

# How Contracts Influence Trust and Distrust

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*Despite the scholarly interest in contracts and trust governing interorganizational relationships, an understanding of how contracts influence trust remains limited by the way in which the interaction between the two constructs is conceptualized. By bringing together recent advances in the literature on interorganizational governance, I consider (a) the controlling and the coordinating dimensions of formal contracts, (b) trust and distrust as two distinct constructs, and (c) both the calculative and noncalculative aspects behind the development of trust and distrust. Drawing upon information-processing theory, I develop a series of propositions about how each contractual dimension influences the development of trust and distrust by inducing specific information-processing and decision-making mechanisms. My theoretical analysis leads me to discuss the trade-offs inherent in governance choices, and I discuss the implications of my propositions for the literature on interorganizational governance mechanisms.*

**Keywords:** *contract; trust; distrust; information processing; control; coordination; calculative and non-calculative judgments; interorganizational relationships*

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Interorganizational relationships, such as alliances, supply chain agreements, joint ventures, or outsourcing partnerships, have become increasingly important for achieving competitive advantage (Parmigiani & Rivera-Santos, 2011). The literature has suggested that two main governance mechanisms are at play in interorganizational relationships (see Cao & Lumineau, in press, for a review). A first stream focuses on the role of the formal contract as a safeguard against opportunism and conflict (Lumineau & Quélin, 2012; Mesquita & Brush, 2008). A second stream focuses on relational governance, and trust in particular, as a

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mechanism regulating interorganizational exchange (Heide & John, 1992; Macneil, 1980). As firms often simultaneously use both contractual and relational governance mechanisms to organize their exchanges (Bradach, 1997), a debate has ensued to determine how contracts and trust influence each other. While some scholars have argued that the existence of contracts can crowd out trust-related motivations and behavior (Bernheim & Whinston, 1998; Malhotra & Murnighan, 2002), there is evidence to suggest that contracts may in fact serve to facilitate trust by encouraging initial cooperation (Gulati & Nickerson, 2008; Poppo & Zenger, 2002). I suggest in this study that this debate exists because each approach has focused on a part of a bigger issue. For example, Malhotra and Murnighan (2002) suggest that contracts diminish trust, whereas K. Mayer and Argyres (2004) argue that contracts can increase trust. While these two articles are often cited in ways that suggest contradictory results, I propose instead that they are not necessarily incompatible. I provide a logical theoretical structure that implies that with a reconceptualization of how governance mechanisms operate, a more nuanced and theoretically consistent understanding about how contracts influence trust can be reached than that which is currently supported by empirical literature. I do this by integrating and extending three streams of research: (a) the controlling and the coordinating dimensions of formal contracts, (b) trust and distrust as two distinct constructs, and (c) both the calculative and noncalculative aspects behind the development of trust and distrust.

First, I distinguish between the different dimensions in which contracts operate—the controlling dimension and the coordinating dimension. Second, I make a conceptual distinction between trust and distrust. Traditionally, trust has been conceptualized as a continuum bounded by the diametric poles of trust and distrust (Hosmer, 1995; Rotter, 1971). However, there is potential value in viewing trust and distrust as separate but related constructs (Hardin, 2004; Lewicki, McAllister, & Bies, 1998) where the lack of trust does not necessarily signify distrust. Third, I examine both the calculative and the noncalculative judgments behind trust and distrust development. Whereas the rational-choice perspective (Coleman, 1990; Williamson, 1993) has emphasized the calculative side of trust development, a complementary stream of research has considered noncalculative trust based on intuitive judgments and automatic frames of reference (Kramer, 1999; R. Mayer, Davis, & Schoorman, 1995). Thus, whereas calculative trust and distrust involve probabilistic decision making and more controlled judgments, noncalculative trust and distrust involve heuristic decision making and more automatic judgments.

Prior research on the effects of contracts on trust has tended to be narrowly focused on a particular subset of these distinctions and has therefore overlooked the importance of examining the distinctions together as a whole. I argue that these lines of research are inherently related since contracts are an important way of processing information, while trust and distrust development is directly influenced by the nature of decision making and information processing. Specifically, I draw on organizational information-processing literature (Thompson, 1967; Tushman & Nadler, 1978) to extend prior research on the relationship between formal contracts and both trust and distrust development. The information-processing view of the firm characterizes organizational structures as systems with distinct information-processing capacities. I contribute to the literature on interorganizational governance mechanisms by pulling together and extending these three streams of research to show that the nature of the contract is likely to influence the way information is processed. In this paper, I focus on why initial contracts may support or hamper the positive and/or negative

outcomes of ex post trust and distrust at the interorganizational level. My analysis reveals important trade-offs in the choice of contractual governance and the influence of these trade-offs on the development of trust and distrust between partners.

## Theoretical Foundations

### *Contracts as Instruments of Control and Coordination*

Some scholars have been interested in the role of organizational structures, and particularly, interorganizational contracts, with regard to the functions of control and coordination (Faems, Janssens, Madhok, & Van Looy, 2008; Malhotra & Lumineau, 2011). On the one hand, contracts may be focused on control issues. Such issues primarily relate to the problem of cooperation between organizations. Through the use of authority mechanisms (Williamson, 1985), the controlling side of the contract defines the rights and obligations of the parties to minimize deviant behavior (Lyons & Mehta, 1997; Salbu, 1997). On the other hand, contracts may serve as framework to guide coordination. The coordinating dimension of contracts is a means to achieve a desired collective outcome by providing the appropriate linkages between partners (Macneil, 1978; Malhotra & Lumineau, 2011). Contractual coordination fosters information sharing and communication to facilitate goal congruence between partners (Macaulay, 1963). Coordination clauses help to define the objectives of the relationship and assign tasks among organizations (Mooi & Ghosh, 2010). Contractual coordination supports a common understanding of what goals partners wish to pursue and how they want to achieve these goals (Ryall & Sampson, 2009).

In this paper, I build on the work of those who have called for both a broader perspective on contractual complexity and a more nuanced approach to studying the effects of contracts on relational attitudes, particularly, trust. Following prior works on interorganizational contracts (Lumineau & Henderson, 2012; Reuer & Ariño, 2007), I suggest that the level of complexity can be analyzed separately for each contractual dimension. In fact, contracts may differ on the number, elaborateness, and stringency of provisions devoted to control issues, and contracts may differ on the number, elaborateness, and stringency of provisions devoted to coordination issues.

