Adapting to New Institutional Logics:  
The Response of Spanish Firms to Market 
Deregulation in the Post-Franco Era

Amalia Magan Diaz  
University of Almeria  
amagan@ual.es

Royston Greenwood  
3-23 School of Business  
University of Alberta  
royston.greenwood@ualberta.ca

Stan Li  
York University  
sxli@schulich.yorku.ca

José Céspedes Lorente  
University of Almeria  
jlorente@ual.es
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ABSTRACT

Institutional logics guide social action. Research has examined outcomes of logics, including organizational strategies and structures, and demonstrated they are historically contingent. Less is known about the responses of organizations when logics change. Currently, the imagery is of organizations responding uniformly. Yet, a uniform response is unlikely. We examine how Spanish manufacturing firms respond to the liberalization of labor practices following the death of Franco in 1975. We show how moments of transition create opportunities for previously repressed logics to resurface and raise the importance of community as a missing dimension within institutional accounts of organizational fields.

KEY WORDS: Institutional change; logics/models of action; adaptation/strategic change
Institutional logics are increasingly recognized as critical because they provide the ‘master principles of society’ and set parameters for institutionalized behavior (Haveman & Rao, 1997: 1614). Logics are taken-for-granted, resilient social prescriptions that enable actors to make sense of their situation. They ‘constitute a set of assumptions and values, usually implicit, about how to interpret organizational reality, what constitutes appropriate behaviour, and how to succeed’ (Thornton, 2004: 70). Organizational forms and practices are manifestations of institutional logics. Thus to understand how and why new forms and practices emerge it is important to uncover the processes and consequences of change in institutional logics.

Considerable research has documented how organizational forms and practices are contingent upon dominant institutional logics (e.g. Galvin, 2002; Thornton, 2002). Yet, we know relatively little about how organizations respond to changes in logics. The prevailing imagery is that when a logic is displaced organizations within a given context align themselves appropriately and in the same manner. However, it is more reasonable to anticipate there will be variations in responses because new logics are frequently ambiguous and contested and typically overlaid upon old logics (Galvin, 2002; Hoffman, 1999; Lounsbury, 2007). Shifts in logics are thus unlikely to elicit a uniform response. This paper seeks to understand how and why organizations respond differently to shifts in logics.

We draw upon two perspectives that offer complementary explanations. The first perspective, adaptation theory, anticipates that organizations will be motivated to adopt a new logic if that logic offers opportunities for performance improvement. The motivation to change, according to this theory, is essentially a functional one. However, adaptation theory recognizes that organizational attributes may make change problematical. Larger and older organizations are less responsive because, for them, the need for change is often unseen and the process of change more
difficult to manage. Organizations with recent experience of change, on the other hand, find change easier to accomplish.

The second perspective, institutional theory, suggests that organizations are not ‘empty vessels’ awaiting and responding to contingent circumstances (Campbell, 2004). Instead, organizational routines encode the ideas and values of existing institutional logics. However, organizations vary in the extent to which encoded values are tightly connected to the values of critical constituencies who control the organization. Further, organizational adaptation is not a straightforward matter of acceptance or rejection of an ascendant logic. During moments of transition, previously suppressed or nascent logics may surface, complicating organizational responses. The relationship between ascendant and secondary logics is also consequential. To the extent that secondary logics are tolerated rather than suppressed by an ascendant logic, there will be greater variation on organizational practices.

Our research context is set in Spain. It concerns the opening of a formerly closed economy to competition from overseas. For almost 40 years, Spanish firms were constrained in their ability to hire and fire employees and faced severe legal sanctions against downsizing. The dominant institutional logic was highly corporatist and paternalistic, imposing job security. However, a condition of entry into the European Community (EC) required Spanish markets be opened to foreign competition. To comply with EC requirements and to enable domestic firms achieve internationally competitive levels of efficiency, the Spanish government adopted a neo-liberal institutional logic and repealed regulations that had insulated its labor force from global market pressures. Spanish firms were freed to adopt labor practices that ran counter to arrangements institutionalized over previous decades. We examine how firms responded to these new freedoms.
The paper makes three contributions. First, we identify factors that shape the adaptive behaviors of organizations, adding to the growing literature demonstrating the role of institutional and organizational processes. Second, we specify the nature and influence of institutional factors by highlighting how close alignment with the values of an existing logic can make change problematical even though a new logic is authoritatively promoted by the state. We also observe how shifts in logics can release previously suppressed institutional values and highlight the importance of the relationship between dominant and secondary logics and the extent of coercive enforcement. Finally, we raise the importance of geographically embeddedness, to which institutional scholarship has given insufficient attention. Echoing Selznick (1949), we offer community as a missing dimension of institutional analysis that should complement the functional emphasis within existing studies of organizational fields.

**THEORETICAL CONTEXT**

Friedland and Alford (1991) define institutional logics as: ‘...symbolic systems, ways of ordering reality, and thereby rendering experience of time and space meaningful’ (1991: 243). Thornton and Ocasio (1999) follow suit, defining logics as ‘the formal and informal rules of action, interaction and interpretation that guide and constrain decision makers...’ (1999: 804). Put more broadly, institutional logics provide ‘the criteria of legitimacy by which role identities, strategic behaviors, organizational forms, and relationships between organizations are constructed and sustained’ (Suddaby & Greenwood, 2005: 38). In other words, logics underpin the appropriateness of organizational practices in given settings and at particular historical moments.

Friedland and Alford (1991) emphasized that logics are hierarchical in form. Organizational fields and industries have their own logics but these are nested within and legitimated by higher-order logics associated with the ‘central institutions of the contemporary capitalist West - capitalist
markets, bureaucratic state, democracy, nuclear family, and Christian religion’ (Friedland & Alford, 1991: 232). Thornton (2004) added a sixth central institution – the professions. Field level logics are applications of these higher order institutions and it is at the field level where logics become manifest as practices and behaviors. Organizational forms, for example, are ‘incarnations’ of logics, rendering them ‘concrete’ (Haveman & Rao, 1997: 1644). An implication of Friedland and Alford’s framework is that the influence of central institutions will be felt across societal sectors or fields but that their relative influence may vary. In each sector or field there will be dominant and secondary logics, each logic arising from one of the central institutions, but potentially each institution may have some influence, albeit to a greater or lesser extent. Organizational forms and practices may appeal for their legitimacy to one or a combination of these central institutions.

Considerable research has explored practices shaped by institutional logics, including organizational strategies (Thornton, 2002; 2004), executive succession and compensation (Thornton, 2004; Thornton & Ocasio, 1999; Zajac & Westphal, 1995; Zajac & Westphal, 2004), career patterns (Stovel & Savage, 2006), organizational forms (Galvin, 2002; Greenwood & Suddaby, 2006; Haveman & Rao, 1997; Thornton, 2004), social responsibility (Lounsbury, 2007), technological entrepreneurship (Sine & David, 2003), professionalization (Lounsbury, 2002), and educational pedagogy (Lounsbury & Pollack, 2001). The important theoretical focus of these studies was to establish that practices are, indeed, historically contingent upon prevailing logics.

