

1                   **Enforcement against Contract Violation in Chinese**  
2                   **Construction Projects: Impacts of Trust and Perceived**  
3                   **Intentionality**

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5   **Abstract:** Violations happen frequently in construction project due to opportunistic intentions  
6   and/or the lack of awareness of obligations and/or honest attempts to react to unforeseen  
7   circumstances. Dealing with contract violation plays an important role in managing projects.  
8   The aim of the research is to investigate the impact of trust, analyzed in terms of  
9   goodwill-based and competence-based trust, on both contract and social enforcement after  
10   contract violation. Questionnaire survey, partially based on semi-structured interviews, was  
11   used for data collection. All the data is from Chinese construction industry since it provides a  
12   fertile context to explore the research questions. The results show that: 1) reputation is used  
13   as social enforcement in practice and the severity of it is reflected by the scope of disclosure,  
14   2) the two dimensions of trust have opposite influences on severity of contract and social  
15   enforcement via different mediating effects of perceived intentionality. Specifically,  
16   goodwill-based trust reduces severity of enforcement via decreasing perceived intentionality,  
17   while competence-based trust increases severity of enforcement by increasing perceived  
18   intentionality. A comprehensive and nuanced understanding for managing contract violation  
19   is generated in this research, which will help project managers to manage the contract  
20   violation and the interfirm relationships more effectively.

21   **Keywords:** Contractual breach; Contract enforcement; Social enforcement; Trust; Perceived

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## 23 **Introduction**

24 It is of great importance to design construction contracts efficiently and effectively (Wang *et*  
25 *al.*, 2018) since contracts can not only motivate and regulate behaviors in construction  
26 projects, but also play a crucial part in managing interfirm relationships. However, contracts  
27 can never play their designed roles without fulfillment by contracting parties. Based on two  
28 fundamental behavioral assumptions in transaction cost economics (TCE), including  
29 opportunism and bounded rationality (Williamson, 1985), contracts, no matter how well  
30 designed, can potentially be violated. Since “some individuals are opportunistic some of the  
31 time” (Williamson 1985, p.64), one party may breach the contract intentionally if its benefit  
32 exceeds the estimated cost. Because of bounded rationality, contract parties have limited  
33 processing capacity and cognitive biases. They also have a tendency towards cognitively  
34 economizing (Foss and Werber, 2016). Thus, apart from opportunism, contractual violations  
35 may also happen due to a lack of awareness of obligations and honest attempts to react to  
36 unforeseen circumstances (Antia and Frazier, 2001). In another word, potential contract  
37 violations exist from the day contracts are created, no matter how well they are designed.  
38 What is real is rational. Thus, it is important to discuss how to deal with contract violation.  
39 The violated party’s response towards contract violations will influence transaction outcomes,  
40 such as satisfaction with problem resolution (Mooi and Gilliland, 2013), then influence the  
41 relationship between transaction parties and potential cooperation opportunities in the future.  
42 Thus, how to deal with contract violations needs to be clarified in order to manage the  
43 relationships and performance effectively. However, researchers pay more attention to  
44 contracts as governance mechanism, structure and renegotiation compared to contract breach  
45 enforcement (Johnson and Sohi, 2016). Among the four research interests in contracting  
46 theory, contract breach enforcement is the one has been discussed the least. Thus, more  
47 endeavors are needed to explore contract enforcement after violation, especially its

48 mechanism.

49 Among the limited studies related to enforcement after violation, some focus only on contract  
50 enforcement (Antia and Frazier, 2001, Antia and Fisher, 2006, Chen *et al.*, 2018), which  
51 refers to the severity of the violated party's response to the other party's violation of  
52 contractual obligation. Some focus only on social enforcement (Johnson and Sohi, 2016),  
53 which refers to the resolution of contractual violations by using approaches outside the  
54 contract. Only a few studies take both contract enforcement and social enforcement into  
55 consideration at the same time (Mooi and Gilliland, 2013, Iacobucci, 2014). However, it is  
56 crucial to consider both contract and social enforcement since contract violations, which  
57 occur in different transactions, should also be aligned with contract and social enforcement in  
58 a discriminating way to reduce the unnecessary transaction cost.

59 Considering the important impacts of enforcement on transaction outcomes, it's vital to find  
60 out the antecedents of the severity of enforcement. Perceived intentionality plays an  
61 important role when people make decisions related to the severity of social response or  
62 punishment towards negative behaviors (Ohtsubo, 2007). In this research, perceived  
63 intentionality refers to the violated party's perception of how planned, foreseeable, and  
64 desirable action aligns with the violating party's violation behavior. It is noteworthy to clarify  
65 that the perception might be right or wrong. But that's not within this research interests since  
66 transaction costs will be occurred anyway.

67 Trust plays an important role in determining perceived intentionality (Harmon *et al.*, 2015).  
68 Apart from the influence on perceived intentionality, trust also influences the severity of  
69 enforcement (Chen *et al.*, 2018) and contractor's relational behaviors (Fu *et al.*, 2015) directly.  
70 However, extant studies related to trust pay more attention on how trust improves positive  
71 aspects, for example better performance and relationship (Wicks and Jones, 1999, Cai *et al.*,  
72 2010, Chioocchio *et al.*, 2011, Guo *et al.*, 2013). Apart from discussing how trust improves

73 positive results in transactions, how trust influences the dark side in transactions, which is  
74 severe enforcement in this study, should also be explored.