### *Trust and Distrust as Two Distinct Constructs*

Following Rousseau, Sitkin, Burt, and Camerer (1998), I define trust as the willingness of a party to be vulnerable to the actions of another party based on positive expectations regarding the other party's motivation and/or behavior. In line with Lewicki et al. (1998), I extend this definition to see trust in terms of confident positive expectations regarding another's conduct and distrust in terms of confident negative expectations regarding another's conduct (see also Luhmann, 1979). Confident positive expectations refers to a belief in, a propensity to attribute virtuous intentions to, or a willingness to act on the basis of another's conduct. Conversely, confident negative expectations refers to a fear of, a propensity to attribute sinister intentions to, or a desire to buffer oneself from the effects of another's conduct (Lewicki et al., 1998).

Two main yet contradictory approaches to conceptualizing trust and distrust have emerged. The first approach, the unidimensional view, assumes that trust and distrust are at the

opposite ends of one continuum (Deutsch, 1958; Worchel, 1979). In such models, trust and distrust are considered perfect substitutes and are mutually exclusive (Lewicki & Bunker, 1996). From this perspective, increasing trust is all that is needed to avoid the possibility of distrust (Rotter, 1980). In contrast, the second approach, the bidimensional view, posits that trust and distrust are conceptually distinct constructs that can vary independently from each other (Lewicki et al., 1998; Luhmann, 1979). Bidimensional models of trust were founded on the principles of separating constructs of negative valence from those of positive valence (Cacioppo & Berntson, 1994; Kaplan, 1972) as well as research on conditions of ambivalence under which positive-valent and negative-valent attitudes can coexist (Priester & Petty, 1996). The bidimensional view proposes that trust and distrust exhibit opposite valences. Increasing empirical evidence supports the idea that high trust is not the same as low distrust (e.g., Cho, 2006; Connelly, Miller, & Devers, 2012; Dimoka, 2010). In line with the bidimensional approach, I argue that trust and distrust are separate constructs. I suggest below that the elements contributing to the development of trust are not necessarily the same as the elements supporting the development of distrust.

### *Trust and Distrust as Calculative and Noncalculative Judgments*

It is possible to apprehend reality in two fundamentally different ways: one labeled intuitive, automatic, natural, and experiential; and the other analytical, deliberative, and rational (Epstein, 1994; Fiske & Taylor, 2008). Following this distinction, two main perspectives regarding the origin of trust can thus be distinguished in prior literature (Kramer, 1999; Schilke & Cook, in press). One stream of scholars has developed a rational-choice perspective to explain the decision to trust (Coleman, 1990; Hardin, 1992). By this logic, trust and distrust represent social judgments based on probabilistic decision making. In a cost-benefit analysis, it is presumed that actors make rational choices by maximizing their expected gains and minimizing their expected losses. Such decisions are products of calculative considerations of the incentive structure determined by economic reasoning (Dasgupta, 1988).

Besides this rational approach focusing on the cognitive capacities of the decision makers, an alternative approach in line with research giving affect and emotion a direct and primary role in motivating behavior (Forgas, 2000; Zajonc, 1980) has focused on the noncalculative facet of decision making. For this noncalculative component, decision makers rely on intuitive judgments that allow them to make decisions quickly and easily (Slovic, Finucane, Peters, & MacGregor, 2004; Tversky & Kahneman, 1974). They use frames of reference consisting of preconceived notions based on experience or observation to draw inferences. In the case of automatic processing, action is highly routinized and habitual, as decisions are mindlessly triggered by environmental stimuli. Intuition, instincts, gut feelings, systematic biases, preconceived notions, clichés, stereotypes, or prejudice are important factors behind noncalculative judgments (Fiske & Taylor, 2008). From this viewpoint, trust and distrust judgments may be primarily based on category-based processes, such as age, sex, race, geographical origin, friendship, kinship, or belonging of managers to the same alumni network or professional association. Judgments formed on the basis of heuristic processing reflect cue information that is easily handled, and as such, heuristic processing makes minimal cognitive demands (Chen, Duckworth, & Chaiken, 1999). Here, trust and distrust judgments are based on limited information (Kelley, 1972; Slovic & Peters, 2006) and analyzed in a systematic and noncalculative way (Lewicki & Brinsfield, 2011; Nooteboom, 2002).

In accordance with prior research (Gulati & Sytch, 2008; McEvily, Perrone, & Zaheer, 2003; Rousseau et al., 1998), I suggest that a complete account of trust and distrust development should encompass both calculative and noncalculative facets. In fact, systematic and heuristic modes of judgment may co-occur (Chaiken, Liberman, & Eagly, 1989; Petty & Cacioppo, 1986), as the presence of one type of social judgment does not obviate the other (McEvily, 2011; Schilke & Cook, in press).

### *The Positive and Negative Outcomes of Trust and Distrust*

Although scholars have traditionally considered trust as “good” and distrust as “bad” (Lewicki et al., 1998), recent research has pointed out that both trust and distrust potentially have positive outcomes as well as negative outcomes. Research on trust has long been influenced by an “optimistic bias” (Gargiulo & Ertug, 2006: 165) with normative assumptions upholding the benefits of trust. For instance, trust has been shown to be desirable and to have many potential positive outcomes, such as increasing the level of satisfaction in the relationship (e.g., Gainey & Klaas, 2003) or improving performance (e.g., Gulati & Nickerson, 2008; Robson, Katsikeas, & Bello, 2008). Recently, however, scholars have started investigating more nuanced aspects of trust and have pointed out the potential dark side of trust. Because of its “considerable downside” (McEvily et al., 2003: 99), trust may produce systemic biases that can result in judgments that are substantially flawed and costly (Gargiulo & Ertug, 2006; McAllister, 1997; Zahra, Yavuz, & Ucbasaran, 2006). A number of studies have suggested that trust may impose constraints on the monitoring of the environment and also create room for opportunistic behavior (Langfred, 2004; Skinner, Dietz, & Weibel, 2014). In particular, trust relationships can expose organizations to risks of betrayal (Jones & Burdett, 1994; S. Shapiro, 1987).