Building upon these earlier studies, attention has turned to understanding the implications of shifts between logics. For example, Thornton’s (2002; 2004) insightful study showed that when a ‘market logic’ was displaced by the ‘editorial logic’ in the US higher education publishing industry, organizational forms and strategies also changed. Greenwood and Suddaby (2006) described how the growth of accounting firms and their changing client base opened commercial opportunities that
prompted large firms to engage in rhetorical efforts to theorize and invoke change to the prevailing and restrictive logic of professionalism. Taking a different tack, Glynn and Lounsbury (2005) raised the role of critics in mediating shifts in logics. Different again, Meyer and Hammerschmid (2006) explored whether a prerequisite for organizational adaptation to shifts in logics is the substitution of personnel.

Yet, as Lounsbury (2007) points out, understanding of the processes and implications of shifts in logics is incomplete. We know relatively little about how and why organizations might *vary* in their responses. Previous work, concerned with different theoretical questions, implicitly portrays logics as though they sweep across organizations and generate a common response. However, the expectation that organizations will settle upon a single response is inconsistent with recent institutional scholarship. Organizations often have to reconcile multiple institutionalized values (Meyer & Rowan, 1977). They differ in their openness and institutional responsiveness (D’Aunno, Succi & Alexander, 2000; Davis, 1991; Greenwood & Suddaby, 2006; Kraatz & Moore, 2002). And they vary both in their capacity to adapt and their willingness to do so (Oliver, 1991; White & Linden, 2002), not least because they benefit unequally from existing arrangements (Leblebici, Salancik, Copay & King, 1991). Consequently, the assumed convergence of response to a shift in logic parallels the earlier ‘misguided notion that neo-institutionalism is a theory of isomorphism and stability’ (Lounsbury, 2007: 3).

To date, however, very few studies have sought to understand how and why particular organizations might respond to shifts in logics (for an important exception, see Lounsbury, 2007). It is this gap that motivates the present study. We examine the response of Spanish firms to the introduction of neo-liberal economic policies in the post-Franco era. Spain changed from an overarching autocratic/corporatist regime to a neo-liberal, market driven economy. We characterize
this change as a shift in the dominant institutional logic. An essential and distinguishing feature of this shift was the removal of job security and the freedom of managers to downsize their workforce. Job security and freedom to downsize are central to the distinction drawn by Hall and Soskice (2001) and Whitley (1999) between liberal and non-liberal market economics. The Spanish example is thus a case study of change from one institutional logic of capitalism to another, i.e. from an autocratic/corporatist logic to the liberal-market logic.

Logic Shifts in Spain

Spain provides a revealing setting because for almost four decades (1936–1975) it was governed by a dictatorship that imposed a highly autocratic/paternalistic approach to employee management. Subsequent to Franco’s death, Spain entered the European Community in 1986 and the European Monetary Union in 1989, and was required to dismantle many of the authoritarian regulations. Spain’s democratization thus highlighted a confrontation between principles and practices rooted in the protectionist policies and employment guarantees of the Franco regime, and the new neo-liberal practices demanded by EC membership. The post-War history of Spain can therefore be divided into two overlapping periods: (a) the highly regulated, protectionist era under Franco; and (b) the transition to an era of liberalization to meet EC rules.

The Protectionist Era. Under Franco labor relations were codified in the Labor Charter of 1938, which detailed the obligations of the State and its citizens. All males had the duty and the right to work. Unions were declared illegal and strikes were made a treasonable offence. Labor organizations were vertically organized in a centralized, corporatist manner. Wages were imposed and labor mobility was highly circumscribed. In short, Franco developed an “authoritarian, hierarchical system of labor relations…based on a mish-mash of Italian fascist and native Spanish
corporatist and ‘social Catholic’ ideas” (Martínez, 1992: 484). In this autocratic system, labor relations had few of the characteristics of liberal democracies.

Labor legislation under Franco was not solely repressive. It was also paternalistic (Escobar, 1995). The State provided employment safeguards and benefits (Martínez, 1992) through a 1944 law that made it extremely difficult to dismiss employees. Downsizing under Franco was virtually prohibited and extremely costly to implement. Instead, ‘the State aimed for full employment by maintaining rigid rules to govern labor market entry and exit’ (Aguilera, 2005: 199). Consequently, for the core of the Spanish workforce low wages were compensated by high job security (Martínez, 1992).

The paternalistic Franco model was reinforced by the close link between the Catholic Church and the State. Franco’s ‘National-Catholicism’ stressed the integration of family, community and the State (Abellán & Oskam, 1989; Judt, 2005). The institution of ‘family’ was treated as ‘the prime unit of society…endowed with inalienable rights’ (Girón de Velasco, 1951). Civil marriages were banned, divorces declared illegal, adultery, abortions and contraception were made criminal offences, and Catholic religious education was made compulsory.

During the late 1950s, the Franco regime moderated State control of prices and made strikes (but not unions) legal in an effort to encourage foreign capital and make Spanish industry more competitive. But, the regime retained its regulation of employee welfare, ‘…particularly covering individual rights in areas such as employment termination and job classification, (which) caused increasing problems for employers in the later years of the dictatorship and in the post-Francoist period as employers sought greater flexibility at work and in the labor market’ (Martínez, 1992: 488).
Transition to Economic Liberalization. After almost four decades of Franco’s authoritarian yet paternalistic regime, Spain began to establish liberal democratic institutions including a model of industrial relations consistent with practices in other European countries (Martínez, 1992). In 1977, the Moncloa Pacts legalized trade unions and recognized the right to strike. In 1980, the Workers’ Statute introduced a degree of flexibility in the hitherto rigid system of employee regulation. These initiatives, however, were hampered by the legacy of the Franco model, especially the paternalistic emphasis upon employee welfare. Spain’s early transition to democracy, moreover, coincided with a pattern of growing inflation, a worsening balance of payments, and stagnation or decline in the GDP, which lasted until 1986. These deteriorating economic conditions made adoption of a neo-liberal logic problematic.

In 1982, the Socialist Party (PSOE) was elected on a program based on the social market and proceeded to prepare Spain for its planned 1986 entry into the European Community. In doing so, the government was confronted by opposing forces: trade unions demanded welfare polices and championed the social dimension of European integration (consistent with the Franco paternalistic logic); employers, in contrast, argued for a freer labor market (Martínez, 1992). Seeking a middle course of action, the PSOE allowed the widespread use of temporary employment contracts. Companies used these contracts to minimize labor costs, and to avoid the need to pay benefits if contracts were not renewed (Cachon & Palacio, 1999). However, firms could not downsize permanent workers without incurring heavy penalties. Nevertheless, as entry into the European Community grew near, there were growing calls for deregulation of labor relations and for greater labor flexibility (Rivero, 1993). Although rules and regulations were changed as Spain worked towards its entry into the EC, the government’s highest priority was the consolidation of the democratic system. This distraction, in combination with inertia created by a long history of
interventionism, slowed the introduction of industrial legislation prevalent in most other European countries (Aguilera, 2005; Köhler, 1999; Rivero, 1993).