75 Thus, the authors respond to the call for more studies after contract violations by exploring  
76 the following research questions: 1) how different dimensions of trust influence contract and  
77 social enforcement; and 2) how perceived intentionality mediates these influences. The  
78 theoretical framework is shown in **Fig. 1**. The relationships among trust, perceived  
79 intentionality and enforcement are explored mainly by quantitative data from questionnaire  
80 survey, partially supported by qualitative data from semi-structured interviews.

81 The aim of the research is to investigate the impact of trust, analyzed in terms of  
82 goodwill-based and competence-based trust, on both contract and social enforcement after  
83 contract violation.

84 This research contributes to the current body of knowledge related to contracting theory and  
85 trust, and provides insightful recommendations for project managers practically.

## 86 **Background and Hypotheses**

### 87 **Contract enforcement after violations**

88 Johnson and Sohi (2016) classify the current literature on contracts into four areas: contracts  
89 as governance mechanisms, contract structure, contract breach enforcement, and contract  
90 renegotiation. Compared with the rich amount of studies in the other three areas, studies  
91 related to contract breach enforcement are limited.

92 Extant studies related to contract enforcement could be classified into two areas: a) how to  
93 prevent contract violations before they happen (Radygin and Entov, 2003, Guo and Jolly,  
94 2008, Weber, 2015), and b) the response to one party's violation of contractual obligation  
95 (Antia and Frazier, 2001, Antia and Fisher, 2006, Stoyanova, 2009, Suzor, 2012, Mooi and  
96 Gilliland, 2013). This research focuses on violated party's reactions after contractual  
97 breaches.

98 In this body of work, researchers identified the antecedents of contract enforcement (Gilliland  
99 and Bello, 2002, Antia and Fisher, 2006, Jin *et al.*, 2013), the different types of contract  
100 enforcement (Noorderhaven, 1992, Stoyanova, 2009, Suzor, 2012, Weber, 2015, Johnson and  
101 Sohi, 2016), and the consequences of contract enforcement (Mooi and Gilliland, 2013). Only  
102 a few studies explore the mechanisms of how antecedents influence enforcement. Antia and  
103 Frazier (2001) explore how the severity of contract enforcement is influenced by the delivery  
104 channel and network factors from the perspective of agency theory. Malhotra and Lumineau  
105 (2011b) address how contract structure influences the likelihood of dispute and determine the  
106 following cooperation. Harmon *et al.* (2015) explore how people interpret contract violation  
107 and how trust and relationships would be affected by these interpretations. Chen *et al.* (2018)  
108 also examine how prior ties influence severity of contract enforcement via trust.

109 Among these studies related to contract violation, only Mooi and Gilliland (2013) consider  
110 contract enforcement and social enforcement at the same time. They find out that both of  
111 these two enforcement types would reduce satisfaction. However, misaligned enforcement  
112 would induce worse problems. As one part of governance, enforcement, with different costs  
113 and competences (Williamson, 1996), should also be aligned with various contractual  
114 violations. Thus, studies related to enforcement after contract violation should take both  
115 contract and social enforcement into consideration at the same time.

### 116 **Social enforcement after violations**

117 Apart from contract enforcement, social enforcement also provides a corrective action for  
118 remedying violations. Contract enforcement is an expected way to deal with the breach since  
119 it is available through the signed contract. However, this legal enforcement may not be a  
120 practicable option sometimes, especially under the circumstance in emerging markets such as  
121 China with more difficulties to verify information, and weaker legal systems for protecting  
122 and enforcing contracts (Luo, 2006). Things would be even worse when the violation

123 happens in the violating party's country and they happen to be powerful in local area (Griffin  
124 and Husted, 2015). Macaulay (1963) also find out that transactions could operate successfully  
125 with relatively little legal sanctions.

126 Problems still exist even if contract enforcement is a viable option since it could be costly and  
127 lead to zero-sum outcomes (Krasa and Villamil, 2000). Costs are incurred in time, effort and  
128 expenditure. Significant relational patterns exist in all legal and economic transactions  
129 (Macneil, 1978). Contract enforcement may also destroy the established relationship between  
130 contracting parties, which is an erosion of social capital as a corporate asset that could  
131 facilitate exchange and influence the development of intellectual capital (Nahapiet and  
132 Ghoshal, 1998). After all, contracts only address the need for sanctions if relational behavior  
133 departs from the social norms and legal requirements (Macneil, 1974). All of the above  
134 studies are based in western context. This damage might lead to worse results in Chinese  
135 context since relationship in China is suited to handle complexity and uncertainty in the  
136 future transactions and is a time and energy consuming asset to build (Boisot and Chile,  
137 1996).

138 Studies related to contract enforcement are scant, research on social enforcement is scarce.  
139 Similar to this study, the research of Johnson and Sohi (2016) pays attention to enforcement  
140 options after contract violations. Based on in-depth interviews, they find two main categories  
141 of social enforcement, including integrative and compromising. However, the results of their  
142 study are categories, which are not feasible to do questionnaire with scale.

143 Social enforcement refers to the severity of one party's response to another's violation of  
144 contractual obligations in social institutions, which is guided by shared expectations and  
145 norms. The existing shared expectations and norms could form a company's reputation in its  
146 industry. What's more, a company's reputation could also give its new partners an image even  
147 before their transactions. Thus, reputational sanctions might be one of the ways to conduct

148 social enforcement. When a transaction party breaches the contract, the violated party would  
149 lower the reputation of the other party in the reputation system as a sanction to reshape the  
150 default party's reputation in the whole industry market. However, whether reputational  
151 sanction works as social enforcement in practice needs more exploration.