Overall, the literature has suffered from the opposite bias to that of trust analysis by mostly highlighting the disadvantages of distrust. Distrust is traditionally associated with a set of deleterious effects, and it is generally assumed that distrust is inherently negative. Prior research has shown how distrust between partners could lead to deception, skepticism, and suspicion (Deutsch, 1958), reduced autonomy (Kipnis, 1996), or even sabotage (Zand, 1972). Distrust may also result in retaliation that causes a conflict to escalate because of the development of hypervigilance, rumination, and fear (see Lewicki, 2007, for a review). Despite this overwhelming focus on the dark side of distrust, some researchers have considered that distrust is not necessarily dysfunctional and may even be healthy in certain circumstances (Lewicki, Tomlinson, & Gillespie, 2006). Luhmann (1979) explicitly recognizes the importance of distrust in many social relations. He notes that very often, “substantial injections of distrust are needed” because it keeps people alert and capable of innovations, “not to fall back into the customary pedestrian ways of relying on one another” (Luhmann, 1979: 91). Lewicki et al. (1998) also discuss the potentially positive outcomes of distrust. They observe how distrust may function to reduce complexity and vulnerability by allowing undesirable conduct to be seen as likely. Thus, by supporting wariness, watchfulness, and anticipation of injurious conduct, distrust may give rise to constructive questioning and help parties to take protection actions. Distrust could thus produce beneficial outcomes and have functional consequences (Atkinson & Butcher, 2003; Lewicki, 2007). By promoting suspicion, distrust may incite the discovery of what a potentially hidden motive might be (Marchand & Vonk, 2005). It may thus bring some valuable benefits, such as overcoming naivety and blindness in the assessment of a partner’s intentions. Distrust may be helpful for monitoring a partner’s

**Table 1**  
**The Positive and Negative Outcomes of Trust and Distrust (With Examples of Representative Publications)**

	Positive Outcomes	Negative Outcomes
Trust	Creates confidence Decreases uncertainty Fosters openness Supports psychological safety Encourages knowledge sharing and joint problem solving Reduces monitoring costs Cook & Schilke (2010); Dyer & Chu (2003); Lewis & Weigert (1985); Luhmann (1979); Robson, Katsikeas, & Bello (2008); S. Shapiro (1987)	Entails overconfidence Supports lack of objectivity and thinking alike Reduces constructive discussions Leads to overlook due diligence Constrains monitoring of the environment Creates room for opportunistic behavior Encourages overembeddedness, rigidity, and strategic blindness Anderson & Jap (2005); Gargiulo & Ertug (2006); Jeffries & Reed (2000); Langfred (2004); Lewicki, McAllister, & Bies (1998); Skinner, Dietz, & Weibel (2014); Zahra, Yavuz, & Ucbasaran (2006)
Distrust	Supports monitoring of vulnerabilities (e.g., potential leakage of valuable knowledge) Encourages constructive skepticism Enables healthy suspicion Supports vigilance Atkinson & Butcher (2003); Kee & Knox (1970); Kramer (1996); Lewicki et al. (1998); Luhmann (1979); J. Mayer & Mussweiler, (2011); Priem & Nystrom (2014); Schul, Mayo, & Burnstein (2008)	Develops fear, paranoia, and skepticism Leads to assume harmful motives Increases monitoring costs Fosters rigidity Deutsch (1958), Erikson (1963), Kipnis (1996), Lewicki (2007), Zand (1972)

behavior, ensuring compliance, and preventing exploitation (Kee & Knox, 1970). For instance, Kramer (1996) has noted the merits of a certain amount of “prudent paranoia” as a useful way of constantly gathering information, questioning one’s interpretations, and developing healthy vigilance. Table 1 synthesizes the main arguments developed in the literature so far about the potential positive and negative outcomes of both trust and distrust.

By assuming that trust is necessarily a functional governance mechanism, prior research on the interplay of governance mechanisms has focused on the positive outcomes of trust. In my opinion, the most relevant question is not how contracts substitute or complement the positive outcomes of trust but rather how contracts influence both the positive and negative outcomes of trust and distrust. To the extent that trust and distrust are distinct, “it would be misleading to assume either that the positive predictors of trust would necessarily be negative predictors of distrust, or that the positive consequences of trust would necessarily be influenced negatively by increased distrust” (Lewicki et al., 1998: 448). In the next part, I explain why contracts can be seen as information-processing systems regarding trust and distrust development.

### *Contracts as Information-Processing Systems*

The information-processing view of the firm (Galbraith, 1973, 1974; Thompson, 1967; Tushman & Nadler, 1978) characterizes organizational structures as systems with distinct

information-processing capacities. According to the information-processing perspective, organizational structures affect not only the nature of information readily available but also the motivation to search for and employ other information for making decisions (Turner & Makhija, 2012). Organizational structures shape the nature of the actions taken by firms to gather and interpret information to manage and make decisions about the relationship with their trading partners (Cyert & March, 1963; Jacobides, 2007). For instance, Tushman and Nadler (1978: 617) note that “different organizational structures have different capacities for effective information processing.” They devise a means to structure attention and identify how problems are perceived and handled (Jacobides, 2007; Turner & Makhija, 2006).

As interorganizational relationships are second-order organizations that lack the feature of a unitary corporate actor (Borys & Jemison, 1989), contracts are central organizational structures in these relationships (Stinchcombe, 1985). In line with the information-processing approach, I suggest that organizational structures create frames and filters that influence how organizations focus their attention and process information in their environment (Thompson, 1967). Organizational structures—such as contracts—and their associated mechanisms influence the processing of information through a range of different elements, including rules, operating procedures, planning, and incentive systems (Makhija & Ganesh, 1997; Mani, Barua, & Whinston, 2010). These organizational structures nevertheless vary in their information-processing capacities. In particular, “as coordination and control mechanisms become more complex, the total system has increased information processing capacity” (Tushman & Nadler, 1978: 618). In addition to the gathering of information, contractual structures influence the way information is interpreted and how firms make sense of its importance (Daft & Weick, 1984; Fiol, 1994). Furthermore, contractual mechanisms influence the synthesis of information, that is, the ability to develop linkages and understand interconnections among different information (Thomas & McDaniel, 1990; Weick, 1979). In the following parts, I specifically consider how contracts influence both trust and distrust development through their control and coordination dimensions.

## Propositions Development

I first discuss the influence of contractual control on the calculative judgments behind trust (Proposition 1) and distrust (Proposition 2), then on the noncalculative judgments behind trust (Proposition 3) and distrust (Proposition 4). Second, I discuss the influence of contractual coordination on the calculative judgments behind trust (Proposition 5) and distrust (Proposition 6), then on the noncalculative judgments behind trust (Proposition 7) and distrust (Proposition 8). All the propositions have to be understood *ceteris paribus*, or for a given type of transaction. The level of contractual complexity (i.e., relatively low or relatively high) has to be assessed in function of the transaction attributes and the nature of the relationship. For instance, some contracts simply need to have a larger number of control provisions because of the complexity of the transaction and the need to protect specific investments. Boundary conditions are considered in the Discussion section.

