

THE ROLE OF CONTRACT FRAMING IN THE EMERGENCE OF TRUST: EVIDENCE FROM A FRANCHISE CONTRACT EXPERIMENT

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INTRODUCTION

In the last two decades, management scholars have paid increasing attention to contract design as an essential element of partnership success between trading partners (Argyres, Bercovitz, & Mayer, 2007; Lumineau & Malhotra, 2010; Parkhe, 1993). While there is a large consensus on the fact that both contractual and relational elements are key to a successful partnership, the interplay between the two dimensions remains unclear (Puranam & Vanneste, 2009). Some scholars argue that contract and trust tend to be mutually exclusive (Gulati, 1995), others suggest that contract and trust tend to go hand by hand in mutually enforcing cycles (Ryall & Sampson, 2009).

In this paper, we propose to complement the debate on the contract-trust relationship by exploring the influence of the type of contract on trust in the franchising context; franchising being a growing and pervasive mode of distribution of goods and services (Dant, 2008). In order to study how the franchisee makes sense of a franchise contract, we draw upon the concept of framing. Following Tversky & Kahneman (1981), the term framing is used to indicate that changes in the wording of decision problems can lead to preference reversals. As suggested by Regulatory Focus Theory, the same goal may be framed in either a promotion or prevention manner. We apply this framework to the field of contracts by pointing out the differences between promotion-framed and prevention-framed contracts to arrange a same set of obligations. While a promotion-framed contract puts emphasis on the positive aspects of the franchise relationship, a prevention-framed contract focuses on what could go wrong with the exchange through a general preference for caution, warning, and vigilance. We specifically study the impacts of prevention vs. promotion framing in franchising contracts on the level of trust from the franchisee towards the franchisor.

In our empirical study, we test our hypotheses using a laboratory experiment. We compare promotion-framed versus prevention-framed franchise contracts to study how participants assess their franchisor through the reading of the contract. Our findings suggest that franchise contracts, according to their framing, can encourage certain interpretations and discourage others, and thereby lead the franchisee to different risk perceptions.

THEORETICAL BACKGROUND

In the last few years, much attention has been devoted to examining the interplay between contractual and relational governance mechanisms – and in particular, the relationship between contracts and trust. Some scholars have argued that contracts and trust are often incompatible (Malhotra & Murnighan, 2002). The existence of contracts would “crowd out” trust-related motivations and behavior. Others suggest that contracts and trust are not only compatible, but mutually reinforcing (Gulati & Nickerson, 2008). In this regard, contracts, by encouraging initial cooperation, would facilitate trust. In this paper, we suggest that one way to resolve some of this discrepancy is to consider the fact that all contracts are not perceived in the same way.

The Influence of Framing on Perceptions

In order to understand the effect that contracts have on a franchisee’s perception of the franchisor’s level of trust, we rely on the concept of psychological framing (Tversky & Kahneman, 1981). Frames consist of cognitive schemata that help individuals enact their current situation and respond to events (Fiske & Taylor, 1991). By assigning specific significance, meaning, and content to messages or events, frames guide the decision making. They also contribute to dismiss alternative interpretations and understandings of phenomena, keeping some elements in view while hiding others. Promotion focus is seen when needs for growth, attention to gains, or the attainment of aspirations and ideals are emphasized, whereas prevention focus is seen when needs for security, attention to losses, or the fulfillment of duties and obligations are emphasized (Higgins, 1998).

HYPOTHESES DEVELOPMENT

The Direct Effect of Contract Framing on Trust

As it has been pointed out by prior literature on framing, the type of signals exchanged between parties invokes particular schemata and scripts and thereby guides information search, processing, and evaluation (Mather & Yngvesson, 1981). The type of contract framing directs actors’ understanding of the structural aspects of their governance and influences them to highlight some issues and marginalize others.

When a contract is promotion-framed, it emphasizes flexibility and adaptation between the parties. It is associated with the importance of potential gains. Goals are mostly specified as maximal targets to guide the partner and encourage flexible and creative solutions. Thus, a promotion-based contract encourages flexibility in the franchise relationship by rewarding positive outcomes. The emphasis on collaboration, gains, and positive outcomes tend to give the reader a positive impression (Higgins, 2002). When focusing on the rules, penalties and negative outcomes, a contract mostly framed in a preventive way is likely to induce a tone of vigilance between the franchisee and the franchisor. Such a prevention focus may lead to the development of negative feelings toward the franchisor’s intentions and thus hinder trust from developing between the franchisee to the franchisor. This discussion suggests the following hypothesis:

Hypothesis 1: A promotion-framed contract fosters a higher level of trust than a

prevention-framed contract.