152 Reputation is introduced into management research from sociology (Vlasic and Langer,  
153 2012), where it is seen as part of social identity (Nguyen and Leblanc, 2001), which could be  
154 shaken by a violation and rebuilt by new input from a violated party. Reputation is regarded  
155 as sets of attributes, which are inferred from its past actions, of a firm from an economics  
156 perspective (Weigelt and Camerer, 1988). Reputation is seen as an idiosyncratic capital of a  
157 company, which needs investment and a long time to develop from the strategy perspective  
158 (Vlasic and Langer, 2012). Organizational researchers treat reputation as an intangible  
159 resource contributing to the performance and even survival of an organization (Hall, 1993,  
160 Rao, 1994). This research adopts the definition from Vlasic and Langer (2012) and defines  
161 reputation as a key stakeholder's perceptual representation of an organization's observable  
162 past, current and expected, future performance. Contractual violation with intentionality is  
163 such a past action, which would rebuild the violating party's attributes.

164 In general, both legitimacy and reputation regulate what and how organizations should work  
165 to govern exchanges. Legitimacy is achieved if reputation is satisfied at its minimum level.

### 166 **Perceived Intentionality**

167 People make a distinction between intentional and unintentional actions when they explain  
168 others' behavior (Malle and Knobe, 1997). The concept of perceived intentionality was  
169 introduced into management research from psychology. The authors adopt the studies of  
170 Malle and Knobe (1997) and Lafrenière *et al.* (2016) and define perceived intentionality as  
171 acts that are planned, foreseeable, and desirable on the part of agent in this research.

172 Researchers have found out that perceived intentionality would influence people's



173 decision-making, especially when they evaluate negative behaviors. Ohtsubo (2007) posit  
174 that perceived intentionality plays a crucial role when people determine how much blame the  
175 negative behavior deserves. In general, the negative behavior incurs more blame if the  
176 intentionality is perceived by the violated party (Kleinke *et al.*, 1992, Hogue and Peebles,  
177 1997, Malle and Bennett, 2002). All of these studies provide a prediction that intentional  
178 contract violation would incur severer enforcement. Thus, the authors develop the following  
179 hypotheses:

180 ***H1a. Perceived intentionality is positively associated with the severity of contract***  
181 ***enforcement.***

182 ***H1b. Perceived intentionality is positively associated with the severity of social***  
183 ***enforcement.***

#### 184 **Two Dimensions of Trust**

185 Trust is believed to influence the severity of contract enforcement since it determines how the  
186 violations are interpreted (Chen *et al.*, 2018). It is also said that social contract in general, and  
187 therefore social enforcement in particular, requires trust. For example, Rousseau *et al.* (1998)  
188 draw attention to trust in social contracts, Macneil (1974, 1978) cites the social dimension of  
189 contracting, Smyth *et al.* (2010) argue trust is foundational to effective relationships in a  
190 project context.

191 The authors follow the studies of Nooteboom (1996), and define trust as the willingness of a  
192 party to be vulnerable to the actions of another party based on positive expectations regarding  
193 the other party's motivation and/or behavior. After a meta-analysis in literature in trust,  
194 Delbufalo (2012) finds out that operationalization of trust would influence the conclusion  
195 generated from a particular study. Thus, it's important to choose the components of trust. In  
196 this research, trust is dimensioned into goodwill-based trust, which refers to the belief in the  
197 other party's intention to perform in a trustworthy manner, and competence-based trust,

198 which refers to the belief in the other party's ability to complete tasks as promised. The  
199 reasons for distinguishing trust into these two components are as follows. Firstly, there are  
200 five cues that people would use for judging whether an agent's behavior is intentional or not:  
201 (a) a desire for an outcome, (b) beliefs about a behavior leading to that outcome, (c) a  
202 resulting intention to perform that behavior, (d) the skill to perform the behavior, and (e)  
203 awareness of fulfilling the intention while performing the behavior (Malle, 1999). By  
204 distinguishing trust in this way, this study grasps the cues of perceived intentionality.  
205 Secondly, previous studies related to enforcement also distinguish trust in this way  
206 (Lumineau and Henderson, 2012, Chen *et al.*, 2018, Yao *et al.*, 2018). What's more,  
207 expectations based on competence are found to be dominant in incidents like contract  
208 violations in projects (Kaulio, 2018).

209 From the transaction cost perspective, contracts are designed to safeguard the specific  
210 investments and diminish moral hazards in the transactions (Eckhard and Mellewigt, 2006a)  
211 since exchange parties are opportunistic at times (Williamson, 1996). Under such  
212 circumstances, a contractual violation might be regarded as opportunistic since the violated  
213 party probably concludes the behavior to be opportunistic in pursuit of the violating party's  
214 own self-interest.

215 However, the violation would be perceived less intentional if the level of goodwill-based trust  
216 between the exchange parties is high. The violated party, who perceives the default party as  
217 generally trust-worthy, may perceive the violation as less intentional since two cues for  
218 judging whether an agent's behavior is intentional or not would be reduced. The two cues are  
219 a desire for an outcome, and a resulting intention to perform that behavior since both of the  
220 two cues contradict with an intention to perform in a trust-worthy manner. In addition, norms  
221 of equity and reciprocity also exist if the level of goodwill-based trust between exchange  
222 parties is high (Ven, 1992). This also results in the violation being perceived as less

223 intentional. Thus, the authors posit the following hypothesis:

224 ***H2a. Goodwill-based trust is negatively associated with the level of perceived intentionality.***