### *How Contractual Control Influences Calculative Trust and Distrust*

By defining the incentive structure, standards, and principles of accepted actions that guide and constrain firms in managing their relationship, the controlling dimension of

contracts makes the rights and obligations as well as the potential sanctions more explicit (Stinchcombe, 1985).<sup>1</sup> Contractual control, through its focus on the definition on the acceptable behaviors in the relationship and the penalties in case of violation of these rules, enables partners to make a more accurate assessment of the risks and the payoffs. It helps parties to assess the risks with the potential gain for the trustor and the trustor's potential loss if the trustee does not fulfill its expectations (Coleman, 1990). As such, contractual control increases the type of information necessary to make a deliberative cost-benefit analysis, which is the basic mechanism behind calculative decision making. Through a clear statement of performance measurements, conflict arbitration, exit policy, penalty, and rewards, this facet of contracting requires the parties to take into account the legal and economic consequences of violating the explicit terms of the contract (Goo & Huang, 2009; Poppo & Zenger, 2002). By reinforcing the probabilistic side of decision making and the informational requirements to deal with risk, contractual control supports trust involving calculative judgments. It strengthens such judgments based on rational components by supporting the analytic requirements of calculative decision making (Turner & Makhija, 2012). More credible safeguards and more compelling specifications of the potential gains and losses improve the level of predictability in business interactions. By decreasing uncertainty and increasing assurance, contractual control increases the positive outcomes of trust in the relationship (Zaheer, McEvily, & Perrone, 1998). Thus, I suggest the following:

*Proposition 1:* By influencing calculative judgments behind trust, contractual control enhances the positive outcomes of trust.

In addition to influencing the development of trust, contracts may also influence the development of distrust. Contracts may have a focus on control, with provisions specifying the right to regularly audit the partner, defining what is and what is not allowed, or inflicting penalties for the violation of behaviors. For instance, a specification of regular on-time delivery assessments reduce the ability of organizations to deviate from duties or obligations codified in the formal contract. Contractual control orients information processing toward the monitoring and scrutiny of the partners' activities (Provan & Skinner, 1989). This facet of contracts helps to check actions that can be verified as being in conflict with codified contractual terms (B. Klein & Murphy, 1988). Contractual control may improve the verifiability of outcomes and make easier the detection of divergence from the agreed terms of the exchange, which altogether support the internal enforcement of the terms of the agreement between the parties. In this way, the contract enhances the efficiency of rational evaluation to draw inferences about the partner. As such, it particularly supports distrust based on calculative judgments. This concern with protection, safety, and prevention produces vigilance (Forster, Higgins, & Bianco, 2003; Weber & Mayer, 2011). It reduces the risk of a lack of prudence and fosters healthy suspicion and caution (Lewicki et al., 1998; Luhmann, 1979). Contractual control thus supports the benefits of distrust by ensuring that the organization is alert to potential dangers or misbehaviors. Hence, I propose the following:

*Proposition 2a:* By influencing calculative judgments behind distrust, contractual control enhances the positive outcomes of distrust.

Although contractual control is likely to strengthen the positive outcomes of distrust, a very strong reliance on the mechanistic rules of contractual control may also foster the



negative outcomes of distrust. A strong controlling focus may raise a constant policing, watching, and supervising of the partner's performance. In such a case, decision makers relying mostly on calculative judgments become focused on sanctions and incentives. Such a "carrot-and-stick" approach with a strict oversight may create rigidity and over-monitoring. Prior literature has shown that very detailed contracts limit strategic flexibility as the relationship evolves (Argyres, Bercovitz, & Mayer, 2007; Crocker & Reynolds, 1993). The adoption of such legalistic remedies (Sitkin & Roth, 1993) imposes a barrier between the parties that stimulates an escalating spiral of formality and distance (Zucker, 1986) and leads to a need for more rules (S. Shapiro, 1987). This negative influence of excessive control is, for instance, documented by Cialdini (1996), who observes that high levels of monitoring and surveillance systems communicate that the parties are not trusted, potentially breeding distrust and resentment in return. Because of psychological reactance, when parties feel coerced into complying with a behavior, they may try to cheat or sabotage monitoring systems (Kramer, 1999). For instance, in their study of an alliance in the animated film industry, Lumineau, Fréchet, and Puthod (2011) observe how a strong focus on the contractual system of penalties introduced skepticism and rigidity in the relationship.

Although the determination of the actual threshold is ultimately an empirical issue depending on the type of transaction and the partners' perception, I suggest that the level from which contractual control, by supporting the calculative judgments behind distrust, is likely to enhance the negative outcomes of distrust situates where parties perceive the focus on contractual control as greater than what seems reasonable or appropriate given the circumstances. These arguments are in line with Mintzberg (1994), who notes that "formalization is a double-edged sword, easily reaching the point where help becomes hindrance." He adds,

The two sides of this delicate edge can be identified as the difference between "systems that facilitate thinking" and "systems that (try to) do it." . . . The difference may be subtle but it is often easy to identify. One serves the process already in place, responding to it in its own terms, while the other seeks to impose its own imperatives, becoming an exercise in exercising control. To quote one Texas Instruments executive on that company's systems, "We made 'em bureaucratic. We used the system as a control tool, rather than a facilitating tool." (Mintzberg, 1994: 387)

Thus, contractual control is perceived as inordinate when parties perceive a mismatch between the tasks to perform and the control systems they must accommodate (see also Sitkin & Roth, 1993, and Sitkin & Stickel, 1995). In fact, contractual control is likely to backfire when parties feel coerced into complying with a behavior. With this undue emphasis on the mechanistic rules of contractual control, contracts are associated with adversarialism and the pursuit of self-interest and, in turn, foster formalism and stiffness. In such a situation of hypervigilance, parties tend to overprocess information and scrutinize every social interaction for hidden meaning and sinister purpose (Tripp & Bies, 2009), thus fostering the negative outcomes of distrust.

*Proposition 2b:* By influencing calculative judgments behind distrust, excessive contractual control enhances the negative outcomes of distrust.

### *How Contractual Control Influences Noncalculative Trust and Distrust*

I suggest that the controlling dimension of contracts is likely to interact differently than outlined above when trust and distrust rely mostly on noncalculative judgments. For trust based on noncalculative judgments, decision makers rely on intuitive judgments that allow them to make decisions quickly and easily (Slovic et al., 2004; Tversky & Kahneman, 1974). Intuition, instincts, gut feelings, and systematic biases are important factors behind noncalculative judgments (Fiske & Taylor, 2008).