Re-elected in 1986, the PSOE government finally introduced legislation to dismantle employment guarantees. The government also introduced neo-liberal economic and monetary policies to meet conditions for entering the European Monetary System, but in doing so it disturbed its traditional relationship with organized labor and precipitated labor unrest (Alonso & Blanco, 1999). A General Strike called for December 14th, 1988 failed to reverse the government’s determination to introduce neo-liberal market policies (Alonso & Blanco, 1999; Lope & Alós, 1999).

During the early 1990’s, the neo-liberal market reforms contributed to the loss of over 524,000 jobs and the introduction in 1994 of further labor reforms resulted in a second General Strike. Unions called for restoration of the traditional, paternalistic logic:

“The aim of the Strike that has now been called…is a question of principle: it is a call to fight to preserve the established model of industrial relations, which the Government has decided to modify…The deregulation of the labor market questions…the model of industrial relations for which the working class has struggled over the last century, and which many of us thought irreversible” (El País, 1994).

The 1994 Strike, like its 1988 predecessor, failed to prevent the neo-liberal model of capitalism from becoming formally embedded in Spanish conventions and institutions (Rodríguez-Piñero, 2001). By the mid-1990s, the regulatory controls of the Franco era had been systematically dismantled and replaced by neo-liberal market practices. Managers now had the legal authority to adjust (downsize) their workforces without incurring prohibitively high redundancy penalties.
These two historical periods show the rebalancing of central societal institutions and their associated logics. Under the Franco regime, the institutions of the State, family and religion were paramount. They shaped the highly paternalistic and corporatist relationships between employers and employees. Moreover, the institutional logic of the State was highly centralist and coercively enforced. Post-Franco, a new balance evolved, that emphasized the institution of the market in defining economic behaviour. The influence of the State, family and religion upon the economic sector was severely curtailed and subordinated to an institutional logic of the market. The new balance manifested itself in labor relations that treated labor and employers as free to negotiate terms and conditions within constraints established by market forces. One indicator of the response of organizations to the shift in institutional logics would be their willingness to practice downsizing.

Hypotheses

Although the story we wish to tell is primarily an institutional one, we also draw upon the adaptation perspective. The common theme of this perspective is that organizations are motivated to change if doing so is calculated to improve efficiency. Institutional theory, on the other hand, recognizes the influence of social expectations and habit and the use of cultural models regardless of their technical merit. Drawing on two perspectives allows comparison of their relative explanatory power and permits us to contextualize the influence of institutional processes.

The adaptation perspective. The basic starting point of the adaptation perspective is that organizations attend to their external environments and constantly seek courses of action that will optimize goal attainment. This continual search for optimal efficiency means that a shift in a dominant logic will be interpreted and acted upon in terms of its perceived potential for performance improvement. If the new logic promises improvements in performance its principles and practices will be adopted. However, adaptation theory also recognizes that achieving
fundamental change may be problematical: first, because organizations are not equally motivated to change; and second, because not all organizations have the capability of doing so.

**The motivation to change.** The logic of the adaptation perspective is that poorer performing organizations will be more likely to take advantage of emerging possibilities (Audia, Locke & Smith, 2000; Greve, 1998; 2003). High performing organizations are less likely to consider change, partly because they are not receiving signals that dramatic change is necessary and partly because they are typically risk averse. Moreover, leaders in high performing organizations display a ‘self-serving bias’, overly attributing organizational performance to their leadership (Starbuck, 1983). They become over confident that current practices will deliver future success and develop ‘competency traps’ (Levitt & March, 1988). Successful performance condemns organizations to myopic learning and lessens their responsiveness to shifting opportunities. Put simply, organizations are more motivated to implement radical change if their current performance is poor. Higher-performing organizations, in comparison, have less need to change and are less motivated to do so. Applying these arguments to the Spanish setting suggests the following:

*Hypothesis 1: Poor performing Spanish firms would be more likely than higher-performing firms to align themselves with the neoliberal logic and practice downsizing.*

A different approach to performance is taken by Amburgey and his colleagues (Amburgey, Kelly & Barnett, 1993; Kelly & Amburgey, 1991) who emphasize managerial processes rather than outputs. A willingness to change, they suggest, is affected by an organization’s recent history of attempted change. To the extent that an organization has successfully accomplished earlier change it will have fewer reservations about attempting future change. Earlier success may even encourage
the organization to undergo change even when it would be preferable not to change (Dobrev, Kim & Carroll, 2003). Jansen (2004: 277) refers to this tendency as ‘change-based momentum’ to distinguish it from ‘statis-based momentum’ characteristic of configuration theory. These arguments suggest the following:

**Hypothesis 2:** Spanish firms that have recently downsized would be more likely to further downsize than would firms with no previous experience of change.

**Capability to change.** Even if motivated to do so, not all organizations are able to respond to the demands and opportunities of a new logic. Several theories, for example, highlight that an organization’s size can make change difficult to accomplish. Structural-contingency theory has demonstrated that larger organizations are more formalized and complex and that these structural features slow decision response times and produce greater rigidity (Blau & Schoenherr, 1971; Child, 2005). The same theory associates large organizations with ‘pathologics’ arising from entrenched interests that oppose any changes likely to disturb prevailing patterns of privilege (first documented by Burns & Stalker, 1961).

Ecological theory reaches the same conclusion. Organizations succeed to the extent that they develop reliability of performance and can ‘account rationally for their actions’ (Hannan & Freeman, 1984: 155). Such accountability is achieved through rationalized structures that are reproducible over time. Routines, however, make organizations resistant to change, partly because they direct managerial attention selectively, partly because structures create privileged interests that support the status quo, and partly because complex organizations are difficult to manage and cannot change in a timely fashion. All of these factors are exaggerated by organizational size (Delacroix &

Theories of technological change in mature industries emphasize how sunk costs in capital assets, relationships with suppliers and customers, can all blind large, incumbent firms to new opportunities (Anderson & Tushman, 1990; Virany et al., 1992). And even where the need for change is recognized, existing commitments and lack of an integrative capability (Tripsas, 1997; Tripsas & Gavetti, 2000) can place serious restrictions on the ability to change. Mostly, established incumbents in mature industries are large organizations.