The Moderating Effect of Contract Framing on the Completeness-Trust Relationship

The effect of perceived contractual completeness on trust is likely to be partly influenced by the type of contract framing. Contract completeness may be differently exacerbated when the contract is either mostly promotion-framed or prevention-framed. In promotion-oriented contracts, the perceived completeness is likely to be positively appreciated. As promotion-oriented contracts emphasize gains, cooperation, and flexibility; the perception of a higher level of detail increases the belief that the partner will share information and adopt desirable behaviors (Das & Kumar, 2010). As a consequence, the risk of partner defection may appear lower as perceived completeness of the contract increases. A prevention-oriented contract signals a more legalistic behavior from the franchisor. In prevention-based contracts, a higher perceived completeness thus conveys the feeling that more aspects of the relationship will be submitted to enforcement mechanisms, impersonal relationships, or demanding work standards.

Hypothesis 2: The influence of the level of contractual completeness on trust is higher with a promotion-based contract than with a prevention-based contract.

The Moderating Effect of Contract Framing on the Control-Trust Relationship

Control refers to the degree to which one entity influences the behavior and output of another entity. The type of contract framing may alter the perception of contractual control. Promotion framing may counterbalance the negative influence of the controlling aspects on low levels of trust. In a promotion-framed contract, a focus on strict specifications – such as planned auditing rights, checking procedure, or detailed milestones – may be seen as additional guarantees for the franchisee. The constraining side of control may thus be compensated by a promotion orientation. In contrast to a promotion-framed contract, a prevention-framed contract is likely to strengthen the negative influence of control on trust. Such an orientation emphasizes the fact that the franchisor could rigidly focus on safety and obligations and pursue selfish objectives. Sensitivity to negative outcomes may be reinforced through a prevention focus. In the franchisee's eyes, dishonest or unfair behaviors from the franchisor are made all the more likely.

Hypothesis 3: The negative influence of control on trust is higher with a prevention-based contract than with a promotion-based contract.

RESEARCH METHODS

Participants and Experimental Material

In order to test our hypotheses, we adopted a quasi experiment approach in a context of franchise contracts. 92 French graduate students in business administration (48 men and 44 women) participated in this study in exchange for extra credit.

We first analyzed ten real franchise contracts collected in a law firm in order to collect experimental material. The structure and the clauses of these contracts were found to be quite

constant. We nevertheless identified clear differences in the way they were formulated; thus confirming the distinction between prevention-framed and promotion-framed contracts. Although none of these contracts were exclusively written on a promotion or prevention tonality, for the exploratory purpose of this study we focus on clear-cut contract framing.

In a second phase, we developed a pretend franchisor, Heliosys, specialized in the creation and implementation of innovative devices devoted to solar energy. During this stage, we worked in close collaboration with an attorney and a law professor, both specialized in contract law to preserve a realistic appearance to our fake franchise contracts. Initially, the wording of clauses was voluntarily as neutral as possible. We then introduced modifications in contract wording to create a prevention and as well as a promotion version of the contract.

Procedure

The participants were randomly assigned to the promotion or prevention conditions (46 students were exposed to the promotion-framed contract; 46 other students were exposed to a prevention-framed contract). Each participant read a similar scenario explaining that they had always desired to create their own business. After reading the contract, the participants were asked to fill a questionnaire containing the scales used to measure the variables. We had to eliminate the questionnaires of four foreign students because they admitted to having encountered significant difficulties to understand the nuances of the contracts and items.

Measures

Our dependent variable *Goodwill trust* was measured with a 3-item scale (1=Totally disagree to 7=Totally agree). Principal component analysis leads to consider that the scale is one-dimensional. Furthermore, it exhibits good internal consistency (Cronbach's $\alpha = .83$).

Contract framing is a dummy variable taking the value 1 if the contract is promotion-framed and 0 if it is prevention-framed.

Contract completeness was measured through a 3-item scale (1=Totally disagree to 7=Totally agree). Factorial analysis indicates that the scale is two-dimensional. Internal consistency is acceptable (Cronbach's $\alpha = .75$).