A detailed examination of the articles that have posited a substitutive relationship between contracts and trust reveals a focus, albeit a generally implicit one, on three elements: the control function of the contract, the affective facet of trust, and the functional side of trust (e.g., Bernheim & Whinston, 1998; Malhotra & Murnighan, 2002; Sitkin & Roth, 1993; Tenbrunsel & Messick, 1999). The underlying argument in these works is that the mere fact of introducing a contract may signal bad intentions (Ghoshal & Moran, 1996; Macaulay, 1963), thereby disrupting what may otherwise be a cycle of trust and reciprocity leading to mutual trust development (Pillutla, Malhotra, & Murnighan, 2003). A reliance on control mechanisms changes the “decision frame” that guides the information processing and behavior of exchange partners (Tenbrunsel & Messick, 1999). The inclusion of many control provisions to protect the relationship may induce a “business” rather than an “ethical” framing of the relationship (Ghoshal & Moran, 1996). It is likely to create a crowding out effect and undermine the intrinsic motivation to cooperate (Frey & Jegen, 2001). By focusing attention on meeting strict specifications, contractual control undermines the sense of value congruence and creates an emphasis on vigilance (Ferrin, Bligh, & Kohles, 2007). The logic of formal control goes against the emotional and affective links existing between the partners by implying insufficient confidence. It increases the salience of prospects for opportunistic behavior and is often perceived as intrusive and reducing the autonomy (Christ, Sedatole, & Towry, 2012). As it is likely to contradict the implicit conventions and norms underlying noncalculative trust, the use of explicit formal control may have a pernicious effect on established understanding (Enzle & Anderson, 1993; Olson, Barefoot, & Strickland, 1976).

*Proposition 3:* By influencing noncalculative judgments behind trust, contractual control diminishes the positive outcomes of trust.

Through its focus on monitoring, contractual control focuses attention on the strict respect of the rules defined between the parties in the contract, which are the directions and procedures stating what must or must not be done in particular situations in the relationship. For instance, in the case of a cross-border alliance marred by prejudice between the partners' home nations (e.g., Pakistani-Indian, Serbian-Croatian, or Israeli-Palestinian alliances), it is likely that partners develop intuitive and automatic judgments driven by affect and emotion (Arikan & Shenkar, 2013; Hong & Kang, 2006; Maheswaran, 1994). When conflicts between home nations are frequent, “considerable animosity hatred and prejudice are imprinted” in the memories of the parties (Bar-Tal, 2000: 355), and as such, it becomes part of the parties' societal beliefs (Russell & Russell, 2010). These noncalculative judgments behind distrust development are based on preconceived notions triggered by category-based stereotypes (Devine, 1989; Russell & Russell, 2010). Stereotypes and country-of-origin biases refer to the associations about a particular group, and they are often activated automatically (Blair,

2002) with little cognitive activity and irrespective of their accuracy (Cunningham, Johnson, Raye, Gatenby, Gore, & Banaji, 2004). Negative stereotypes and the emotions that they generate have also been linked to discriminatory behavioral tendencies (Cuddy, Fiske, & Glick, 2007; Russell & Russell, 2010). Monitoring the partner and defining penalties may first reinforce mutual suspicion (Malhotra & Murnighan, 2002; Strickland, 1958) and promote a stigmatization process (Sitkin, 1995) because such practices conflict with the logic of automatic and intuitive inferences behind noncalculative distrust. Thus, contractual control may enhance the negative outcomes of distrust. As it does not necessarily leave much room for contextual interpretation and understanding the partner's motivations, a rigorous system of sanctions and penalties is likely to exacerbate the dysfunctional facet of noncalculative distrust (Sitkin & Roth, 1993). By focusing attention on detecting divergences from the formal rules (Lyons & Metha, 1997), a contract strongly focused on controlling aspects assumes harmful motives and signals nonexpectation of reciprocity. Thus, I suggest the following:

*Proposition 4a:* By influencing noncalculative judgments behind distrust, contractual control enhances the negative outcomes of distrust.

Even though, as suggested in Proposition 4a, contractual control may first have a negative effect by contradicting the logic of decision making based on intuitive judgments, when distrust is based on noncalculative judgments, a strong focus on contractual control may diminish the negative outcomes of distrust. When distrust between partners is rooted in systematic biases, preconceived notions, clichés, stereotypes, or prejudice (Devine, 1989; Fiske & Taylor, 2008; Slovic & Peters, 2006), it is likely that contractual control may come to counterbalance some of the irrationality of a purely intuitive judgment (Blair, 2002). Such mechanisms take place from the point where the contract is sufficiently detailed to support a rational interpretation of the partner's behaviors. Below this threshold, when control provisions are not sufficiently developed, the contract does not provide evaluation criteria thorough enough to counterbalance intuitive judgments. In contrast, above this threshold, the contract will offer in-depth specifications and rigorous procedures to gather information as it supports a more rational interpretation of the partner's actions and behaviors. Thus, from this level of complexity, the contractual control provisions diminish the disadvantages of purely intuitive judgments and, thus, the negative outcomes of distrust. For instance, contractual control may define rules between the parties in the contract that are the directions and procedures stating what must or must not be done in particular situations in the relationship. Contractual control improves the efficiency of the evaluation about the other party through the implementation of rigorous procedures to gather information (Lumineau et al., 2011). Such objective evaluation criteria introduce unbiased factors to assess the partner and the relationship. When this logic of decision making is sufficiently well established in the relationship, it is a dispassionate and detached way to go beyond prejudice and personal feelings (Devine, 1989). In the example of a cross-border alliance marred by animosity and prejudice between the partners' home nations (Arikan & Shenkar, 2013; J. Klein, Ettenson, & Morris, 1998; Maheswaran, 1994), a high level of contractual control introduces more factual and verifiable mechanisms than purely intuitive judgments. Clear rules of monitoring and inspection, for instance, are less likely to be influenced by emotions and personal biases. Contractual control may then minimize the dysfunctional aspects of distrust, such as fear, paranoia, and skepticism, that often accompany intuitive judgments (Lewicki, 2007).

*Proposition 4b:* By influencing noncalculative judgments behind distrust, excessive contractual control diminishes the negative outcomes of distrust.

### *How Contractual Coordination Influences Calculative Trust and Distrust*

In addition to its controlling function, contracts may also be used to coordinate activities. Contractual coordination includes clauses describing project schedules and milestones (Ryall & Sampson, 2009), interfaces for partner interaction (Susarla, Subramanyam, & Karhade, 2010), reporting procedures (Reuer & Ariño, 2007), processes of adjustments (Goo, Kishore, Rao, & Nam, 2009), or the designation of specific persons as dedicated alliance managers (Ryall & Sampson, 2009). This emphasis on coordination mechanisms in the contract is likely to reinforce information gathering and thus support calculative judgments (K. Mayer & Argyres, 2004) by means of provisions specifying feedback mechanisms or contingency plans (Ring & Van de Ven, 1994). In addition to the gathering of information, coordination mechanisms also facilitate information processing by encouraging a cohesive interpretation of the objectives (Morgan & Hunt, 1994; Puranam, Singh, & Zollo, 2006). Since contractual coordination clauses can facilitate communication and support the exchange of information between partners (Gulati & Singh, 1998; Mesquita & Brush, 2008), they narrow the uncertainty to which an exchange is exposed (Luo, 2002). For instance, the specification of communication processes in the formal contract—such as the frequency, relevance, and timeliness of interactions—facilitates consistent knowledge exchange that reinforces positive evaluation of the partner's faithfulness (Goo & Huang, 2009). Hence, I propose the following:

*Proposition 5:* By influencing calculative judgments behind trust, contractual coordination enhances the positive outcomes of trust.