225 However, competence-based trust has opposite influence on perceived intentionality  
226 according to attribution theory. When the competence-based trust is high between the  
227 exchange parties, it means that the violated party believes the default party has the ability to  
228 complete tasks as promised. However, contract violation still occurs. The default party,  
229 whether intentionally or not, will be perceived more favorable since it is known that they  
230 have the competence to rectify the breach or complete what is incomplete. Further, Malle  
231 (1999) has proved that skill has explanatory functions regarding “how” events are conducted  
232 rather than “why” they are. The default party has two skills. One skill is the ability to  
233 complete the contract; the other skill is the competence to carry through a default in a specific  
234 way. A decision to default puts an intention into an action. Thus, the authors develop the  
235 following hypothesis:

236 ***H2b. Competence-based trust is positively associated with the level of perceived***  
237 ***intentionality.***

238 Since collaboration and emotional investment may be attached to the willingness to trust  
239 (McAllister, 1995, Robson *et al.*, 2008), the violated party perceives the information provided  
240 by the default party as reliable and hence regard it as unintentional, thus take a less severe  
241 enforcement. In addition, remedies tend to be substantial rather than restorative and the  
242 response to a breach tends to be desirable to restore present and cooperation in the future  
243 according to Macneil (1974). While severe enforcement would destroy the established  
244 relationship between the contracting parties (Nahapiet and Ghoshal, 1998), less severe  
245 sanction can maintain a degree of cooperation in the future. Since goodwill-based trust will  
246 influence the severity of enforcement directly by itself (Chen *et al.*, 2018, Yao *et al.*, 2018),  
247 the authors propose that the mediation effect of perceived intentionality would be partial.

248 Thus, the authors develop the following hypotheses:

249 ***H3a. Goodwill-based trust is negatively associated with the severity of contract***  
250 ***enforcement.***

251 ***H3b. Perceived intentionality partially mediates the inhibiting effect of goodwill-based trust***  
252 ***on severity of contract enforcement.***

253 ***H3c. Goodwill-based trust is negatively associated with the severity of social enforcement.***

254 ***H3d. Perceived intentionality partially mediates the inhibiting effect of goodwill-based trust***  
255 ***on severity of social enforcement.***

256 The influence of competence-based trust is more complex. Competence-based trust might  
257 diminish the severity of enforcement directly by facilitating the exchange of information  
258 between transaction parties and improving the satisfaction of relationship (Pinto *et al.*, 2009,  
259 Guo *et al.*, 2013). What is more, the likelihood of continued collaboration after the rise of a  
260 conflict is higher in the presence of competence-based trust (Malhotra and Lumineau, 2011b).  
261 Since both parties in a transaction desire to continue cooperation in the future and avoid  
262 interference with this goal (Macaulay, 1963), severe enforcement will be avoided under such  
263 circumstance. Thus, competence-based trust would directly reduce the severity of  
264 enforcement.

265 However, another opposite influence also exists. As has been discussed in the preceding part,  
266 competence-based trust would increase the perceived intentionality, thus improve the level of  
267 enforcement severity. The problem here is which mechanism dominates the influence of  
268 competence-based trust on the severity of enforcement. The authors posit that the enhancing  
269 influence from the mediating effect of perceived intentionality would be dominant since  
270 perceived intentionality plays crucial role when people evaluate negative behavior, and  
271 determines how much blame this behavior deserves (Ohtsubo, 2007). Because of the direct  
272 influence from competence-based trust on enforcement, the mediation effect should be partial.

273 Thus, the authors develop the following hypotheses:

274 *H4a. Competence-based trust is positively associated with the severity of contract*  
275 *enforcement.*

276 *H4b. Perceived intentionality partially mediates the enhancing effect of Competence-based*  
277 *trust on severity of contract enforcement.*

278 *H4c. Competence-based trust is positively associated with the severity of social*  
279 *enforcement.*

280 *H4d. Perceived intentionality partially mediates the enhancing effect of Competence-based*  
281 *trust on severity of social enforcement.*

## 282 **Methods**

### 283 **Data collection and samples**

284 Research questions are answered by quantitative data collected by questionnaire survey,  
285 which is partially based on qualitative data collected by semi-structured interviews.

286 Context, including the culture, political, legal, and economic system at one time (Tsui, 2006),  
287 is vital for conducting management researches because it: 1) is necessary for theory  
288 development and application (Tsui, 2007) and facilitates replications and evaluation while  
289 borrowing theories from more mature disciplines to emerging ones (Fellows and Liu, 2020),  
290 2) helps with appropriate specification of constructs and generalizable results as researches  
291 become more international (Roussear and Fried, 2001), and 3) implies distributional  
292 assumptions and helps to better convey the applications of research (Johns, 2006).

293 Contextualization is conducted in this research following the guides from the studies of  
294 Roussear and Fried (2001), Tsui (2006), and Child (2009).

295 We argue that construction industry in People's Republic of China (China) provides a fertile  
296 context in exploring the research questions. Firstly, contract ineffectiveness is more common  
297 in China due to low information transparency and legal enforceability (Shou *et al.*, 2016).