Not all studies support the view that large organizations are inflexible. Chen and Hambrick’s (1995) examination of the US airline industry found smaller organizations more likely than larger competitors to respond to competitors’ actions but were no faster in their implementation efforts. Miller and Chen (1994) found no relationship between airline size and competitive inertia. Neither D’Aunno et al. (2000) nor Alexander (1991) found any relationship between hospital size and willingness to undertake divergent change. In some instances, in other words, ‘giants can and have learned to dance’ (Majumdar, 1999: 72). Nevertheless, the balance of evidence suggests that small organizations are more motivated to introduce new ideas in response to contextual change. Therefore, we predict:

*Hypothesis 3: Large Spanish firms would be less likely than smaller firms to practice downsizing.*

The above arguments also contribute to a ‘rigidity of aging’ (Singh, Tucker & Meinhard, 1988). But other factors further compromise the ability of older organizations to achieve change. Configuration theory (Miller, 1982; 1993; 1996; Miller & Friesen, 1984) emphasizes how the
dynamics of ‘momentum’ and ‘simplicity’ reinforce an existing trajectory. These dynamics are illustrated by Siggelkow (2001; 2002) who shows how organizations elaborate core structural elements and, in doing so, that they amplify existing orientations. Demographic theory shows that, over time, senior managements become homogeneous and thus insensitive to environmental subtleties (Boone, Van Olffen, van Witteloostuijn & de Brabander, 2004; Kanter, 1977; O’Reilly, Snyder & Boothe, 1993; Westphal & Zajac, 1994). Network theory, which says little on the effects of size, does speak to the problem of organizational aging. Portes and Sensenbrenner (1993), for example, show how organizations in mature networks become trapped by expectations and obligations of network partners. Gargiulo and Benassi (2000: 195) highlight the ‘amplified reciprocity’ and ‘cognitive lock-in’ characteristic of mature networks. Maurer and Ebers (2006: 275) point to ‘relational lock-in’, whereby ‘norms of reciprocity’ act as incentives to retain existing practices. Tushman and Rosenkopf (1992) raise the same idea, showing how communities of organizations cohere around technological regimes (see also, Christensen & Bower, 1996; Malerba & Orsenigo, 1996; 1997). Thus:

_Hypothesis 4: Older Spanish firms would be less likely than younger firms to practice downsizing._

_Institutional Theory._ The institutional perspective emphasizes that organizations conform to cultural models in order to acquire social legitimacy. These models, or rationalized myths, have a strong inertial characteristic but the theory has always recognized that change occurs, especially when precipitated by exogenous shocks such as regulatory or technological change (e.g. Fligstein, 1985; Hinings & Greenwood, 1988). More recently, institutional change has been connected to
endogenous contradictions within organizational fields (e.g. Greenwood & Suddaby, 2006; Seo & Creed, 2002) or to the interstices of institutional logics (e.g. Thornton, 2004).

A key aspect of our argument is that institutional logics define appropriate organizational forms and practices. However, because organizations rarely exist in settings with unambiguous and entirely consistent institutional prescriptions, several organizational forms can co-exist in the same industry or field (Hoffman, 1999). Moreover, organizations only approximate to institutionally provided archetypal forms or templates (DiMaggio & Powell, 1991; Greenwood & Hinings, 1996). Some organizations more coherently encode the values of a dominant logic and it is these organizations that are more likely to retain those values (and thus existing organizational practices) even when societal logics shift and despite authoritative endorsement by the State of a new logic. The dynamics of statis-based momentum are especially durable when there is close organizational alignment with an existing logic (Greenwood & Hinings, 1996; Haveman & Rao, 1997: 1635). A key signal that an organization is aligned with a dominant logic is if its ownership structure is also aligned. Where such alignment occurs, the values of the logic are more likely to be consistently applied within the routines of the organization.

As noted earlier, the institution and values of family were integral to the Franco era and explicitly connected to economic policies providing job security for male workers. The importance of family as an institution was also reflected in social policies. Married women were forbidden by Ley de Relamentaciones to work without marital authorization from their husbands (Toharia et al., 1998). A family bonus was distributed to employees based on the size of their family. This infusion of the institution of family in the economic and social policies formally lasted until the late 1960s, after which the Opus Dei promoted separation as a means towards modernization. But the Catholic Church remained committed to the family and even in the late 1970s Spain provided support to
families beyond that found in most other European countries (Meil Landwerlin, 1995). Our contention is that during the Franco era the institutional values of family would be most coherently manifested in family-controlled firms and that these firms would continue signalling the importance of family even in the post-Franco era. That is, the institution of family would continue to exert influence within this group of organizations even after the dominant logic had shifted in favor of market institutions.

The idea that family-controlled firms are reluctant to downsize is not unique to Spain. Evidence even from liberal market economies shows that family businesses avoid the shorter-term focus of publicly-traded corporations, and, in pursuit of longer-term success, that they develop commitments to their workforce and retain employees even during periods of economic difficulty. Family businesses ‘absorb misery’ rather than downsize (Miller & LeBreton-Miller, 2005: 40). One possible explanation is that they have different objectives and prioritize different sets of values (Meyer & Zucker, 1989; Thornton, 2004). In Lounsbury (2007) and Thornton’s (2004) terms, family-controlled business have an institutionally derived definition of performance that gives higher emphasis to job security than it does to efficiency benefits that might arise from downsizing. Fiss and Zajac’s (2004: 509) study of German firms questioned whether the notion of the family as ‘protective stewards’ survives beyond the first generation but found inconclusive results. Theoretically, however, it seems reasonable that, in Spain, family-controlled firms would retain their commitment to the traditional logic and its emphasis upon job security. That is:

_Hypothesis 5: Spanish family-controlled firms would be less likely to practice downsizing than non-family controlled firms._
The above hypothesis identifies Spanish organizations likely to retain commitment to the displaced logic because of their normative commitment to an institution – the family – prioritized in the old logic. Shifts in logics, however, may have unanticipated and complex consequences. In studying the history of Spain in the 20th century, we became aware of an ongoing tension between two approaches to the institution of the State: on the one hand, there is a highly centralist logic, epitomized by the Franco regime; on the other, there is a highly decentralized logic that recognizes the importance of regional identification. Spain has four regional languages in addition to Spanish: Euskera (in the Basque country), Gallego (Galicia), Catalán (Catalonia), and Valenciano (Valencia). There is, moreover, a sustained history of strong, sometimes violently expressed demands for regional autonomy (Lopez Guerra, 1989; Muro & Quiroga, 2005; Núñez Seijas, 2001). These cultural differences and historical demands are recognized in the post-Franco Constitution (1978) where Article Two recognizes and guarantees ‘the autonomy of the nationalities and regions that compose it’. As Judt (2005: 520) notes:

“The subsequent Statutes of Autonomy acknowledged the ancient fact of linguistic variety and regional sentiment within Spain’s hitherto ultra-centralized state…Within four years Spain was to be divided into seventeen self-administering regions, each with its own flag and capital city. Not just Catalans and Basques, but Galicians, Andalusians, Canaries, Valencians, Navarrese and many others were to be recognized as distinct and separate” (Judt, 2005: 520).

