

A Person–Organization Discontinuity in Contract Perception: Why Corporations Can Get Away with Breaking Contracts But Individuals Cannot

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Most legal systems in the world follow the principle of corporate personhood, which grants organizations the same legal status as natural persons. Although debate over the notion of corporate personhood has been fierce, whether and how this principle is applied in people's beliefs and intuitions has yet to be empirically examined. This work addresses the gap in the literature, in the context of formal contracts. While contracts are typically seen as either morally binding promises or morally neutral business instruments, the data presented here show that contracts of individuals are associated more strongly with promises than are contracts of organizations. As a result, breach of contract by an individual is seen as a moral transgression. The same behavior by an organization, however, is viewed more as a legitimate business decision. This paper also finds that contractual obligations should be phrased in "promise" terms to eliminate this person–organization discontinuity.

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Key words: corporate personhood; moral judgment; breach of contract; moral heuristics; corporate regulation; organizational perception; contract theory

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1. Introduction

One of the most controversial issues in corporate regulation is the legal status of corporations as natural persons. The U.S. Supreme Court's assumption of corporate personhood, which most other countries have also adopted, grants corporations the same provisions of the Bill of Rights as those enjoyed by individual citizens. However, for this assumption to be both practically applicable and impervious to abuse, people's perceptions of and reactions to both corporations and individuals should be equal. Although the literature in law and philosophy is ripe with normative arguments both for and against the equal treatment of corporations and individuals, the question of whether corporate personhood exists in people's minds—expressed via their judgments and behavior—has not been tested.

One business activity in which corporate personhood plays a key role is the contract, about which the law makes two important claims. One is that both individuals and business organizations can sign them. The other (prevalent mostly in the United States) is that breaching a contract is permissible, so long as the aggrieved party receives adequate monetary compensation for losses incurred due to the breach. In contrast, research has shown that people

recognize that contracts contain an inherent moral component, and correspondingly, they regard contract breach with reproach. Expanding on previous research, this paper suggests that the contract's moral component is weighted more heavily for individuals than for organizations. Consequently, although people may judge an individual's breach of contract as a violation of a moral norm, the same behavior by an organization is often viewed as an act of business prudence. Indeed, this difference may ultimately benefit the organization by reducing the social costs associated with a breach.

1.1. Corporate Personhood and Perceptions of Individuals and Organizations

For nearly 200 years, the U.S. Supreme Court has maintained that corporations should be granted the same provisions of the Bill of Rights as natural persons (Mayer 1990). In the 1819 case of *Dartmouth College v. Woodward*,¹ the Supreme Court recognized corporations as having the same rights as natural persons to contract and to enforce contracts. The Court later generalized this assumption when it decreed that a corporation is a person for purposes of the

¹ *Dartmouth College v. Woodward*, 17 U.S. 518 (1819).

14th amendment, which specifies rights of citizenship (*Santa Clara County v. Southern Pacific Railroad*).²

A century later, the notion of corporate personhood gained momentum through a series of important legal decisions. For example, a textile corporation successfully invoked the fifth amendment in a criminal antitrust action (*United States v. Martin Linen Supply Co.*),³ a consortium of major corporations sought to overturn restrictions on corporate spending on political campaigns by arguing that these restrictions violated their first amendment rights (*First National Bank v. Bellotti*),⁴ and an electrical and plumbing concern cited the fourth amendment to prevent federal health and safety inspections (*Marshall v. Barlow's Inc.*).⁵ In these and in many other cases, the courts, by ruling in favor of the corporations, protected the latter's constitutional rights as legal persons.

Corporate personhood has also garnered strong opposition. Most of the criticism focuses on its roles in increasing social inequality (Quigley 2003), creating ambiguities in theoretical definitions (Millon 2001), and introducing anomalies to legislature (Greenblum 2005). Several theorists (e.g., Manning 1984, Markovits 2004) have argued that whereas individuals' moral status dictates that they be treated according to the moral codes of conduct of everyday life, organizations have no comparable moral status. Markovits (2004, p. 1465) even stated that "organizations should be treated precisely as mere means, and someone who treats an organization as an end in itself makes, at least presumptively, a moral error."

Despite the richness of the normative literature on corporate personhood and the moral attributes of corporate actions (Laufer 1996, Moore 1999), descriptive research on the term's meaning or on its application to people's judgments has been scarce. Empirical behavioral research, however, has generally found that people perceive individuals and organizations as possessing different traits and behavioral tendencies. Knobe and Prinz (2008, p. 76) examined how people assign mental states to different types of agents, including individual human beings and corporate entities. They found that while individuals ascribe actions, opinions, and thoughts to both persons and corporations, they apply phenomenal states (i.e., feelings) only to people, and they "don't think corporations are capable of feeling anything." Similarly, Gray and Wegner (2010) report that an organization (specifically, Google) was found to differ from human agents in that it was rated high in agency (the ability to carry out actions) but very low in experience (the

ability to experience feelings). Human targets, conversely, received moderate to high ratings on both dimensions.

Proponents of corporate personhood argue that the corporation is a collection, or aggregate, of its individual human constituents (Ripken 2009), and as such it should be perceived and treated the same as the individuals of which it consists. The U.S. Supreme Court has subscribed to this view, stating that "[a] corporation is, after all, but an association of individuals under an assumed name and with a distinct legal entity" (*Hale v. Henkel*, p. 76).⁶ Empirical research, however, has shown that this argument, too, is inconsistent with people's perceptions and behavior. Studies have shown systematic differences between the attitudes toward individuals versus those toward groups (Malle 2010). For example, Hoyle et al. (1989) found that people expect interaction with a group to be more abrasive than similar interaction with an individual. Studies of group behavior suggest that this expectation is often warranted, as groups tend to behave more selfishly than individuals in game experiments (Bornstein et al. 2004, Bornstein and Yaniv 1998, Wildschut et al. 2007). Moreover, they also tend to utilize deceit more frequently than individuals, especially when the deception entails a benefit for the group (Cohen et al. 2009). Taken together, these findings suggest that human intuition and behavior may not always be in line with the legal assumptions that constitute corporate personhood. This paper addresses these potential inconsistencies.