298 There is a proverb in Chinese, “Muddy water makes it easy to catch fish”. This shows that  
299 people in China believe opacity creates opportunities. What’s more, legal enforcement may  
300 not be a practicable option in China with more difficulties to verify information, and weaker  
301 legal systems for protecting and enforcing contracts (Luo, 2006). This background  
302 encourages people in China to seek other effective and fast approaches to deal with contract  
303 violations. It is also very common that transactions in construction industry in China are  
304 between two parties who share the same group company. In that case, it will be a transaction  
305 under both market and hierarchy mechanism. A wider distribution of enforcement is expected  
306 in such context, which is an important consideration while contextualizing (Roussear and  
307 Fried, 2001). Secondly, Chinese companies prefer to use network-centered strategies rather  
308 than market-centered strategies because of China’s *guanxi* culture and imperfect institutional  
309 framework (Peng, 2003). As mentioned above, business is done following a tradition of not  
310 having a particularly strong legal system in China. Thus, people rely more on trust and on  
311 personal relationships. There’s a lot of focus on building relationships so that you can build  
312 the trust. I do you favors, and then you owe me one. If you do enough favors of people, you  
313 have the ability to call on them for a favor that even inconvenient for them in the future. And  
314 they would feel an obligation to actually go forward. What’s more, a legal and transparent  
315 way of dealing contract violation would disclosure company and project information in  
316 public and be a signal of disharmony among the companies under the same group company,  
317 which is against the three Chinese cultural norms (Tsui, 2007). Thirdly, construction projects,  
318 which are among the most complex of all production undertakings, are influenced greatly by  
319 contracting uncertainty (Winch, 2006). Contract is one mechanism to manage uncertainties,  
320 however, is incomplete because of bounded rationality and consideration of ex-ante costs  
321 (Oliver and John, 1999). It is contracting uncertainty that has greatest impact on construction  
322 projects (Winch, 2006). Because all contracts are incomplete, social redress is also needed to

323 address matters outside the bounds of the contract. Thus, it's more likely to perceive the other  
324 party's behavior as a violation in construction industry. Because of the three reasons above,  
325 Chinese construction industry provides a fertile context for exploring research questions.

326 The ethical approvals for both interview and questionnaire were obtained before we  
327 conducted the research. The interviews were firstly conducted to develop a way to measure  
328 social enforcement in terms of severity. The results from the interview study, which include:  
329 1) reputation system is used as social enforcement in practice, 2) the severity of social  
330 enforcement could be distinguished by scope of disclosure, were used in the following  
331 questionnaire survey. The process of interview is described in the social enforcement  
332 measurement development session since that is the main reason for the interview. The  
333 questionnaire survey was then conducted to test all the hypotheses. A sample of the designed  
334 questionnaire is shown in the **Appendix 1**. Questionnaires were distributed to Chinese  
335 professionals in owner companies who have dealt with contract violation in construction  
336 projects. The respondents were asked to recall their most recent experience of contract  
337 violation and complete the questionnaire. All the respondents were told that the  
338 questionnaires were only for academic research and would be kept confidential and  
339 anonymity preserved.

340 Data collection lasted 2 months. The authors distributed 320 electronic questionnaires. Finally,  
341 206 informants responded to the questionnaire, for a response rate of 64.4%. 179 valid  
342 questionnaires were left after deleting responses that do not meet criteria. Questionnaires that  
343 have been finished within 100 seconds, from non-manager responses, the answers of different  
344 items measuring the same variable contradicted each other were deleted due to the low data  
345 validity. The valid response rate is 55.9%, which is between the response rates (48.75% and  
346 59%, respectively) in recent studies related to contract enforcement (Mooi and Gilliland,  
347 2013, Chen *et al.*, 2018).

348 Structural Equation Modeling (SEM) approach was used to model complex relationships  
349 between directly and indirectly latent variables. SEM is suitable to do the regression analysis  
350 with multiple dependent variables and to reduce measurement errors. *AMOS 24* was  
351 employed to conduct SEM in this study. Since SEM could not distinguish the difference  
352 between full and partial mediation effect, the authors also carried out the regression analysis  
353 according to Baron and Kenny (1986) and (Judd and Kenny, 1981). Thus, linear regressions  
354 were also conducted in this study.

### 355 **Measurement development**

356 Based on the current literature related to this study, items were developed to measure  
357 variables. Special attentions have been paid to ways of theory borrowing according to the  
358 advice of Fellows and Liu (2020). Validity is a big concern while borrowing the existing  
359 theory across contexts in different situations (Tusi et al, 2007). Since the related studies are  
360 all in English and the respondents are Chinese, comprehensive and critical translation should  
361 be made. Four steps of scrupulous translation (Sharifirad, 2011) were adopted in this study.  
362 The English items were first translated into Chinese. Two other independent researchers  
363 translated it back into English. The authors compared these two versions to make sure that  
364 there was no significant changes. Following the recommendation from the study of Tusi  
365 (2006), the authors also conducted a pilot study with 11 interviewees to make sure that the  
366 measurements fit in the Chinese construction context. Modifications were made accordingly.

### 367 **Dependent variable: Social Enforcement and its Severity**

368 As far as we know, the measurement of social enforcement is limited in the current literature.  
369 Thus, semi-structured interviews were conducted to explore *what* is the empirical way of  
370 social enforcement and *how* do companies use social enforcement distinctively in terms of  
371 severity.

372 The interviewees were expected to have experience of contract violations and dealing with



373 them afterward. Convenient sampling was used to identify the target interviewees. The  
374 purpose of the interview was told to the interviewees in advance so that they could be sure if  
375 they are suitable for this study. Finally, 31 working professionals were interviewed (28 male/  
376 3 female) from 6 organizations until data saturation principal (Francis *et al.*, 2010) is satisfied.  
377 All of them are either project manager or contract manager so that they have enough  
378 experiences of dealing contract violation.

379 The whole interview process lasted for more than 3 months. Each interview lasted from 45 to  
380 60minutes in a face-to-face manner. All the interviewees were told that their answers would  
381 only be used for academic research and kept confidential and anonymity preserved. The  
382 whole processes were recorded with their permissions and turned into transcripts.