Perceived control exerted by the franchisor was measured through a 4-item scale (1=Totally disagree to 7=Totally agree). Factor analysis indicates that the scale is one-dimensional and internal consistency seems acceptable (Cronbach's $\alpha = .73$).

Control variables. While testing our hypotheses, we controlled the level of cognitive load perceived by the reader of the contract. This variable refers to the amount of cognitive difficulties a reader had to cope with during contract reading. We measured it through a 2-item scale (1=Totally disagree to 7=Totally agree). It shows only a moderate internal consistency (Cronbach's $\alpha = .645$). In addition, we controlled for the level of objective juridical knowledge. We calculated the score by counting the number of correct answers out of 10 questions in a multiple-choice questionnaire. Finally, given that women seem to be less prone to take risks than men (Harris, Jenkins, & Glaser, 2006) and probably to trust the franchisor, gender was indicated by a dummy variable (women=1; men=0).

RESULTS

Analyses provide support for Hypothesis 1. The results indicate that franchise candidates trust the franchisor more when the contract is framed in a promotion way rather than in a prevention way ($\beta = .663$; $p < .005$).

OLS regression analysis and Chow tests were used to test Hypotheses 2 and 3. The effect of completeness upon goodwill trust is moderated by the type of contract framing (the non-constrained model is better than the constrained one, $F(1;80) = 3.993$; $p < .05$). More precisely, completeness only remains significant when the contract is promotion-framed ($\beta = .386$; $p < .005$) and loses its significant effect when the contract is prevention-framed ($\beta = -.038$; n.s.). Completeness has a positive effect on trust when contract is promotion-oriented whereas it has none when contract is prevention-oriented. Hypothesis 2 is then supported.

Contract framing moderates the relationship between perceived control exerted by the franchisor and goodwill trust ($F(1;80) = 4.217$; $p < .05$). In fact, the control exerted by the franchisor only diminishes the level of trust for a prevention-framed contract ($\beta = -.527$; $p < .005$). It has no effect when the contract is promotion-framed ($\beta = -.030$; n.s.). Therefore, Hypothesis 3 is also supported.

DISCUSSION AND CONCLUSION

Contributions and Implications

Our paper seeks to contribute to literature on contract-trust relationships. Researchers have just begun to investigate interactions between contractual and relational facets of collaboration. We extend this field of research by adopting a framing-based perspective. In our quasi-experiment, we find that promotion-oriented contracts induce higher level of goodwill trust towards the franchisor than prevention contracts. We also find that the kind of contract moderates the influence of perceived completeness and perceived control on trust. In promotion-framed contracts, perceived completeness positively influences trust while we find no influence of perceived completeness in prevention-framed contracts. Moreover, the perceived control from the franchisor negatively affects trust in prevention contracts while it has no influence in promotion contracts. Such findings lead us to discuss two main theoretical implications.

Firstly, our study contributes to the debate over the relationships between the contractual and relational dimensions of partnerships (Puranam & Vanneste, 2009). Mechanisms tying contractual and relational dimensions therefore vary according to the type of the contract. This is a notable difference from most of the prior studies which have looked at linear or invariant relationships between these dimensions (e.g., Poppo & Zenger, 2002).

Secondly, our findings emphasize the need for taking into account the individual level in contract studies. In TCE, the relationship performance strongly depends on the alignment between objective contract content and transaction attributes (Williamson, 1985). As such, this approach voluntarily overlooks potential asymmetries of representation of the contract. TCE-based approaches do not raise the question of contract interpretation and it is assumed that the partners have the same understanding of the contract. Our study shows that this overemphasis on transaction as a unit of analysis may hide a part of contract influence (through its framing) on the relationship. In the same way, previous studies have insufficiently taken into account the perceptual dimension of contracts.

Limitations and Suggestions for Future Research

This study, like any other, has several limitations that open avenues for future research. First, in our study, we assumed that the franchisor and the franchisee had no prior ties and that the franchisee did not take part in the contract drafting. Secondly, we study franchise contracts. In this regard, other types of partnerships could be studied to confirm our findings. Third, as we focused on the initial level of goodwill trust, we are also hopeful that future research will further examine the impact of contract framing on other types of trust at the different stages of a partnership. Fourth, in our empirical analysis, we artificially introduced variance in the contract framing to clearly distinguish promotion-based contracts from prevention-based contracts. In the future, research may explore more specifically how different balances of promotion versus prevention focus impact the partnership.

REFERENCES AVAILABLE FROM THE AUTHORS

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