1.2. Different Conceptualizations of Contracts

This work explores the differences in how individuals and organizations are perceived in terms of contracts. The law makes no distinction, and therefore, as contracting parties, individuals and businesses have the same legal status. Whether a contract is authorized with an individual's signature or a corporate seal, the rules of its enforcement are identical. At the same time, contracts are a complex construct that can be conceptualized and interpreted in a number of different ways, which may potentially affect the aforementioned differences in perceptions of individual and organizational actors.

One view of a contract is that of an economic instrument, useful only as long as it promotes the welfare of its parties. According to this approach, when it does not increase the signer's welfare, walking away from a contract is as legitimate a business decision as signing one. The only universal consequence of a legally binding contract is that the promisor must pay damages if the promised event does not come to fruition (Markovits and Schwartz 2011). U.S. law

² *Santa Clara County v. Southern Pacific Railroad*, 118 U.S. 394 (1876).

³ *United States v. Martin Linen Supply Co.*, 430 U.S. 564 (1976).

⁴ *First National Bank v. Bellotti*, 435 U.S. 765 (1977).

⁵ *Marshall v. Barlow's Inc.*, 436 U.S. 307 (1977).

⁶ *Hale v. Henkel*, 201 U.S. 43 (1906).

is consistent with this view, and neither enforces the completion of contracts nor prescribes sanctions against a breaching party, beyond paying damages to the other party. Thus, when the benefit of breaching the contract exceeds the cost of the damages to be paid to the aggrieved party, an “efficient breach” can occur (Friedmann 1989).

Other legal and moral theories view contracts as having a substantial moral component (MacNeil 1985, Zamir and Medina 2010). They argue that a contract is in effect an exchange of promises (Farnsworth 1999), and breaking a promise is impermissible, regardless of the effects it may have on the promisee (Fried 1981). Rousseau (1989) uses the term “psychological contract” to describe the beliefs in reciprocal and promised obligations between employee and employer. Violations of these psychological contracts have significant effects on trust, job satisfaction, and employee turnover, similar to the effects of a breach of a formal work contract by the employer (Robinson and Rousseau 1994).

Empirical research has also identified a perceived moral component in formal contracts (for a review, see Eigen 2012a). Wilkinson-Ryan and her colleagues (Wilkinson-Ryan and Baron 2009, Wilkinson-Ryan and Hoffman 2010) found that people are sensitive to the moral dimensions of a breach of contract, and equate willful breach of contract with deliberate harm. Breaching a contract, they argued, creates in its victims a feeling of injury similar to that of a broken promise, which cannot be fully remedied with money. Lewinsohn-Zamir (2012) found that perceptions of a contract’s outcome greatly depend on how that outcome was attained (i.e., whether the fulfillment of the contractual obligations was willful or forced). This sentiment is also evident in people’s adherence to formal contracts. Irlenbusch (2004) tested the extent to which exchange transactions are affected by whether the contracts that define them carry a breaching penalty. Results showed that adherence rates to contracts were similar in both conditions, demonstrating that people do not exclusively follow material cost–benefit concerns when deciding on whether or not to honor a contract. Together, these findings show that although the law allows breaching a formal contract, people expect individuals who sign contracts to abide by the same moral norms that guide their promise-keeping behavior. Indeed, business people report that norms of keeping one’s word and maintaining an environment of commitment and trust are important to their jobs and work outcomes (Dyer and Singh 1998, Macaulay 1963, Vosgerau et al. 2008).

1.3. A Person–Organization Discontinuity in Contract Perception

The objectives of the current work are twofold: to fill the gaps in the literature on corporate personhood

and contract perception, and to propose an intervention to reduce or eliminate the bias in how contracts are judged. First, as discussed in the previous sections, the literature on corporate personhood lacks an analysis of whether people accept the legal assumption that the actions of individuals and of organizations are equivalent and should be judged as such. Also, whereas people’s perceptions of formal contracts have been the focus of some research, the effects of different signing parties have not been studied. The current work therefore examines the effect that different types of signers have on people’s judgments of contracts. Although the law does not distinguish between individuals and organizations acting as contracting parties, it is unclear whether people use the same moral principles to judge an organization’s contract that they do to judge an individual person’s contract. In her definition of psychological contracts, Rousseau (1989) argued that only individuals can have psychological contracts. Organizations, she posited, may provide the context for the creation of such contracts, but cannot “perceive” as individuals do, and therefore, they cannot have psychological contracts with their employees. This subjective feeling of mutual obligation characterizes human behavior but not organizational behavior. Consistent with this line of reasoning, I suggest that sensitivity to a contract’s moral, obligation-related meaning is higher when the signer is an individual than when it is an organization. An organization’s contract, on the other hand, might be viewed more through its definition as a business instrument. Consequently, contract breach by an individual would be perceived as a moral transgression, similar to breaking a morally binding promise, whereas a breach of the same contract by an organization would be seen more as a legitimate business decision.

In addition to identifying the person–organization discontinuity that characterizes people’s perceptions of contracts, this work offers a simple and subtle intervention to eliminate bias in how contracts are perceived. Specifically, the formation of an explicit association between the contract and a promise—accomplished by phrasing organizational contractual obligations in promise terms—can eliminate the discrepancies between people’s reactions to contract breaches by organizations versus those by individuals.