Furthermore, coordination provisions make it easier for parties to preempt misunderstandings and conflicts of the kind that raise questions about the intent of the other party (Argyres et al., 2007; Vlaar, Van den Bosch, & Volberda, 2007). For example, organizations that define procedures that allow them to coordinate on when and how to expend effort in the relationship are less likely to face situations where one party feels overworked or exploited, or is concerned that the other side is not meeting its reciprocal obligations (Malhotra, 2004). Improved coordination processes among firms promote learning about the likely behavior of the partner and minimize intuitive skepticism and paranoia toward the other firm (Lewicki & Bunker, 1996). As they support communication channels through which differences in perspective may be resolved, coordination provisions help prevent misunderstandings about the intent of another party. This accumulation of knowledge is a good way to know where the partner stands in its attitude and inclination toward untrustworthy behavior in the relationship (Doz, 1996).

*Proposition 6:* By influencing calculative judgments behind distrust, contractual coordination diminishes the negative outcomes of distrust.

### *How Contractual Coordination Influences Noncalculative Trust and Distrust*

Contractual coordination mechanisms may foster information sharing between the partners (Goo et al., 2009; Lumineau & Henderson, 2012). Communication and progressive

learning about the partner's expertise and behavioral inclinations support noncalculative trust stemming from the increased identification with the partner (Gulati & Sytch, 2008; Lewicki & Bunker, 1996). By developing a common understanding, partners internalize each other's values and interests (D. Shapiro, Sheppard, & Cheraskin, 1992) and accumulate knowledge about each other's behavioral motives and levels of competence (Ring & Van de Ven, 1994). Contractual coordination mechanisms make it more difficult for parties to misconstrue each other's intentions, as illustrated in the analysis of information systems outsourcing projects at a leading global bank made by Fischer, Huber, and Dibbern (2011). In one of their case studies, they observe that parties started their relationship with "weekly calls," which were specified within the contract. They then progressively moved to additional calls on a voluntary basis. Thus, contractually prescribed meetings and calls between partners supported social interactions, which in turn promoted trust. Such convergence of the other's goals and values ensures that both firms adhere to the same set of mutualistic behavioral principles (R. Mayer et al., 1995). Thus, through enhanced learning about the partner and through increased identification, contractual coordination particularly promotes the benefits of trust.

*Proposition 7a:* By influencing noncalculative judgments behind trust, contractual coordination enhances the positive outcomes of trust.

The influence of contractual coordination on noncalculative trust may nevertheless backfire. As I explained above, contracts that are strongly focused on coordinating aspects increase information flows (Malhotra & Lumineau, 2011; Reuer & Ariño, 2007). I suggest that the threshold from which contractual coordination may become excessive and enhance the negative outcomes of trust situates where too much sharing of information and confidence between partners produces undesired rigidities. Prior literature has suggested that too close relationships may have a dark side and may lead partners to a lack of objectivity and blindness (Anderson & Jap, 2005; Gargiulo & Ertug, 2006; McAllister, 1997), which will enhance the negative outcomes of trust. An excessive emphasis on coordination mechanisms may increase the risk of overembedded relationships marked by an inclination to accept information at face value (Gargiulo & Ertug, 2006; Langfred, 2004; Lewicki et al., 1998). In situations where trust relies mostly on intuitive judgments, a high dependence on contractual coordination may encourage overconfidence and an overlooking of evidence that speaks against the partners' trustworthiness (Skinner et al., 2014; Zahra et al., 2006). Therefore, I suggest the following:

*Proposition 7b:* By influencing noncalculative judgments behind trust, excessive contractual coordination enhances the negative outcomes of trust.

Clauses of coordination may help partners communicate and maintain an interorganizational interface. The dark side of noncalculative distrust often relies on the idea that the partner "doesn't think like us" and may, therefore, do the "unthinkable" (Sitkin & Roth, 1993: 371), prompting fear that the partner has ulterior motives and is an opportunist (Bies & Tripp, 1996; Kramer, 1999). By supporting an exchange of information, contractual coordination helps to reduce the barriers between the firms and the dysfunctional aspects of distrust that rely on noncalculative judgments. While signals of incongruence between

**Table 2**  
**The Influence of Contractual Control and Contractual Coordination**  
**on Trust and Distrust**

		Contractual Control	Contractual Coordination
Trust	Calculative	Enhances positive outcomes (Proposition 1) <sup>a</sup>	Enhances positive outcomes (Proposition 5) <sup>a</sup>
	Noncalculative	Diminishes positive outcomes (Proposition 3) <sup>b</sup>	Enhances positive outcomes (Proposition 7a) <sup>a</sup> Then enhances negative outcomes (Proposition 7b) <sup>b</sup>
Distrust	Calculative	Enhances positive outcomes (Proposition 2a) <sup>a</sup> Then enhances negative outcomes (Proposition 2b) <sup>b</sup>	Diminishes negative outcomes (Proposition 6) <sup>a</sup>
	Noncalculative	Enhances negative outcomes (Proposition 4a) <sup>b</sup> Then diminishes negative outcomes (Proposition 4b) <sup>a</sup>	Diminishes negative outcomes (Proposition 8) <sup>a</sup>

<sup>a</sup>Beneficial effects (i.e., increase in positive outcomes or decrease in negative outcomes).

<sup>b</sup>Detrimental effects (i.e., increase in negative outcomes or decrease in positive outcomes).

organizations' values or motives can undermine confidence and lead to distrust (Bies & Tripp, 1996; Lewicki et al., 1998), contractual coordination facilitates interaction between partners and improves mutual adjustment (Thompson, 1967) and a mutually satisfactory compromise (Gundlach, Achrol, & Mentzer, 1995). Furthermore, the use of contractual coordination signals a desire to communicate and share information and thereby reduces suspicion and skepticism between partners.

*Proposition 8:* By influencing noncalculative judgments behind distrust, contractual coordination diminishes the negative outcomes of distrust.

## Discussion

### *The Trade-Offs of Contract Design*

Drawing upon information-processing theory, I have developed a series of propositions about how the controlling and the coordinating dimensions of formal contracts influence trust and distrust in different ways by inducing specific information-processing and decision-making mechanisms. My study specifically suggests distinct trade-offs for the design of contractual control and contractual coordination, as they do not have parallel effects on trust and distrust. As summarized in Table 2, contracts can have both positive influences (either by increasing the positive outcomes of trust or distrust or by decreasing their negative outcomes) and negative influences (either by increasing the negative outcomes of trust or distrust or by decreasing their positive outcomes). Thus, my study shows why contract design involves inherent tensions between maximizing positive outcomes of trust and distrust while minimizing their negative outcomes.