Celebration of regional differences is in direct contradiction to the highly centralized instincts of the Franco regime. As noted earlier, Franco ruthlessly repressed any expressions of regional identification, regarding them as antithetical to social order. Political allegiances below the
level of the State were forcibly denied and coercively punished. Under Franco, the logic of the State was that of a single political unit: a highly centralized State. As Spain neared the end of the Franco era, escalating violence in the regions, notably in the Basque Country where the Euskadi Ta Askatasuna (ETA) openly adopted terrorist tactics, signaled that Franco’s policy had only suppressed, not eradicated the decentralized option. Moreover, in the post-Franco era the legitimacy of regional identification became ‘an integral aspect of the transition to democracy itself’ precisely because it was ‘unpolluted by authoritarian association’ (Judt, 2005: 702). In short, regional identification in the post-Franco era received amplified legitimacy precisely because it symbolically represented the rejection and overthrow of the previous, repressive logic (Flynn, 2001). The high water mark of the decentralized logic occurred in 2006 when Catalonia was granted a new charter that falls only modestly short of recognizing Catalonia as a separate nation. Similar charters are in preparation for Spain’s other regions, prompting The Economist (2006: 45) to rank Spain as ‘the most devolved political system in Europe outside Belgium’.

But in what way might regional identification affect the response of firms to the neo-liberal principles of the new logic? Our argument is that organizations whose activities are geographically concentrated typically develop close ties with local political and social elites and that these ties influence their behavior (Galaskiewicz, 1997; Marquis, 2003). In Spain, networks linking business leaders with local elites are well documented (e.g. Cabrera & Rey, 2002; Sanchez Recio & Fernandez, 2003). Further, locally based companies often receive considerable media coverage and are chided if they pursue policies that adversely affect regional interests. Corporations experience pressure to temper corporate in favor of community interests.

We are not suggesting that Spanish firms are unresponsive to shareholder pressures. Our argument is that Spanish firms concentrated in a particular region are more likely than
geographically dispersed organizations to identify with, and thus be more responsive towards, regional community interests. Avoidance of unemployment would be urged upon local business elites. In other words, and rather paradoxically, the sensitivity of regionally concentrated firms to community pressures would result in continuation of support for an institutionalized practice closely associated with the deposed logic. That is:

*Hypothesis 6: Regionally embedded Spanish firms would be less likely than geographically dispersed firms to practice downsizing.*

**METHODS**

*Data.* Our data is drawn from a Spanish database ‘Encuesta sobre Estrategias Empresariales’ (Survey on Business Strategies, hereafter ESEE). The data was assembled by the Fundacion Empresa Publica (Public Firm Foundation, hereafter FEP) through its Economics Research Program (Programa de Investigaciones Economicas). Originating from a joint agreement between the Ministry for Industry and Energy and FEP in 1990, each year the ESEE surveys firms with at least 10 employees in the Spanish manufacturing sector. The data relevant to our research ranges from 1994 to 2000. Earlier data is not available. Our time period is some 15 years after Spain’s entry into the EC and the initial, tentative introduction of the neo-liberal logic of labor relations. Although it would be preferable to track downsizing behavior from the late 1980s but especially after the 1992 law reform, our observation window (1994-2000) reflects the notion that manifestation of logic shift did not take place overnight. It took time for the neo-liberal logic to be institutionalized and embraced by some organizations. An observation window too close to the 1992 reform might fail to disclose any variation in the adoption rates of downsizing because the effects of the original paternalistic logic had yet to loosen its grip on all Spanish firms. Moreover, our test of institutional
effects is more conservative because it is more difficult to demonstrate the impact of social processes further from the transition years; any results showing the hypothesized effects are convincing evidence of institutional effects.

We used criteria for selecting firms that would ensure the ESEE database is representative of the Spanish manufacturing sector. The criteria combined the exhaustive rule and the random sampling rule. According to the first rule, firms with more than 200 workers were exhaustively surveyed. According to the second rule, firms with between 10 and 200 employees were selected by a stratified sampling method, a usual procedure for large scale surveys (Lehtonen & Pahkinen, 2004). Procedures were also adopted to take account of changes in the referent population arising from the formation of new firms. All new firms with more than 200 employees and a random selection of five percent of all new firms with employees between 10 and 200 were added to the survey. We paid attention to the problem of attrition across years. For instance, if a firm answered the survey in 1994 and 1995 but refused to participate in 1996, this firm was surveyed again in 1997-2000. Table 1 tabulates the sample size, response and attrition rates across years. A high response rate and our sampling method indicate that our sample is representative of the referent population.

[Insert Table 1 about here]

**Dependent Variable and Analysis Model.** Our dependent variable is the dummy variable denoted as *Downsizing*. That is our indicator of the extent to which an organization adopted the new logic is whether they practiced downsizing. To construct this variable we calculated the ratio $\text{Change}_{t+1} = (\text{No. of Employees}_{t+1} - \text{No. of Employees}_t)/(\text{No. of Employees}_t)$, where $\text{No. of Employees}_{t+1}$ is the number of permanent employees (i.e., all employees except temporary workers) in year $t + 1$, and $\text{No. of Employees}_t$ is the number of permanent employees in year $t$. Consistent
with previous studies (Ahmadjian & Robinson, 2001; Cascio, Young & Morris, 1997), when $\text{Change}_{t+1}$ was larger than 0.05 a firm was regarded as practicing downsizing and $\text{Downsizing}$ was coded as one; otherwise $\text{Downsizing}$ was coded as zero. Figure 1 uses three cut-off points to graphically present the downsizing activities in the Spanish manufacturing sector during 1995-2000. The top curve displays the number of firms that reduced permanent employees by at least two percent and the lower two curves show the number of firms that reduced by five percent and 10 percent, respectively. All three curves display a similar pattern. We conducted sensitivity tests to examine whether our results varied if we changed the cut-off point from 0.05 to 0.10 and 0.02 (Ahmadjian & Robinson, 2001). The results were broadly consistent; therefore, we only report findings derived from the cut-off point of 0.05 (results derived from the cut-off points of 0.02 and 0.10 are available upon request).

Because our analysis looks at downsizing by continuing firms, firms that went out of business in year $t + 1$ were excluded because bankrupt or merged firms downsize for reasons beyond the scope of this paper. To avoid causal ambiguity, our dependent variable was measured in year $t + 1$ and all independent and control variables were calculated in year $t$, ($t = 1994, 1995, \ldots, 1999$) except for $\text{Performance Change}$. $\text{Performance Change}$ was constructed by utilizing information in years $t$ and $t − 1$. Because our dataset has a panel structure with firms repeatedly measured throughout different years and because our dependent variable is dichotomous, we used random-effects logit modeling for our analyses.