This paper includes seven experiments, all conducted online. Participants in these experiments were recruited via Amazon.com Mechanical Turk (see Krantz and Dalal 2000 and Paolacci et al. 2010 for reviews of this method and participant pool).

2. Experimental Design and Results

2.1. Experiment 1: A Person–Organization Discontinuity in Breach of Contract

Experiment 1 examined whether people's reactions to breaches of contract differ when the violator is an individual versus when it is an organization. I hypothesized that a contract breach by a person will be judged more harshly than that by an organization. Likewise, such a transgression by a corporation will be perceived more within the framework of a legitimate business decision than when the breaching party is a person.

One caveat to the person–organization distinction is evoked by the case of a person who breaches a contract on behalf of his or her employer. Such action may be the product of social learning of organizational norms (Trevino and Youngblood 1990), or it may be the manifestation of what the employee understands is characteristic of being loyal and conscientious, with organizational goals in mind (Hamilton and Sanders 1999, Umphress and Bingham 2011). Because the perceived reasons for why a particular act was committed markedly influence people's reactions to this act (Schweitzer and Gibson 2008), they may also affect how the breach of contract is judged. Conversely, unlike the motives behind breaching a contract, the motives behind signing it are irrelevant to the contract's moral meaning, which should in no way be affected by whether it is signed on behalf of oneself or one's employer. Thus, if the person–organization discontinuity reflects a difference in the meaning of the contract itself (rather than of its breach), then judgments of its breach will not be sensitive to the principal who benefits from it (in the case of an employee breaching a contract on behalf of his or her employer, the organization), but rather to the agent who commits it (the employee). Therefore, I predicted that (a) contract breach by an organization will be judged less as immoral behavior and more as a reasonable business decision than if the breach were executed by a person, and (b) judgments of a breach by an organization's employee will be closer to those of a breach by a person than to those of a breach by an organization. To test these predictions, Experiment 1 included three conditions: breach by an individual, breach by an organization, and breach by an employee that organization. To prevent possible effects of perceived agency, responsibility, or authority, the agent in the executive condition was the organization's chief executive officer (CEO).

2.1.1. Participants and Procedure. One-hundred fifty U.S.-based participants were invited to take a "Contract Perception Survey" for \$0.10 each. Responses from two participants who had already logged into the study and from two other participants

who reported in their comments that they did not read the stimuli before responding to the questions were removed from the analyses (their responses did not influence the results). The final sample size was 146 participants (56% females; mean age, 31.86).

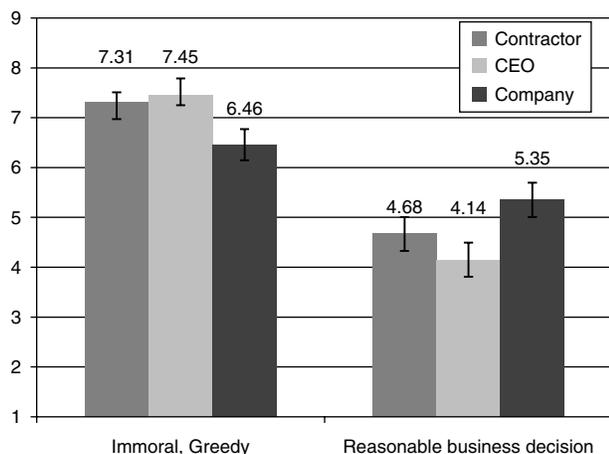
Participants read a description of a contract adapted from Wilkinson-Ryan and Baron (2009) between a homeowner and a home renovator to renovate the homeowner's kitchen. Participants also learned that one week before the scheduled start of the work, the renovator broke the contract to take another, more profitable project. Participants were randomly assigned to three groups. One group read that the party who signed and later broke the contract was an individual home renovation contractor. A second group read that a renovation company's CEO signed and broke the contract on behalf of the company. A third group read that a renovation company signed and broke the contract.

Participants then rated the extent to which the breaching party's behavior was immoral and greedy and the degree to which they thought the breaching party made a reasonable business decision. They also rated the extent to which they believed the breaching party intended to harm the client, and the degree to which acts such as this one are common in our society. All items were randomly presented, with all measures rated on nine-point scales ranging from 1 ("strongly disagree") to 9 ("strongly agree").

2.1.2. Results. The two moral judgment items displayed moderate interitem reliability ($\alpha = 0.71$) and were grouped together. A series of one-way analyses of variance (ANOVAs) revealed a significant effect of breacher type on moral judgments of the breach ($F(2, 143) = 4.55, p = 0.01, \eta^2 = 0.06$) and a marginally significant effect on its perception as a reasonable business decision ($F(2, 143) = 3.02, p = 0.05, \eta^2 = 0.04$). Planned comparisons showed that, as predicted, ratings of the levels of immorality and greed reflected in the breach by the company were significantly lower than those assigned to the breach by a person ($t(143) = 3.01, p = 0.003, d = 0.50$). In addition, contract breaching by the company received significantly higher ratings than the same behavior of an individual as a reasonable business decision ($t(143) = 2.25, p = 0.03, d = 0.38$) (see Figure 1).