383 In each interview, the following questions were asked:

- 384 • Q1: Has your project experienced contract violations? If yes, please describe it.
- 385 • Q2: How did you deal with the contract violations?
- 386 • Q3: Apart from contract enforcement, are there other ways for you to deal with contract  
387 violations?
- 388 • Q4: How do you differentiate the severity of any social enforcement?
- 389 • Q5: What factors will influence your decisions upon the type and the severity of  
390 enforcement?
- 391 • Q6: Are there any difficulties to do with enforcement?

392 In every interview, the interviewers did not ask about reputation punishment at all but all  
393 interviewees raised this in response to Question 3 by themselves. All the interviewees started  
394 talking about and only about reputational punishment without the interviewers giving them  
395 any prompts or clues. Thus, it can be concluded that reputational punishment could stand for  
396 social enforcement to some extent. Then, the interviewers made a detailed inquiry about how  
397 to distinguish reputational punishment in terms of severity based on their answers.

398 Interviewees mentioned the reputation punishment in different ways. As one interviewee  
399 described: *We have a company list, which is only available to ourselves. We give a very low*  
400 *score to this company so that it could hardly cooperate with us after this project. They were*  
401 *blacklisted.*

402 After data analysis by three researchers together, a reputational punishment mechanism  
403 became clear. The severity of reputational punishment can span from within company, within  
404 a group of companies, within local companies, to within international companies in this  
405 industry. The scope the violated party discloses about the violating party's behavior follows a  
406 logical sequence from within company to within international companies in this industry.  
407 Since a logical sequence of social enforcement in terms of severity was discovered, the  
408 Guttman scale was used in this study (Guttman, 1944). In order to check the Guttman scale  
409 developed by interviews, the authors made the item, which measures social enforcement, a  
410 multiple-choice question. Since the options of Guttman scale should be in order (Guttman,  
411 1944), the authors went through all the collected questionnaires to check whether respondents  
412 have ticked all the options before the most severe chosen option. For example, the authors  
413 found that when they choose to punish the violated party within the relevant international  
414 institution in industry, they also ticked all the options less severe than that. This result held  
415 the same vice versa. If the respondents have not chosen to punish the default party in certain  
416 level, they will not tick the more severe option as well. Thus, these items qualify in regard to  
417 the Guttman scale.

418 As a result, four items were used to describe their different scope of reputational punishment  
419 including: we blacklisted the default party within: a) our company, b) our group of companies,  
420 c) local institution in our industry, and d) the international institution in our industry. The  
421 score of this item is 1,2,3,4,5 respectively when the respondent chooses none of these options,

422 only chooses option A, chooses both option A and B, chooses option A, B and C, and chooses  
423 all of these options.

#### 424 **Dependent variable: Severity of Contract Enforcement**

425 The severity refers to the owner's reaction to the violation of the contractor. It can range from  
426 lenient actions, for example tolerating the violation completely or just replying with mild  
427 attempts to gain compliance, to tough and punitive actions. In addition to severity, Antia and  
428 Fisher (2006) also dimension enforcement into certainty, and speed. However, severity is  
429 fundamental to the definition of contract enforcement (Gibbs, 1975) since an increase in  
430 severity is more effective than an equivalent increase in the probability of enforcement  
431 (Friesen, 2012). What's more, the questionnaire survey in this study is based on experience  
432 rather than a scenario-based experiment. Thus, items in the study of Antia and Frazier (2001)  
433 were adopted in this study and shown in **Table 1**. The level of their study is the same as ours,  
434 which is transaction between two parties.

#### 435 **Independent variable: Trust**

436 Both goodwill-based trust and competence-based trust are measured in Chinese context in the  
437 studies of Jiang *et al.* (2013) and Zhang *et al.* (2016), assuring the applicability of these items.  
438 Thus, the authors used the existing items in these two mentioned studies as shown in **Table 1**.

#### 439 **Mediating variable: Perceived Intentionality**

440 Based on the study of Harmon *et al.* (2015), three items were used to assess the perceived  
441 intentionality in this study. The items are shown in **Table 1**.

#### 442 **Control variables**

443 Consistent with the study of Johnson and Sohi (2016), the control variables in this study are  
444 based on four factors that influence the decision on enforcement, including: external  
445 environment, interfirm, internal, and interpersonal factors. Legal feasibility, which stands for  
446 external environment factors, is controlled in this study since legal institutions are expected to

447 affect enforcement decisions (Zhou and Poppo, 2010). Relationship type, prior tie, bilateral  
448 lock-in, and the shadow of the future are controlled as interfirm factors since they are found  
449 to influence severity of contract enforcement (Chen *et al.*, 2018). Cost of resolution, and cost  
450 of contractual breaches are considered as internal factors based on the study of (Antia and  
451 Frazier, 2001) since they will influence the enforcement decision after default (Macaulay,  
452 1963). Items are all shown in **Table 1**.

## 453 **Results**

### 454 **Measurement Model Fit**

455 Cronbach's alpha values of multiple-item scales were calculated to explore the internal  
456 consistency and reliability of the scales. As shown in **Table 1**, the Cronbach's alpha values of  
457 each scale are all above the 0.7 benchmark indicating that the level of consistency and  
458 reliability is sufficient in this study (Nunnally and Bernstein, 1994).

459 Confirmatory factor analysis (CFA) was employed to explore the convergent validity and  
460 discriminant validity. Average variance extracted (AVE) and construct reliability (CR) were  
461 calculated to explore the convergent validity. As shown in **Table 1**, the AVE values of each  
462 construct are all above the 0.5 benchmark. The CR value of perceived intentionality is 0.657,  
463 closed to 0.7. All the other CR values for constructs are all above the 0.7 benchmark  
464 indicating that measurements have good convergent validity. Each square root of AVE is  
465 compared with the off-diagonal correlation coefficient to assess the discriminant validity. As  
466 shown in **Table 2**, the square root value of AVE of each construct is higher than the  
467 off-diagonal correlation coefficient, indicating that discriminant validity is acceptable.