[Insert Figure 1 about here]

**Independent Variables.** Hypothesis 1 proposes that a firm’s performance indicators are negatively and significantly related to downsizing. We use three variables to capture different dimensions of firm performance. The first, $\text{EBIT}$, indicates a firm’s earnings before interest and
taxes in year $t$. The second, *Performance Change*, is calculated as $(EBIT_t - EBIT_{t-1})/EBIT_{t-1}$, where $EBIT_t$ is a firm’s earnings before interest and taxes in year $t$, and $EBIT_{t-1}$ is the focal firm’s earnings before interest and taxes in year $t - 1$. The third variable, *Market Share*, indicates market power, and is the ratio of the focal firm’s sales and the total sales for all firms in the focal firm’s largest sub-sector (see below for the definition of sub-sectors).

Hypothesis 2 suggests that firms that have recently downsized are more likely to downsize again. Two independent variables operationalize this hypothesis. We used *No. of Previous Downsizings* to record the number of previous downsizings of the focal firm before or in year $t - 1$. A positive and significant coefficient of this variable would provide support for Hypothesis 2. However, the momentum effect of downsizing may weaken over time (Amburgey & Miner, 1992; Li & Rowley, 2002). The second variable, *Time Lapsed Since Last Downsizing*, indicates the time span between the most recent downsizing and year $t$. A negative and significant coefficient of this variable would provide support for Hypothesis 2.

Hypothesis 3 proposes that firm size is negatively and significantly related to downsizing. We used the logarithm of the firm’s total assets, *log Firm Size*, to test this hypothesis. Hypothesis 4 proposes that older firms are less likely to practice downsizing. We used the age of the firm, denoted as *Firm Age*, to operationalize this hypothesis. Hypothesis 5 proposes that family-managed firms are less likely to downsize. A dummy independent variable, *Family-Managed Firm*, indicates whether owners and their families were active in managing the focal firm. This variable was coded as one when the owner (and his family) worked in the top management team and zero otherwise. A negative and significant coefficient of this variable would provide support for Hypothesis 5.
Hypothesis 6 maintained that Spanish firms with strong regional embeddedness are less likely to practice downsizing. *Regional Embeddedness* is measured by the entropy index of regional dispersion:

\[
Regional Embeddedness = \sum_{k=1}^{17} p_k \ln(1 / p_k),
\]

where \( p_k \) was the percentage of branches of the focal firm in the \( k \)th \((k = 1, 2, \ldots, 17)\) major geographical regions in Spain – Andalusia, Aragon, Asturias Balearic Islands, Basque Country, Canary Islands, Cantabria, Castilla y Leon, Castilla - La Mancha, Catalonia, Extremadura, Galicia, Madrid, Murcia, Navarra, Pa Vasco, La Rioja, and the Valencian Community. The higher this index, the more dispersed the focal firm’s business branches in different regions. A positive and significant coefficient of *Regional Embeddedness* would provide support for Hypothesis 6.

**Control Variables.** Our dataset covers the whole of the Spanish manufacturing sector. To control for different types of manufacturing activities in this sector a set of dummies was created. When a firm’s largest business was in a particular sub-sector of the manufacturing sector, the sub-sector dummy was coded as one, otherwise zero. Using NACE-CLIO R44, the classification scheme commonly adopted in Europe, the database assigned only one of the 18 sub-sector codes to each firm: (1) iron (excluding iron alloys), (2) mineral products (excluding metallic products), (3) chemical products, (4) metallic products, (5) agricultural and industrial machines, (6) office machines, data processing machines and other relevant machines, (7) electric materials and accessories, (8) automobile vehicles and motors, (9) other transportation materials, (10) meats, prepared and tinned foods, (11) alimentary products and tobaccos, (12) beverages, (13) textiles and wear, (14) leather, fur and footwear, (15) wood and wood furniture, (16) paper, paper articles and print, (17) rubber and plastic products, and (18) other manufactured products.
We controlled for the possible effects of several corporate-level strategies on firms’ headcounts. The first type of strategy is diversification. Diversified firms may experience more fluctuations in firm headcounts because these firms may adopt corporate-level strategies, such as divesture and entry/exit of marketplaces. The entropy measure, denoted as \textit{Diversification}, was used:

\[
\text{Diversification} = \sum_{k=1}^{5} p_k \ln(1/ p_k),
\]

where \(p_k\) was the percentage of sales of the focal firm in the \(k\)th \((k = 1, 2, \ldots, 5)\) main markets in which the firms operated. The ESEE survey identifies a firm’s five main markets, defined by product line, client/customer and geographical market. To further control for the possible effect of diversification, we used \textit{No. of Branches} to indicate the number of business branches of the focal firm. The second strategy effect controlled is related to a focal firm’s financial restructure. \textit{Debt Ratio}, the ratio between total debts and total assets, controls for the possibility that an indebted firm tends to selling assets to repay debts. As a result, the focal firm’s headcount is reduced due to asset divestures. The third corporate-level strategy removed is imitation among firms. A focal firm may imitate other firms’ downsizing strategy, especially when these imitated firms are large and profitable (e.g. Haunschild, 1993; Haunschild & Miner, 1997). We used the variable, \textit{No. of Large Firm Downsizings} to indicate the number of the largest firms that experienced downsizing in year \(t\). We also used the variable \textit{No. of Profitable Firm Downsizings} to indicate the number of downsizings in year \(t\) by high performing firms. Consistent with previous studies (e.g. Haunschild, 1993; Haunschild & Miner, 1997), high performing firms were defined as the 5 firms with the highest EBIT (i.e., earnings before interests and taxes) in the same manufacturing sub-sector as the focal firm according to NACE-CLIO R44.
We used four control variables to remove the potential impact of ownership structure. We measured *Government Shares* by the percentage of shares owned by the Spanish government. Firms controlled by different levels of Spanish governments may resist downsizing due to non-economical considerations, such as the preservation of local jobs. *Foreign Shares* indicates the percentage of shares controlled by non-Spanish residents. Foreign owners may be influenced by foreign logics that are beyond the scope of our study. *Listed Firm* is a dummy variable that indicates public ownership. It was coded as one when the firm was traded on a stock exchange and otherwise coded as zero. Listed firms’ downsizing announcements are under the scrutiny of investors and concerns about stock price fluctuation may dampen or enhance a publicly listed firm’s downsizing decisions. The fourth control variable for ownership structure, *Member Firm*, is coded as one when the focal firm was a member firm of a holding company or a conglomerate and otherwise as zero. A focal firm’s headcount may be affected by holding company’s restructurings (e.g., divestures, new acquisitions).

We used two controls to remove the effects of human resource utilization practices. *Labor Utilization per Employee* records the average working hours of each employee per year. A high number of hours indicates that the focal firm may be under pressure to hire more people on order to redressing unusually high workloads. Innovation intensity within a firm shows the potential for the firm to deploy more machines and reduce reliance on human resources due to process or product innovations. The variable *log R&D Expenses* measures the logarithm of R&D investment.