Tukey's pairwise comparisons revealed that, as predicted, moral judgments of a breach by the CEO were significantly harsher (mean (M) = 7.45, SD = 1.52, 95% confidence interval (CI) = [6.99, 7.92]) than those of a breach by the company (M = 6.46, SD = 2.18, 95% CI = [5.83, 7.09], $p = 0.02$), and they did not differ significantly from those of a breach by the independent contractor (M = 7.31, SD = 1.46, 95% CI = [6.91, 7.71], $p = 0.92$). The same pattern emerged in evaluations of the breach as a reasonable business decision, which

Figure 1 Mean Judgment Scores of a Breach of Contract as Immoral and Greedy and as a Reasonable Business Decision, by Breaching Party Type in Experiment 1



Note. Error bars indicate ± 1 standard error.

were significantly lower for the CEO ($M = 4.14$, $SD = 2.23$, $95\% \text{ CI} = [3.43, 4.85]$) than for the company ($M = 5.35$, $SD = 2.41$, $95\% \text{ CI} = [4.65, 6.04]$, $p = 0.04$), but they did not differ significantly for the independent contractor ($M = 4.68$, $SD = 2.39$, $95\% \text{ CI} = [4.02, 5.34]$, $p = 0.51$).

Comparisons between the company and the individual (i.e., individual person or CEO) conditions revealed no significant differences in either perceived harmful intentions ($t(142) = 1.10$, $p = 0.27$) or in perception of the breach as common ($t(142) = 1.01$, $p = 0.32$). This suggests that the difference in judgments was driven neither by attributing greater intentionality to a human agent than to an organization nor by being more accustomed to witnessing these acts by organizations than by individuals.

2.1.3. Discussion. Experiment 1 revealed a person–organization discontinuity when people were asked to evaluate a hypothetical breach of contract situation. A breach by an individual person was regarded as highly immoral and greedy, regardless of whether the person was acting independently or on behalf of an employer. Conversely, breach of the same contract by an organization was assessed as a reasonable business decision more so than when the breaching party was a person. Participants neither reported breaches by organizations as being more common than breaches by individuals, nor perceived the individual as having a greater degree of intention in his actions than the organization. This is consistent with previous findings (e.g., Knobe and Prinz 2008) that show that organizations are perceived as having no lesser degree of agency than individuals.

Interestingly, the independent contractor and the company CEO were judged similarly for breaching

the contract. This finding suggests that participants were not paying attention either to the principal beneficiary of the breach or to the possible motives behind it, which are different in these two cases (i.e., breaching to increase personal gain or to be a good employee). Instead, they focused on the contract itself and its moral implications.

2.2. Experiment 2: Real Contracts

The following experiment was designed to examine whether the person–organization discontinuity can emerge from the written contract itself rather than from the guided imagination of a contract scenario. Contracts, like most legal documents, are more complex than the descriptions of the contexts in which they are written, and, perhaps more importantly, they are typically phrased in a neutral, formal language devoid of any moral or emotional insinuation. This format may decrease the salience of their perceived moral dimension and, subsequently, affect people’s reactions to their outcomes. Since cases of breach of contract in the real world often involve official documents of this type, it is important to test whether the person–organization discontinuity holds when reading a contract document rather than a summary of the events leading up to the breach. Therefore, in this experiment, participants read a real contract and provided their judgments of its eventual breach.

Another issue this experiment sought to address is the potential consequences of the breach. Haidt (2007) argues that one of the important functions of moral intuition is to guide behavior. If a breach of contract by an organization elicits different moral reactions than does a breach by a person, then this may affect subsequent behaviors vis-à-vis the breaching party, such as taking punitive action, or willingness to engage in future business with it. To examine this possibility, Experiment 2 asked participants about such implications.

2.2.1. Participants and Procedure. One-hundred twenty U.S.-based participants completed a “Contract Judgment Survey” online in exchange for \$0.25 each. Two responses were from participants who had already logged into the study and were removed from the data set. The final sample included 118 participants (38% females; mean age, 31.82). Participants were randomly assigned to two groups. Each group read a contract for renting a venue for a company’s annual gala event. One group’s contract was signed by the venue and the company, using their corporate seals. The other group’s contract was signed by the owner of the venue and the company’s vice president (VP) (referred to in the contract as the renter). All identifying details (e.g., the names and addresses of the venue, the company, and the individual signers) were covered in the document itself.

After reading the contract, participants were told that the venue [owner] decided to break the contract to take a higher value offer. They then rated the extent to which this behavior was immoral, unethical, and akin to a broken promise, as well as the extent to which it was a reasonable business decision and something they would have done had they been in this position. Two additional items referred to possible implications of the breach to the breaching party. Participants rated their willingness to conduct business with the breaching party in the future and their support for taking legal action against the breaching party, even in the event that an alternative venue is found. All items were rated on a nine-point scale ranging from 1 (“not at all”) to 9 (“very much”) and were presented in a random order.

2.2.2. Results. An exploratory factor analysis on reactions to the contract breach produced two Promax rotated factors corresponding to two constructs—moral critique and judgment of the breach as a business decision. These two factors accounted for 73.99% of the variance and were grouped together into two variables. The items, factor loadings, and reliability scores are presented in Table 1. The two implications items did not correlate significantly with each other ($r = 0.06$, $p = 0.53$), and were analyzed separately.

Independent samples t -tests again revealed a person–organization discontinuity in judgments of the breach. Participants reacted to the breach with significantly harsher moral critique when it was executed by the venue’s owner ($M = 7.73$, $SD = 1.38$) than by the venue ($M = 6.84$, $SD = 1.72$) ($t(116) = 3.11$, $p = 0.002$, $d = 0.57$). Judgments that saw the breach as a business decision were higher when the breacher was the venue ($M = 3.82$, $SD = 1.86$) than when it was the owner ($M = 2.89$, $SD = 2.10$) ($t(116) = 2.55$, $p = 0.01$, $d = 0.47$). Importantly, participants showed significantly lower willingness to conduct business with the venue’s owner after the breach ($M = 1.78$, $SD = 1.61$) than with the venue itself ($M = 2.51$, $SD = 1.98$) ($t(116) = 2.20$, $p = 0.03$, $d = 0.40$). Support for legal action against the breaching party was higher, on average, in the person condition ($M = 6.92$, $SD = 1.85$) than in the organization condition ($M = 6.41$, $SD = 1.85$), but this difference was not significant ($t(116) = 1.49$, $p = 0.14$).