468 The authors conducted an exploratory factor analysis (EFA) with Harman's one-factor to  
469 make sure that common method variance (CMV) would not influence this research  
470 (Podsakoff *et al.*, 2003). The results show that the contribution rate of each latent variable is  
471 less than 25%, and their cumulative contribution rate of these four latent variables is 73.391%,

472 which indicate that neither could one main factor explain all, nor could most of the factors  
473 merge together, thus demonstrate that CMV is not a significant disturbance.  
474 In addition, variance inflation factor (VIF) was also calculated to check multicollinearity  
475 problems. The results show that VIF values in this study ranged from 1.057 to 1.811,  
476 indicating that these variables are not significantly correlated. The results for the structural  
477 model fit are shown in **Table 1**.

#### 478 **Hypothesis analysis**

479 Linear regression was firstly conducted to test the hypotheses with *SPSS 23.0*. Severity of  
480 contract and social enforcement were put into the regression as dependent variables  
481 separately. As shown in **Table 3**, only control variables were first conducted in both Model 1  
482 and Model 4. Then, independent variables, goodwill-based trust and competence-based trust  
483 were added into the Model 2 and Model 5. Finally, the mediation variable, which is perceived  
484 intentionality, was added into the Model 3 and Model 6.

485 The results indicate that goodwill-based trust is negatively related to both contract and social  
486 enforcement significantly, supporting H3a and H3c. However, these two types of enforcement  
487 are not significantly influenced by competence-based trust. It is worthwhile noticing that the  
488 coefficients are positive. The SEM model, which is illustrated in **Fig.1**, is used to do further  
489 analysis. The results are shown in **Table 4**. The authors also depict the results in **Fig. 2**, **Fig. 3**  
490 and **Fig. 4**. As shown in the table and figures, H1a, H1b, H2a, H2b, H3a, and H3c are all  
491 supported by the data analysis. However, this confirms the results in the linear regression  
492 discussed above; both H4a and H4c are not supported. From the examined hypotheses above,  
493 it can be generalized that the influences of two dimensions of trust on both contract and social  
494 enforcement are mediated by perceived intentionality, which supported H3b, H3d, H4b, and  
495 H4d.

496 In order to test whether the mediation effect is partial or full, the authors used three steps

497 mediation test according to Baron and Kenny (1986) and (Judd and Kenny, 1981). Thus,  
498 perceived intentionality was put into the regression as dependent variables in **Table 5**. The  
499 results support H2a and H2b. Combining **Table 3** and **Table 5** together, the authors could  
500 conclude that the negative influence from goodwill-based trust on severity of contact and  
501 social enforcement is partially mediated by perceived intentionality. However, since the  
502 positive relationship between competence-based trust and severity of enforcement is not  
503 significant, it's not feasible to test mediation effect in this mediation test method.

## 504 **Discussions and Contributions**

505 In this research, the authors found that goodwill-based trust would reduce the perceived  
506 intentionality thus lower the severity of both contract and social enforcement. However,  
507 competence-based trust has the opposite influence on perceived intentionality. The violation  
508 would be perceived as more intentional under the circumstance of higher competence-based  
509 trust, thus induces more severe contract and social enforcement.

## 510 **Influence of trust dimensions on contract and social enforcement**

511 Previous studies related to trust focus on how trust improves the positive sides (Ven, 1992,  
512 Munns, 1995, Zhang *et al.*, 2009, Pettersen and Danielsen, 2017). Different from these  
513 previous studies, the authors explore trust from another perspective, how trust inhibits the  
514 dark sides in the transaction. By dividing trust into goodwill-based trust and  
515 competence-based trust, the authors find the opposite influences of these two dimensions of  
516 trust on perceived intentionality. Goodwill-based trust reduces the perceived intentionality  
517 towards the violators' default. However, when the violated party trusts the default party in  
518 having the competence to complete the task, yet still violated, they would perceive the default  
519 as more intentional. In short, these two dimensions of trust have opposite influences on the  
520 transaction's dark side, which not only strengthen the necessity of doing a nuanced study but

521 also reconfirm the way to distinguish trust from previous studies (Nooteboom, 1996,  
522 Malhotra and Lumineau, 2011b).

### 523 **Mediating effects of perceived intentionality**

524 Our results confirm the opinion that perceived intentionality plays crucial role when people  
525 evaluate negative behavior, and determines how much blame this behavior deserves (Ohtsubo,  
526 2007). The mediation effects show that the negative influence of goodwill-based trust on  
527 severity of contract and social enforcement is partially mediated by perceived intentionality.  
528 However, the partial mediation effect of perceived intentionality is not applicable in the  
529 relationship between competence-based trust and severity of contact and social enforcement.  
530 Two reasons might explain this phenomenon. Firstly, the direct influence from  
531 competence-based trust identified by Chen *et al.* (2018) and Yao *et al.* (2018) might offset the  
532 mediation effect posed by perceived intentionality. Secondly, there might be some other  
533 mediation variables working in opposite directions. For example, competence-based trust  
534 might improve the level of likelihood of continuity (Malhotra and Lumineau, 2011b, Ta *et al.*,  
535 2018) or promote interest-based strategy of both side (Zhang *et al.*, 2016) after contract  
536 violation. From the results in **Fig. 3**, **Fig. 4**, and **Table 3**, it is notable that goodwill-based  
537 trust poses more significant and more influence on both enforcements, which confirm that  
538 goodwill-based trust leads to less likelihood of continued collaboration compared to  
539 competence-based trust (Malhotra and Lumineau, 2011b) since it's harder to continue  
540 collaboration after severer enforcement. In addition, the correlations between trust and  
541 enforcement show that there are other variables explaining the severity of enforcement. We  
542 argue that the influence could be partially explained by the control variables since the results  
543 in **Table 3** show that legal feasibility, the shadow of the future, cost of resolution and  
544 contractual breaches have significant influences on the severity of enforcement.