**RESULTS**

Table 2 provides descriptive statistics and bi-variable correlations among our variables and shows no indication of multicollinearity. The highest correlation between two variables is 0.72, indicating a shared variance about 0.50.
Table 3 reports our results. Model 1 is the baseline model containing all control variables. The control variable Debt Ratio has a significantly positive coefficient, indicating that highly indebted firms are more likely to downsize, possibly because these firms sell assets to reduce the debt ratio. Both control variables, log R&D Expenses and Diversification have significantly negative coefficients ($p < 0.001$ and $p < 0.10$, respectively), indicating that firms with high levels of R&D expenses and highly diversified firms are less likely to downsize. However, the coefficient of this variable is not significant in the last two models, indicating that the effects these two control variables are captured by other variables not included in Model 1.

Model 2 adds the three independent variables of Hypothesis 1, which proposes that high performing firms are less motivated to downsize. Surprisingly, none of the three independent variables has a significant coefficient and thus we find no support for Hypothesis 1. Model 3 includes the two independent variables for the testing of Hypothesis 2, which proposes that firms with previous experience of downsizing are more likely to downsize again. The significant and positive coefficient of No. of Previous Downsizing ($p < 0.05$) in Model 3 provides support for Hypothesis 2. However, the independent variable Time Lapsed Since Last Downsizing is not significant, indicating no support for Hypothesis 3. That is, the influence of previous downsizings decays over time. It is noted that the coefficient of No. of Previous Downsizing becomes marginal ($p < 0.10$) in subsequent models. Taken together, these results provide only weak support for the notion that organizations are more motivated to change (downsize) if they have previously done so.

Model 4 includes the independent variables for Hypotheses 4 and 5, which test for the reduced capability to change arising from organizational size and age. The negative and significant coefficient of log Firm Size ($p < 0.001$) provides support for Hypothesis 4, which proposes that
large firms are less able to downsize. However, although the coefficient of Hypothesis 5, *Firm Age*, is significant in Model 4 \((p < 0.05)\) and marginally significant in Model 5 \((p < 0.10)\), this coefficient is positive, indicating that older firms are more likely than younger firms to downsize, contrary to Hypothesis 5.

Model 5 includes the independent variables for Hypotheses 5 and 6, which test for institutional effects. Both hypotheses are supported. The coefficient of *Family-Managed Firm* in Model 5 has a negative and significant coefficient \((p < 0.001)\), indicating that firms are less likely to downsize when owners and their families are active in management, supporting Hypothesis 5. *Regional Embeddedness* has a positive and significant coefficient \((p < 0.01)\), supporting Hypothesis 6. That is, firms whose activities are concentrated regionally, rather than geographically dispersed, are less likely to downsize.

**DISCUSSION & CONCLUSIONS**

The motivation for this paper is to understand how organizations respond to the introduction of a new institutional logic. Our starting point was to note that most studies to date have emphasized the general effects of logics and have given less attention to assessing how and why organizations might respond differently as logics change. We have examined the responses of Spanish manufacturing firms to a shift from a highly corporatist and paternalistic logic to a neo-liberal logic. Specifically, we examined the adoption of new labor practices and the freedom of managers to downsize workforces to meet market exigencies.

We began by raising hypotheses derived from adaptation theory, which predicts that technical concerns and organizational attributes define organizational responses. Our first hypothesis suggested that organizations will adapt to an incoming logic if doing so promises performance improvement. We found no support for this argument and only weak support for a
second hypothesis that organizations build upon previous change performance. These two results indicate that responding to logic shifts is not performance driven. This conclusion, however, should be interpreted with some caution. Data was not available before 1996, which means that we may have missed an earlier burst of organizational downsizing. Our results may be picking up the later phase of diffusion when institutional factors have been argued to outweigh technical forces (Tolbert & Zucker, 1983). But, our results are consistent with Lounsbury (2007) and Thornton (2004) who state that performance is defined by prevailing logics, meaning that performance-driven effects per se will not be evident unless they are specified by a given logic. Under conditions of competing logics, as in the Spanish setting, there will be multiple definitions of performance and thus no linear association between performance and a shift in logic.

We next examined the effects of two organizational attributes - size and age - which make accomplishing change problematical. We found, as expected, that large organizations are less likely to change. This finding confirms previous studies that noted the debilitating effects of structural complexity and entrenched interests. The effect of organizational age, however, was in the opposite direction to that predicted and was only weakly significant. Overall, therefore, the four hypotheses from adaptation theory received limited support with only one clearly substantiated.

The last two hypotheses tested for institutional effects. We first hypothesized that organizations would resist change if current practices were well aligned with an existing logic and consistent with the values of influential constituencies. In the Spanish setting, we tested this hypothesis by asking whether family-controlled firms are less likely to downsize. Family-controlled firms, we proposed, would be likely to adhere to the previous logic because of that logic’s affinity with the institution of family. Our results strongly support this hypothesis. We draw two insights from this finding. The first insight is that if existing organizational arrangements encode the values
of a supplanted logic that is consistent with the values of powerful stakeholders, the likelihood is that existing organizational practices will be sustained even though these values differ from those given priority within an incoming logic.

The second insight returns to Friedland and Alford’s (1991) thesis that societies contain central institutions whose values and principles are articulated through institutional logics and manifested in specific practices. These institutions exert degrees of influence across societal sectors, implying that in any sector there will be dominant and secondary logics. The degree of influence exerted by secondary logics will depend, in part, upon how strictly the dominant logic is imposed. In our setting, the economy under Franco was shaped by the institutions of the State, the family and the Church and application of the values and principles of these institutions was intolerant of other options. These institutions and their logics were dominant and aggressively underpinned by coercive enforcement mechanisms. Such coercive enforcement was enabled by the highly centralist logic of the State. Further, the coercive enforcement is understandable within the historical context of Spain. In contrast, after Franco the dominant logic in the economic sector, neoliberalism, was more tolerant of other influences. The institution of family retained its legitimacy but was relegated to the status of a secondary institution. This tolerance enabled family-controlled firms to continue emphasizing practices no longer given priority within the economic sector where the logic of the market was now paramount. In other words, the relationship between dominant and secondary institutional logics affects the pattern of organizational adaptation and non-compliance. Specifically, the greater the tolerance afforded secondary logics, the greater the possibility that established practices will be retained alongside emergent ones. The implication of this idea is that institutional research should give attention both to the compliance mechanisms by which ascendant logics are reproduced and enforced, and to how far those mechanisms allow the expression of
alternative practices. We also note that the particular logics are understandable only within the historical context of the setting.

The second institutional hypothesis examined concerned the influence of regional concentration. Spain, we observed, has a long history of strong regional communities and there has been a recurrent tension over the past century between an institutional logic of a highly centralized State, and a logic of a decentralized, regionalized State. Under Franco, however, the logic of the State was highly centralist and the decentralized option was repressively denied any formal legitimacy. We proposed, therefore, that in the post-Franco period, firms located within a single region would behave differently to more geographically dispersed companies because the former would be more integrated into their host communities and would experience pressures to temper corporate interests if they ran counter to regional community interests. Specifically, we hypothesized that regionally concentrated firms would be less likely to downsize. This hypothesis was supported.