2.2.3. Discussion. The results of this experiment provide further support for the hypothesis that a breach of contract is judged more harshly and is seen less as a business decision when the breaching party is a person than when it is an organization. In this experiment, participants formed their opinions after reading a contract that was similar to contracts that are signed in real life. Despite the neutral, legal wording used in the contract, the identity of the signer

Table 1 Factor Loadings and Reliability Scores of Components Used in Experiments 2, 3, 4, 6, and 7

| | Factor loadings | |
|--|-----------------|----------|
| | Factor 1 | Factor 2 |
| Experiment 2 | | |
| Moral judgment of the breach ($\alpha = 0.77$) | | |
| The breaching party's behavior was immoral | 0.843 | |
| The breaching party's behavior was unethical | 0.868 | |
| The breaching party broke a promise made to the other party | 0.775 | |
| Judgment of the breach as a business decision ($\alpha = 0.77$) | | |
| The breach was a reasonable business decision | | 0.900 |
| I would have acted the same way | | 0.904 |
| Experiment 3 | | |
| Moral judgment of the breach ($\alpha = 0.86$) | | |
| How unethical the breaching party's behavior was | 0.915 | |
| How immoral the breaching party's behavior was | 0.837 | |
| How greedy the breaching party's behavior was | 0.894 | |
| Judgment of the breach as a business decision ($\alpha = 0.77$) | | |
| The breach was a reasonable business decision | | 0.932 |
| I would have acted the same way | | 0.860 |
| Experiment 4 | | |
| Moral considerations ($\alpha = 0.92$) | | |
| How moral the decision was | 0.954 | |
| How ethical the decision was | 0.962 | |
| Business prudence considerations ($\alpha = 0.73$) | | |
| How helpful the decision was for maintaining a profitable business | | 0.816 |
| How rational the decision was | | 0.793 |
| How prudent the decision was, from a business point of view | | 0.819 |
| Experiment 6 | | |
| Moral judgment of the breach ($\alpha = 0.79$) | | |
| The breaching party's behavior was unethical | 0.910 | |
| The breaching party's behavior was immoral | 0.833 | |
| The breaching party's behavior was greedy | 0.756 | |
| Judgment of the breach as a business decision ($\alpha = 0.82$) | | |
| The breach was a reasonable business decision | | 0.904 |
| I would have acted the same way | | 0.927 |
| Experiment 7 | | |
| Moral judgment of the breach ($\alpha = 0.76$) | | |
| The breaching party's behavior was immoral | 0.851 | |
| The breaching party's behavior was unethical | 0.799 | |
| The breaching party's behavior was a betrayal of the other party | 0.814 | |
| Judgment of the breach as a business decision ($\alpha = 0.69$) | | |
| The breach was a reasonable business decision | | 0.859 |
| The breaching party's behavior was rational | | 0.889 |

nevertheless influenced participants, attesting to the strength and robustness of the effect.

Taken together, results of the first two experiments suggest that people’s reactions to a contract breach by an individual versus by an organization generally vary. Identifying the breaching party as an

organization decreases the level of moral critique of the breach and increases the degree to which people judge it as a reasonable business decision compared to when the breaching party is a person. The following experiments investigate the cognitive process behind that discontinuity. I propose that the disparity in moral judgments of breach of contract stems from a difference in the degree to which people see the contract as morally relevant, that is, the strength of association between the contract and a moral concept, such as promise. As previously noted, a contract can be viewed both as a morally binding promise and as a morally neutral business instrument. These are not distinct categories, and the relative weight of each dimension may simply differ between individuals and organizations. Schweitzer et al. (2006) showed that promises have a key role in perceived trust violations in organizations, but although making promises is characteristic of ordinary interpersonal behavior, it is not part of the everyday life of an organization. Also, as previously mentioned, promises carry a subjective, perceived sense of obligation to fulfill them. Since organizations are viewed as being devoid of desires, beliefs, or emotions (Manning 1984), this subjective attribute of a contract may be less relevant to them than to individuals. Therefore, organizational contracts may be less strongly associated with promises than contracts signed by individuals.

The difference between individuals and organizations in terms of the association of their contracts with moral concepts predicts three patterns of judgment. One is the discontinuity in reactions to a breach of contract, which was observed in Experiments 1 and 2. Second, the discontinuity will not be observed in actions that are equally relevant to the moral perspectives of both organizations and individuals. Third, the difference in moral relevance should not only affect negative reactions to breach of contract, but it should also attenuate positive reactions to an organization honoring a contract, relative to a person doing the same. The following three experiments tested these predictions.

2.3. Experiment 3: Breaching a Contract vs. Violating Another Moral Norm

This experiment tested the proposition that whereas a breach of contract elicits a person–organization discontinuity in judgment, the violation of other moral norms may generate similar reactions to both organizations and to individuals. It examined judgments of a breach when the contractual obligation was solely a commitment of one side to the other and when the obligation was to follow a consensual moral norm, specifically, to refrain from harming the environment. If people hold similar expectations of ethical behavior

for individuals and for organizations, and the different meanings of the contracts themselves elicit different reactions to contract breach, then violation of a consensual moral norm by an organization or an individual should elicit a correspondingly similar judgment toward either the organization or the individual.