### *Revisiting the Contract/Trust Interaction*

I extend the “complements-versus-substitutes” debate (see Cao & Lumineau, in press, for a review) in several ways. First, my distinction of two major contractual functions—control and coordination—has led me to argue why contracts may influence trust and distrust outcomes differently. Each contractual dimension induces particular types of behaviors in the relationship and leads to very different reactions. The current investigation helps to clarify some apparent discrepancies in prior research. As I mentioned in the Introduction, Malhotra and Murnighan (2002) suggest that contracts diminish trust, whereas K. Mayer and Argyres (2004) argue that contracts can increase trust. While these two papers are often cited in ways that suggest contradictory results, they are actually not necessarily incompatible because Malhotra and Murnighan (2002) focus on the control function of contracts, whereas K. Mayer and Argyres (2004) focus on coordination. My framework, which provides some support for both papers, suggests that future research on contracts and trust should more explicitly distinguish between control and coordination functions and should avoid overly simplified evaluations of contractual complexity. Had such distinctions not been made in the current investigation, it would have been impossible to accurately assess the coexistence of the distinct effects of contracts on trust and distrust. Second, my study is one of the first to analyze the relationship between contracts and both trust and distrust. I argue that by ignoring the potential effect of contracts on distrust, prior studies have overlooked an important part of relationship development. My framework specifically highlights the inherent ambivalence of contracts and the need to implement trade-offs between trust and distrust management.

### *The Dark Side of Trust and the Bright Side of Distrust*

In addition, my study extends research on the “dark side of trust,” which has remained relatively underexamined despite multiple calls for further attention (Gargiulo & Ertug, 2006; McEvily et al., 2003). Prior literature on the dark side of trust has traditionally suggested a “Goldilocks theory” where there would be an optimal level between too much and too little trust. Trust would be beneficial up to a critical point where too much trust (e.g., a situation of “overembeddedness”) would become detrimental to the relationship (Langfred, 2004; Parkhe & Miller, 2000). My study extends this approach by suggesting to jointly consider (a) both trust and distrust and (b) both their positive and their negative outcomes. As trust and distrust may coexist, it is important to try to reap the benefits from both and compensate for the weaknesses associated with each of them individually. By introducing a difference of nature between trust supported by calculative judgments and that supported by noncalculative judgments, I consider the joint effects of positive and negative outcomes of trust that may occur in parallel. I also advance arguments for “the bright side of distrust” and suggest that distrust is not necessarily negative with detrimental consequences (see Table 2). In turn, I consider the joint effects of positive and negative outcomes of distrust that may occur in parallel. I specifically show that contracts can have dual effects by simultaneously supporting the different facets of trust and distrust. An interesting opportunity for future research would be to increase our understanding of how and when such outcomes may compensate or not.

### *From Trust Repair to Relational Management*

My framework also has important implications for the growing literature on repairing trust (Kim, Dirks, & Cooper, 2009; Kramer & Lewicki, 2010; Schilke, Reimann, & Cook,

2013). First, prior literature has focused on trust repair with a concern on “the conditions that are conducive to the enhancement and maintenance of trust” (Kramer & Lewicki, 2010: 246). This effort has been motivated by an implicit focus on the functional side of trust. In turn, scholars have tried to explain how to rebuild the deficits of trust (Kramer & Lewicki, 2010). In contrast, I consider both the potentially functional and dysfunctional sides of trust and the need to manage both aspects. Second, prior literature on relationship repair has traditionally focused on trust issues. I complement this stream of research by pointing out the importance of distrust issues. I argue that it may not be enough to try to repair a damaged relationship by focusing on trust issues. Third, relationship repairs may need an intervention on both trust and distrust. As distrust is more far-reaching than trust since it more readily generalizes across the different contexts of the relationship (Connelly et al., 2012; Hardin, 2004), distrust management may be even more important than trust management. In prior literature, I am aware of only one study directly discussing distrust: Gillespie and Dietz (2009) stand as an exception by considering distrust in trust repair. However, their study rests on the traditional assumption that distrust is necessarily a dysfunctional component that needs to be reduced. By bringing together these three limitations, I call future studies to move from a narrow focus on trust building or trust repair to a broader interest in “relational management.” This latter perspective highlights four potential areas of action. As suggested by my theoretical framework, in some circumstances, (a) the positive outcomes of trust may need to be strengthened or rebuilt, (b) trust may be dysfunctional and relationship management may need to be directed on the minimization of the negative outcomes of trust, (c) the negative outcomes of distrust may need to be minimized, and/or (d) the beneficial side of distrust may need to be strengthened. In other words, prior literature has focused on Topic (a) (e.g., Lewicki, 2006; Lewicki & Bunker, 1996); the dark side of trust (b) has been studied but is not yet very connected to the trust repair literature. One exception (Gillespie & Dietz, 2009) has discussed Topic (c), while, to the best of my knowledge, Topic (d) has been ignored in the trust repair literature. My study is thus the first to include both trust and distrust issues with both their positive and negative outcomes. My extended conceptualization of trust and distrust in relation to contracts thus offers a broader range of relationship repair strategies than what has been proposed so far in the existing literature.

### *Towards a Compartmentalization Strategy*

If I have argued in the previous section that trust and distrust may be repaired, some violations of trust are irreparable, and not all harms are forgivable (Tripp & Bies, 2009), while relationship dissolution is not always an option. Thus, some firms may have to deal with a violation of trust (or detrimental distrust) but still have to interact and work with each other. My distinction between different contractual functions and their respective influences on trust and distrust may be particularly useful in such circumstances. In line with my propositions, firms can use their contracts to support a compartmentalization strategy. By isolating trust and distrust issues, firms can deal with conflicting issues separately. For example, the detrimental outcomes of noncalculative distrust may be prevented through the institutionalization of control mechanisms in the contract. In parallel, the positive outcomes of calculative trust may be promoted through the implementation of coordination provisions. In this regard, the contract may depersonalize demanding requests and support external attribution



of sanctions (Luhmann, 1979). This strategy may be used by alliance managers as a psychological defense mechanism to avoid cognitive dissonance and relieve the anxiety caused by conflicting expectations about their partner. Compartmentalization allows conflicting ideas to coexist by inhibiting direct or explicit acknowledgement and interaction between separate issues. By leveraging this dialectical approach, firms can separate the different contractual functions and benefit from the coexistence of their distinct channels of influence on trust and distrust. Clarifying the distinctions between controlling and coordinating functions in contracts and their specific influences should also enable collaboration managers to more effectively diagnose situations of dysfunctional trust and/or dysfunctional distrust. It should help them to segment their relationships to downplay the negative outcomes of trust and distrust while enhancing the positive outcomes. Managers need to be aware that efforts to build trust do not always eliminate distrust and vice versa. My study is a guide to see how contracts can help to leverage relational outcomes.

