganizational imitation: The effects of salience and uncertainty. *Admin. Sci. Quart.* 42, 472-500, 1997.
12. HUANG, R; J. RITTER, Testing theories of capital structure and estimating the speed of adjustment. *Journal of Financial and Quantitative Analysis*, 44, 237-271. 2009.
13. JENSEN, Michael c. Agency costs of free cash flow. *Corporate finance and takeovers*. 1986.
14. KAHNEMAN, Daniel. Maps of bounded rationality: psychology for behavioral economics. *American Economic Review*, v. 93, n. 5, p. 1449-75, Dec. 2003.
15. KOCK, Carl Joachim. When the Market: Stock Prices, Misleads Firm Behavior, and Industry Evolution. *Organization Science*; Nov/Dec 2005; 16, 6. PG. 637.
16. LOUGHRAN, Tim; RITTER, Jay R. The New Issues Puzzle. *The Journal of Finance*, 1995.
17. MIZRUCHI, Mark S; FEIN, Lisa C. The social construction of organizational knowledge: A study of the use of coercive, mimetic. *Administrative Science Quarterly*; Dec 1999; 44, 4.

18. MYERS, Stewart C; MAJLUF, Nicholas s. *Corporate financing and investment decisions when frms have information that investors do not have*. *Journal of Financial Economics*, 1984.
19. MODIGLIANI, Franco; MILLER, Merton h. Corporate income taxes and the cost of capital: A correction. *The American Economic Review*, 1958.
20. MODIGLIANI, Franco; MILLER, Merton H. The cost of capital, corporation finance and the theory of investment. *The American Review*, 1961.
21. PERROW, C. Is business really changing? *Organizational dynamics* 2. summer, p. 31-44, 1974.
22. RITTER, Jay R. The long-run performance of initial public offerings. *The Journal of Finance*, 1991.
23. TUTTLE, Brad; DILLARD, Jesse. Beyond Competition: Institutional Isomorphism in U.S. Accounting Research. *Accounting Horizons*. Vol. 21, no. 4. December 2007. pp. 387-409.
24. VILLADSEN, Anders r. Structural embeddedness of political top executives the explanation of policy isomorphism. *Journal of Public Administration Research and Theory*. JPART 21: 573-599. 2011.
25. Anders VILLADSEN R; HANSEN, Jesper Rosenberg; MOLS, Niels Peter. When the Public Managers Imitate Each Other? Mimetic Decision Making in Contracting Decisions of Danish Municipalities. *Public Organise Your Rev* (2010) 10: 357-376.