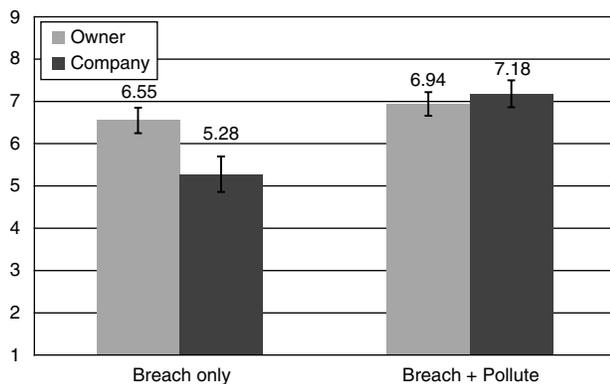
Participants in this experiment read a story about the breach of a contract by either an individual or an organization. In one condition, the contract breach meant only breaking the business commitment of one side to the other, whereas in the other condition, the breach also entailed harming the environment. I predicted that when the violation of the contractual obligation is the only transgression, judgments of the individual's breach of contract will be harsher than judgments of that of the organization, but when the breacher also harms the environment, its identity will not affect judgments of the behavior.

2.3.1. Participants and Procedure. One-hundred U.S.-based participants completed a "Contract Scenario Survey" for \$0.15 each. Four responses from participants who had previously logged into the experiment were removed from the data set. The final sample consisted of 96 participants (27% females; mean age, 27.72). Participants were randomly assigned to one of four conditions, in a 2 × 2 design. All participants read a description of a contract between a cleaning supplies company and a cloth manufacturer for the supply of cotton cloth to be used in a new duster the company plans to make. The contract's term was three years. Half of the participants read that the contract was signed by the company's owner, and the other half read that the contract was signed by the company itself. Participants also read that a few months after production of the duster began, the company [owner] broke the contract to make a deal with another supplier that offered cheaper material. In one version of the story the cheaper material was harmful to the environment, whereas in the other this was not mentioned.

Next, participants rated the extent to which they thought the breaching party's behavior was immoral, unethical, and greedy and the degree to which they believed the breaching party should face legal action for this behavior. In addition, they rated the extent to which they thought the breaching party made a reasonable business decision and the degree to which they believed they would have done the same thing had they been in the breaching party's situation. The order of presentation of all items was randomized between participants, and all measures were on a nine-point scale, similar to Experiments 1 and 2.

2.3.2. Results. Exploratory factor analysis on the judgment items produced two Promax rotated factors corresponding to two constructs—moral critique

Figure 2 Mean Judgment Scores of a Breach of Contract as an Immoral Decision by Breaching Party Type and by Violated Moral Norm in Experiment 3



Note. Error bars indicate ± 1 standard error.

of the breaching party's behavior and judgment of this behavior as a business decision. These two factors accounted for 80.79% of the variance. The items were thus grouped together into two variables representing these factors. The items, factor loadings, and reliability scores are presented in Table 1.

A two-way between-subjects ANOVA revealed a significant interaction effect between type of signer and type of moral violation on moral judgments of the breach of contract ($F(1, 92) = 5.05$, $p = 0.03$, $\eta^2 = 0.05$). Simple effects tests showed that when there was no violation other than the breaking of the contract, participants judged the owner's behavior more harshly than they did that of the company ($t(45) = 2.42$, $p = 0.02$, $d = 0.72$), but when the contract breach included environmental harm, reactions to the company's behavior were no less critical than to the owner's behavior ($t < 1$) (see Figure 2). Judgments of the breach as a business decision displayed a similar pattern: in the no-environmental-harm condition, the breach by the company received higher ratings ($M = 4.48$, $SD = 1.91$) than the breach by the owner ($M = 3.24$, $SD = 1.89$) ($t(45) = 2.24$, $p = 0.03$, $d = 0.67$), and there was no difference between them when there was environmental harm involved (company, $M = 3.23$, $SD = 2.05$; owner, $M = 3.12$, $SD = 1.52$) ($t < 1$), but with no significant interaction between agent type and moral norm violation ($F(1, 92) = 2.24$, $p = 0.14$). The mean level of support for legal action against the company was lower when the breach did not involve harming the environment ($M = 5.38$, $SD = 2.75$) than when environmental harm was involved ($M = 6.42$, $SD = 2.67$) or when the breacher was the owner (no environmental harm, $M = 6.35$, $SD = 2.31$; environmental harm, $M = 6.12$, $SD = 2.15$), but the interaction between agent type and moral norm violation was nonsignificant ($F(1, 92) = 1.57$, $p = 0.21$).

2.3.3. Discussion. This experiment demonstrates that some actions are equally regarded as moral transgressions when committed by either individuals or organizations. Participants judged an environmentally harmful action with the same level of moral reproach when the perpetrator was an organization as when it was an individual person. A person-organization discontinuity was observed only when breaking the contract was the only action being considered.

Although we cannot conclude that a contract context is unique among all other ethical decision situations, these results do suggest that the differences in judgment of contracts are not ubiquitous, and that contracts are different from some moral contexts. One possibility is that in contract situations we have lower expectations about the ethics of the behavior of organizations than we do for individuals. Alternatively, as I argue here, contracting may seem to have greater relevance to the moral judgments of individuals than of organizations. Hence, general expectations may be that organizations will behave as morally as individuals, yet honoring a contract may not constitute as important a dimension of an organization's (compared to an individual's) moral rectitude. Experiments 4 and 5 tested this proposition.