### 545 **Contributions**

546 By exploring issues related to contract violations, this study contributes to contracting theory  
547 in construction project management in the following three ways.

548 First of all, most of the previous studies in contracting theory literature focused on how to  
549 draft the contract (Arino and Reuer, 2004, Eckhard and Mellewigt, 2006b, Argyres *et al.*,  
550 2007, Cao and Lumineau, 2015). One important and implicit assumption behind these studies  
551 is that the contract would be fulfilled exactly the same as it is drafted. However, contractual  
552 breaches commonly occur in practice for different reasons (Antia and Frazier, 2001, Harmon  
553 *et al.*, 2015), to which less attention has been paid in contracting literature. By addressing this  
554 limitation, this research extends contracting theory from the preliminary designing stage to  
555 the forward enforcement stage.

556 Secondly, this research complements contract enforcement with social enforcement. The  
557 results of this research show that reputational sanction is the most common social  
558 enforcement way to deal with contract violation in practice in Chinese construction industry.  
559 By addressing issues in the enforcement stage, the authors offer another perspective to  
560 analyze the relationship of contractual and relational governance. The authors also propose a  
561 new way to differentiate severity of reputation via social enforcement, which will be helpful  
562 for the empirical studies related to social enforcement in the future. The violated party can  
563 sanction the violating party by disclosing their behavior of violation in the reputational  
564 system. As Warren Buffett puts it, “It takes 20 years to build a reputation and five minutes to  
565 ruin it” (Buffett and Clark, 2006).

566 Thirdly, even some recent work started to explore issues related to contractual breaches, the  
567 mechanism of how exchange parties make the severity of enforcement decisions is still  
568 underdeveloped. By exploring the mediating role of perceived intentionality, this research  
569 also highlights the importance of psychological influences in contracting.



570 In addition to the contributions to contracting theory, this research also enlightens research  
571 related to trust. This research complements the studies that concentrate on how trust improves  
572 the positive sides in transactions with how trust inhibits the dark side in the transactions.  
573 The authors also provide further insightful and practical implications for the management of  
574 construction projects that goes further than prior work (Smyth and Edkins, 2007, Smyth *et al.*,  
575 2010). In general, trust is not always good and brings benefits in the construction project. The  
576 straightforward conclusion in practice is that trust breeds more tolerance. However, our  
577 results show that competence-based trust would increase the violated party's perceived  
578 intentionality, thus inducing more severe enforcement in both contractual and social ways.  
579 The endeavors for gaining the transaction party's trust before winning the bid are  
580 understandable and can be enhanced through relationship management (Smyth and Edkins,  
581 2007). However, the contractors should never be complacent about their competence since it  
582 would increase the dark side in the transaction when violation happens. Raising owner's  
583 expectation of their competence might increase the possibility of winning the bid, however,  
584 would cause more trouble once violation happens. Gaining project opportunity is not the final  
585 goal of cooperation, but grasping it is. It is also notable that project parties should behave  
586 cooperatively to show their goodwill even they have enough competence.

### 587 **Limitations and future directions**

588 Given the contributions discussed above, this research is also subjected to several limitations.  
589 Firstly, reputation is used to be on behalf of social enforcement in this research. Even  
590 reputational punishment stands for social enforcement to some extent, there should be some  
591 other non-contractual ways to deal with contractual breaches. Hence, more research could be  
592 done to clarify these ways are and to consider how to measure them in empirical studies.  
593 Secondly, the data gathered in this study is all from China, where transactions are guided by a  
594 less stable institutional environment and a *guanxi* culture with certain unique features. Thus,

595 further studies could be conducted among different countries with different cultural  
596 backgrounds so that a more general conclusion could be secured, especially the way of  
597 measuring the severity of social enforcement in terms of reputation could be tested in other  
598 contexts.

599 Thirdly, this research is an empirical study based on the past experience. In order to explore  
600 the causal relationship more precisely, experiment based studies (Harmon and Kim, 2015,  
601 Harmon *et al.*, 2015) are necessary in the future.

602 Last but not the least, this research only focuses on the decision-making process to deal with  
603 contract violation. The effects of contract enforcement and social enforcement after the  
604 decision is made need further exploration.

605 In general, there are plenty of opportunities in the research area of contractual breaches. This  
606 research is just an initial attempt in this direction. More relevant research is still needed to  
607 explore this topic in the future.

## 608 **Conclusion**

609 The authors explore influences of two dimensions of trust on both contract and social  
610 enforcement with the opposite mediating effects of perceived intentionality in Chinese  
611 construction projects. Specifically, goodwill-based trust reduces severity of enforcement via  
612 decreasing perceived intentionality, competence-based trust increases severity of enforcement  
613 by increasing perceived intentionality. One important step is moved further in studies related  
614 to contract violations. More research is needed to explore how these different types of  
615 enforcement improve performance or reduce related costs. A comprehensive and nuanced  
616 understanding for dealing with contract violation is provided by this research, which will help  
617 project managers understand how to deal with contract violations and thus manage the  
618 interfirm relationships more effectively.

## 619 **Disclosure statement**

620 The authors declared no potential conflicts of interest with respect to the research, authorship,  
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