We interpret this finding as suggestive of three insights. First, the rise of a new institutional logic inevitably prioritizes a particular set of values and promotes a particular set of practices, but, as the hegemony of a dominant and coercively enforced institutional order disintegrates, previously suppressed nascent logics may surface. Periods of transition between logics are moments of uncertainty that allow greater opportunity for repressed interests and logics to gain expression, much in the way that transitions between technological regimes have been described as ‘eras of ferment’ (Tushman & Romanelli, 1986). In the Spanish setting, breakdown of the autocratic logic resurrected regional interests and legitimated promotion of a decentralized logic of the State.

Second, shifts in logics do not necessarily mean that old practices are inevitably delegitimated and replaced. Instead, they may be retained but endorsed by different logics. In Spain,
job security was legitimated under Franco by the institution of family and a highly centralized State; after Franco, job security was legitimated by a new logic associated with a highly decentralized State. The symbolic meanings underpinning a practice may change but the practice itself remain unaffected (Zilber, 2002). One implication of this observation for institutional research is that the study of practices, *per se*, without attention to their symbolic referents, is potentially misleading. For example, diffusion studies that highlight convergence around a particular practice may not be capturing institutional effects. In order to understand whether isomorphism reflects underlying institutional processes, researchers should uncover the meanings and motivation for adoption rather than relying on measurement of diffusion *per se*.

Third, the Spanish story raises the importance of communities. Until recently, the geographical dimension has received limited attention within organization theory. Previous research has primarily focused upon explaining the comparative regional advantages of firms by pointing to cultural and material resources, or opportunities for knowledge spillovers and supporting infrastructures (e.g. Baum & Sorenson, 2003; Saxenian, 1994; Sorenson & Stuart, 2000; Stuart & Sorenson, 2003). In this literature, firms are depicted as taking advantage of regionally bounded opportunities. The same directional emphasis – of organizations exploiting their context - is found in works that explore the political relationship between corporations and local elites. Perrow (2002), for example, in a classic statement, has shown how organizational elites construct favorable regulatory frameworks to further their interests (see also, Dobbin & Dowd, 1997).

Our position, in contrast, and consistent with more recent scholarship (Marquis, 2003), is that the relationship between organizations and their regional contexts may not be as unidirectional as the above perspectives imply. Organizations not only shape, but are shaped by communities. Further, regional contexts are not simply bundles of resources but communities that assert
normative pressures. Marquis (2003), for example, has shown that local community linkages are highly durable and has examined how social organizations (e.g. elite social clubs, and cultural associations) provide linking mechanisms by which normative and cognitive processes function. Galaskiewicz (1997) has demonstrated that ties between business and local elites generated collective prescriptions of appropriate corporate philanthropy. Our study indicates that decisions on the utilization of human resources are also influenced by community forces.

Therefore, we propose that the concept of organizational field has been considered too narrowly. Fields are typically defined in terms of actors engaged in patterns of economic exchange or in the regulation of those exchanges (see for example, Greenwood & Suddaby, 2006; Maguire, Hardy & Lawrence, 2004; Scott, Ruef, Mendel & Caronna, 2000; Thornton, 2002). It has proven a useful concept and an appropriate level of analysis for explaining a range of phenomena, not least the occurrence of institutional persistence and change and the emergence and decline of new organizational forms and practices. Paradoxically, however, the concept may have become too abstract and thus divorced from the socio-political community within which institutional and organizational activities occur. Analytical abstraction, intended to better capture contextual influences, has resulted in blindness to how communities affect organizations. The relationship between communities and organizations was, of course, integral to early institutional work (Selznick, 1949) but that focus has largely disappeared. A return to the traditional emphasis upon community would be timely.

Hypotheses 4 and 5 together raise a final observation. Most studies of institutional logics fail to link logics to the higher-order central institutions, as formulated by Friedland and Alford (1991). The important exception is Thornton (2004). Our study indicates why it is important to nest logics in higher-order institutions: it is because doing so exposes two forms of logic shifts. The first shift is
where the relative influence of an institution upon a given sector rises or wanes. In our case, the market institution became dominant in the economic sector. A second type of shift is where the particular logic associated with an institution changes. In our case, the centralized logic of the State was replaced by a decentralized logic. It is only by connecting institutional logics to central institutions that the researcher can expect to capture the type of institutional changes being observed and thus understand the contextual dynamics at play.

**Conclusion.** The notion of institutional logics is an important conceptual advance within institutional analysis and has already delivered interesting theoretical insights. This paper has examined why organizations respond differently to shifts in logic and traced the interaction of organizations, logics and institutions. Much, however, remains to be done. Our case has a specific cultural setting and focuses upon a single organizational practice. Research into different settings covering a broader range of practices would substantiate or qualify the generalizability of our findings. Further, such research would be helpful in assessing how relationships between logics evolve (do dominant logics become more or less intolerant of alternative logics?) and in tracing whether non-conforming organizations subsequently succumb to dominant logics. Attending to these and similar questions is necessary to more fully understand the influence of institutional logics and the processes of institutional change. This paper has indicated the surprisingly complex organizational and institutional responses that occur as logics change.
References


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colectiva: De al regulación legal a la experiencia negocial. XIII Jornadas de estudio sobre la negociación colectiva: Ministerio de Trabajo y Asuntos sociales.


Table 1
Sample Statistics

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<td>No. of firms surveyed</td>
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<td>1876</td>
<td>1703</td>
<td>1716</td>
<td>1920</td>
<td>1776</td>
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<td>1584</td>
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<td>91.9</td>
<td>91.8</td>
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Figure 1
No. of Downsizings Across Years in the Spanish Manufacturing Sector

No. of Downsizings in the Spanish Manufacturing Sector, 1995-2000

- 10% Downsizers
- 5% Downsizers
- 2% Downsizers
### Table 2
Descriptive Statistics and Bivariate Correlations

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<th>Field</th>
<th>Mean</th>
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<td>-0.06</td>
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<td>0.01</td>
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<td>0.03</td>
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<td>3  Performance Change</td>
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<td>5  No. of Previous Downsizings</td>
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<td>6  Downsizing</td>
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<td>8  Firm Age</td>
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<td>0.50</td>
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<td>10 Regional Embeddedness</td>
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<td>0.02</td>
<td>0.35</td>
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<td>0.17</td>
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<td>11 Diversification</td>
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<td>0.44</td>
<td>-0.05</td>
<td>0.10</td>
<td>-0.02</td>
<td>0.15</td>
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<td>12 No. of Branches</td>
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<td>0.86</td>
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Note: 1. *** p < 0.001; ** p < 0.01; * p < 0.05; † p < 0.10. 2. All tests are two-tailed tests. 3. Standard errors in parentheses. 4. Variables are rescaled for ease of presentation.