2.4. Experiment 4: Judgments of Ethical Contract Behavior

The effects observed thus far can be explained via both the different ethical standard and the moral relevance accounts. The former states that, at least in the context of contracts, the standard for ethical behavior is lower for organizations than for individuals, whereas the latter argues that honoring contracts is a more important criterion for judging the morality of a person than for judging the morality of an organization. These two explanations, however, make contradictory predictions about people's reactions to a decision to honor a contract. According to the different ethical standard account, a person who honors a contract is merely meeting expectations. In contrast, an organization that does so is going above and beyond expectations, and as such, it should be judged at least as favorably as, if not more than, the person. The moral relevance account argues that because honoring contracts has a greater influence on our moral evaluations of people than on our judgments of organizations, reactions to a person honoring a contract will be more positive than those to the same behavior by an organization. In Experiment 4, I tested participant reactions to the decision to honor a breachable contract.

Another question addressed by this experiment was whether the type of the other party to the contract makes a difference in people's judgments.

The theoretical arguments outlined in this paper and addressed in the first two studies focused only on the breaching side. But judgments may also be affected by whether the moral norm to honor a contract is stronger when the other party to the contract, who is affected by the agent's decision, is an organization or an individual.

2.4.1. Participants and Procedure. One-hundred U.S.-based participants (54% females; mean age, 32.68) completed a "Contract Perceptions" survey for \$0.10 each. They were randomly assigned to four groups in a 2×2 design, and they read the same contract description as was used in Experiment 1 but with two differences. One was the variation of the second party to the contract, which was either a property management firm or a property owner. The other change was that even after the agent learned of an opportunity to increase gains by breaking the contract to take on more profitable work elsewhere, he [it] decided to keep the contract and forgo this opportunity.

After reading the scenario, participants rated the extent to which they thought the agent's decision was moral, ethical, rational, prudent from a business point of view, and helpful for maintaining a profitable business. They also rated the degree to which they believed it would be a good idea for all business entities to behave this way and what they thought is the prevalence of this behavior in today's society. All items were rated on a nine-point scale and were presented randomly.

2.4.2. Results. An exploratory factor analysis produced two Promax rotated factors, including five of the seven items, which corresponded to two dimensions—moral judgment and judgment of business prudence—and explain 78.08% of the variance. The items, factor loadings, and reliability scores are presented in Table 1.

A series of 2×2 between-subjects AONVAs revealed a main effect of signer on judgments of both the decision's business prudence ($F(1, 96) = 8.72$, $p = 0.004$, $\eta^2 = 0.08$) and morality ($F(1, 96) = 11.00$, $p = 0.001$, $\eta^2 = 0.10$). Judgments of the decision to keep the contract were less favorable, on both dimensions, toward the company (business prudence, $M = 5.35$, $SD = 1.39$; morality, $M = 6.79$, $SD = 2.12$) than toward the person (business prudence, $M = 6.29$, $SD = 1.76$; morality, $M = 7.96$, $SD = 1.44$). In addition, participants viewed this decision as a better idea for all business entities to follow when the agent was a person ($M = 6.90$, $SD = 1.93$) than when it was the company ($M = 6.02$, $SD = 1.87$) ($F = 5.39$, $p = 0.02$, $\eta^2 = 0.05$). Whether the other party to the contract was a person or an organization did not significantly affect any measure and no significant interactions

were observed. Also, similar to prior findings, the scenarios did not differ in how common they were perceived to be in today's society ($F < 1$).

2.4.3. Discussion. Experiment 4 demonstrated that keeping a contract was perceived as more highly moral and ethical for a person than for a company. This finding is consistent with the moral relevance explanation, which suggests that because people are more sensitive to the moral side of a contract when judging a person versus an organization, their moral evaluations of an individual's decision about a contract will be more extreme than their evaluations of an organization's decision, whether this decision's outcome is positive or negative. In addition, the results did not reveal any significant effects of the type of counterpart on participants' reactions. Honoring a contract with an individual was not judged as any more or less moral or prudent than honoring a contract with an organization.

Together with the findings of the previous experiments, these results paint a grim picture of the social mechanisms that prevent us from breaking contracts. Not only are organizations judged more leniently for breaking contracts, they receive less credit, both as ethical entities and as rational, business sensible ones, when they keep their contracts. If both the social costs for breaking contracts and the social gains for keeping them are lower for organizations than for individuals, then we should expect organizations to breach contracts far more often than individuals. It is therefore surprising that participants consistently rated the prevalence of contract breaches as being the same for the two types of agents.

2.5. Experiment 5: An Implicit Association Between Contract and Promise

This experiment sought to examine the root of the difference in the moral relevance people perceive contracts to have for organizations and individuals. As discussed earlier in this paper, previous studies found that people sometimes associate contracts with promises. Experiment 5 tested whether people make this contract–promise association nonconsciously, and whether their propensity to associate between a contract and a promise is affected by the type of signer. To measure this implicit association, participants engaged in a word completion task that is commonly used in social cognitive research to measure effects of different stimuli on the cognitive accessibility of concepts, such as implicit norms and stereotypes (Kay et al. 2004, Spencer et al. 1998, Tulving and Schacter 1990). The task consists of a number of word fragments, and for each fragment there are several ways it can be completed, one of which forms a word that is relevant to the target concept. In this experiment, the stimulus was a contract

signed either by individuals or by organizations, and the target concept, for which cognitive accessibility was measured, was promise. After reading the contract scenario, participants completed a task that consisted of a series of word fragments, each of which could be completed to form a promise related word or an irrelevant word. If the concept of promise is more strongly associated with a contract signed by individuals than with a contract signed by organizations, then participants who read about the individuals' contract should generate promise related words more readily than those who read about the contract between organizations.