## Scope Conditions and Conclusion

### *Contextual Factors*

I encourage future research to extend my theoretical framework to incorporate differences in the trust and distrust developments across contexts (see Bamberger, 2008, about the importance of context theories). Future works should go beyond a universalist approach of trust and distrust to consider the potential influence of contextual factors, such as the socioeconomic conditions; societal values; national and organizational culture; formal and informal institutions; normative and cognitive environments; ethical, religious, and historical influences; or legal and regulatory frameworks (Doney, Cannon, & Mullen, 1998; Saunders, Skinner, Dietz, Gillespie, & Lewicki, 2010). It would be particularly interesting to test to what extent my propositions are specific to the contexts in which relationships are embedded. Thus, besides a consideration of the transaction types (e.g., stakes, complexity, and strategic importance of the transaction), I call for context-sensitive extensions of my theoretical framework recognizing contextual differences.

Future research should also look at the influence of both the joint history of the parties (through the number of transactions or the length and nature of their relationship) and each party's previous history as a contractual party (through, for instance, its level of experience and reputation in the industry). As prior research has consistently shown that the age of the firms plays a critical role in the firms' strategic behaviors and outcomes (e.g., Sørensen & Stuart, 2000), I also recommend future empirical research to control for the age of the partners. Furthermore, I suggest that future research should consider both the absolute size of the parties as well as their relative size to reflect the relative power and dependence between the parties (Casciaro & Piskorski, 2005; Lumineau & Malhotra, 2011) as they may influence the development of trust and distrust.

Consistent with most prior research on the interplay between contracts and trust in inter-organizational relationships, my analysis is at the dyadic level. On the one hand, I believe that further inquiry into the potential asymmetries of trust and distrust between the partners, both in terms of quality—for example, calculative or noncalculative—and in terms of levels, would be fruitful. On the other hand, different individuals who are internal to the firm—such as the CEOs, managers, and employees—and external to the firm—such as lawyers and other

third parties—are involved in the contract design and the relationship. I thus encourage further research connecting my model to measures of trust/distrust at different levels and trust/distrust in different referents (see Fulmer & Gelfand, 2012; Schilke & Cook, 2013).

Future studies could also extend my arguments by looking at other types of information-processing systems in the development of trust and distrust. They could, for instance, focus on the role of organizational structures as information filters or belief-confirming cognitive mechanisms influencing the nature of relational judgments. They could also analyze broader governance choices, such as the difference between market, hybrid forms, and hierarchy.

### *Dynamics of the Interplay*

For analytical purposes, I have focused on the relationship between the initial contract at time  $T_0$  and the ex post trust and distrust at time  $T_1$ . Given the dynamic nature of both trust and contracts and their mutual influence, I see many opportunities to extend this approach by studying complementary causal relationships between the constructs, such as (a) the antecedents (at  $T - 1, T - 2, \dots, T - n$ ) of the initial contract at  $T_0$ ; (b) the levels of trust and distrust at  $T_2, T_3, \dots, T_n$ ; or (c) the possible renegotiations of the initial contract at  $T_2, T_3, \dots, T_n$ . Parties have a certain level of trust/distrust when they enter into a contract. Such beliefs regarding the other party may be based on previous interactions in which organizations have had opportunities to learn about each other (Parkhe, 1993; Uzzi, 1997). These beliefs may also exist when firms did not have prior interactions together. In particular, firms may collect information from the press or third parties about their partner's reputation (Lui & Ngo, 2005). They may also rely on their partner's institutional categories (such as its location or industry) to assess their trustworthiness (Gambetta & Hamill, 2005). Furthermore, the level of trust/distrust between the parties is unlikely to be static but, rather, is dynamic. It is also likely that in some relationships, the trust/distrust development leads firms to renegotiate their initial contract, and in turn, this contractual renegotiation fosters new trust/distrust dynamics.

### *Empirical Investigations*

Many opportunities exist for researchers to test my propositions. First, although scholars studying interfirm contracts are often confronted with confidentiality issues (Furlotti, 2007), many opportunities exist with secondary data, such as Securities and Exchange Commission filings or the Contracting and Organizations Research Institute database (e.g., Corts & Singh, 2004), law firms' archival data (e.g., Lumineau & Oxley, 2012), case study (e.g., K. Mayer & Argyres, 2004), policy capturing technique (e.g., Connelly et al., 2012), or survey (e.g., Poppo & Zhou, 2014). Second, the operationalization of contractual constructs is still at the early stage, especially to measure different contractual dimensions. It is possible to distinguish various approaches in existing empirical works: a factor analysis from a list of key clauses (Reuer & Ariño, 2007), discussion with lawyers and professors in law (Malhotra & Lumineau, 2011), or a cognitive approach of contractual complexity (Hagedoorn & Heslen, 2009). As these approaches are not mutually exclusive, future research could benefit from a combination of these different empirical logics. Third, for analytic purposes, I have focused my analysis on the influence of contracts on trust and distrust development. However, it may be that contractual design is influenced by the nature of relational ties between the partners at the beginning of the transaction. The study of the influence of contracts on trust and distrust may actually face endogeneity issues as the contractual choice may be based on the

expected value of the outcome. Thus, future investigations of my framework may consider experiments where the contractual variables are exogenous and randomly assigned. Fourth, future studies could measure the trade-offs highlighted in this paper through a comparison of the marginal benefits versus the marginal costs of increasing each contractual dimension. Such trade-offs can be measured by asking respondents for attractiveness ratings of stimuli consisting of pairs of attributes, for example, a reduction of one type of positive outcomes for an increase of another type of negative outcomes (Keeney & Raiffa, 1993). Trade-offs between two dimensions can then be assessed by asking how much of one dimension must be given up in order to compensate for a change in the other dimension, with respect to the effect of these changes on the rating (Baron, 2000). A direct empirical comparison of trust and distrust outcomes could nevertheless be challenging because they are of different natures.

Although my insights call for further inquiry and validation in empirical settings, I believe the theoretical framework developed here highlights promising conceptual connections between research on organizational structures and unexplored cognitive microfoundations underlying collaboration outcomes.

## Note

1. Control provisions include, for example, the designation of certain information as proprietary and subject to confidentiality (Reuer & Ariño, 2007: 319), termination/resolution clauses (Lumineau & Quélin, 2012: 66), right to audit/inspection, or financial penalties for underperformance (Ryall & Sampson, 2009: 913).

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