2.5.1. Participants and Procedure. Eighty U.S.-based participants were invited to participate in a study of "Word Completions" for \$0.10 each. Four responses from participants who had previously logged into the study were removed from the data set. One person reported that the stimulus was not presented on his screen before the word completion task, and another correctly guessed the study's hypothesis by speculating that a manipulation of who signs the contract should affect the words used to complete the word completion task. These two participants were also removed from the data set, leaving a final sample of 74 participants (68% females; mean age, 34.94).

Participants read a contract description similar to that used in Experiment 1, except that this description did not include a breach of the contract, but rather, only details of the parties to the contract and its terms. Therefore, rather than one breaching party and one victim of the breach, the two contracting parties had equal roles. Half of the participants read a story of a contract between two individuals—a property owner and a home renovation contractor—for renovating the kitchen of one of the owner's suburban houses. The other half read the same description, except that the signing parties were organizations—a property management firm and a home renovation company.

Next, participants were presented with eight word fragments and were asked to fill in the missing letters in each fragment to create a word. Unbeknownst to participants, each fragment (e.g., T _ _ S T) could be completed to form a promise related word (TRUST) or irrelevant words (TOAST, TWIST).⁷ The word fragments were presented one at a time and in a different, random order for each participant.

2.5.2. Results. Participants successfully solved (i.e., completed to form correctly spelled English words), on average, 7.23 (SD = 1.11) of the eight word fragments, showing no significant group effect ($t(72) = 1.21$, $p = 0.23$). An independent-samples t -test revealed that, as predicted, the person group completed significantly more fragments with promise related words ($M = 4.31$, $SD = 1.45$) than did the organization group ($M = 3.34$, $SD = 1.44$) ($t(72) = 2.87$, $p = 0.005$, $d = 0.68$). An alternative analysis that compared the ratio of each participant's promise related words to successful word completions (rather than to all eight word fragments) shows a similar difference between the person group ($M = 0.58$, $SD = 0.17$) and the organization group ($M = 0.47$, $SD = 0.18$) ($t(72) = 2.69$, $p = 0.009$, $d = 0.63$).

2.5.3. Discussion. The results of Experiment 5 show that promise related words were more cognitively accessible following the presentation of a contract signed by individuals than one signed by organizations. This suggests that a contract forms a stronger implicit association in people's minds with a promise when they perceive a person signing it than when they perceive an organization doing so. This difference, then, may account for differences in judgments of contract behavior: we may be more lenient in judging a breach of contract by an organization and give more praise to the honoring of a contract by a person because the meaning of the contract as a promise is more salient for an individual signer than it is for an organizational one. These results also provide support for the suggestion that the person-organization discontinuity observed in the previous experiments may reflect a difference in the perceived relevance of contracts to moral judgment, and not necessarily a general laxness of moral standards set for organizations, relative to the overall moral standards of individuals.

A possible implication of these results is that strengthening the association between an organization's contract and a promise may shift judgments of its breach to more closely resemble those of a breach by a person. The next two experiments tested the role of the contract–promise association in judgments of contract breach and in attenuating the person–organization discontinuity observed in these judgments.

2.6. Experiment 6: Making the Contract–Promise Link Explicit

This experiment was designed around the finding that the implicit association between a contract and a promise is stronger when judging contracts signed by individuals than those signed by organizations. If this difference is responsible for the person–organization

⁷ In a pilot study, participants generated "as many words as you can think of that you associate with the concept of promise." Using the website <http://www.morewords.com>, I created word fragments for 8 of the 10 most frequently generated words that could also be completed to form words unrelated to a promise.

discontinuity in reactions to a breach, then enhancing the contract–promise association for organizations may attenuate the effect. Experiment 6 tested this prediction by phrasing the description of the contractual obligation as a promise. Eigen (2012b) found that participants' propensity to honor the terms of a contract, according to which they agreed to perform some task, increased when they were reminded that they made a promise to complete the task. Similarly, here, too, I included the word "promise" in the contract's description and then measured whether participant reactions to a contract breach were different than when the contractual obligation was described in neutral terms.

2.6.1. A Pilot Study: Does Making a Promise "Humanize" an Organization? Lurie (2004) suggested improving ethical conduct in business by making business more "human" through the increased salience of emotions. Similarly, using the verb "promise" in the contractual obligation's description might make the organization seem more human, and thus make judgments of its actions closer to those of a person. To test the possibility that the promise framing might humanize the organization in Experiment 6, I conducted a pilot study. All participants read a description of a contract, adapted from Lewinsohn-Zamir (2012), between a furniture store and a banquet hall, for the supply of a stock of chairs to the banquet hall at a later date. Participants were randomly assigned to four groups in a 2×2 between-subjects design, with the type of signing agent (the store or the store manager) and the inclusion of the word "promise" in the phrasing of the contractual obligation as between-subject factors: one group read that "the contract stipulated that the chairs will be supplied within 30 days," whereas the other group read that "in the contract, the store [manager] promised to supply the chairs within 30 days."

Next, participants rated the agent on traits categorized by Haslam et al. (2005) as human traits (i.e., uniquely human or pertaining to human nature, such as imaginative, sympathetic) and nonhuman traits (e.g., contented, relaxed). A 2×2 between-subjects ANOVA reveals a main effect of agent type on human trait ratings ($F(1, 33) = 4.44, p = 0.04, \eta^2 = 0.12$), but not on nonhuman trait ratings ($F < 1$), and no phrasing or interaction effects on either measure (F -values < 1). Although the manager was rated higher than the store in human traits (manager, $M = 4.61, SD = 0.51$; store, $M = 4.18, SD = 0.70$), but not in nonhuman traits (manager, $M = 4.78, SD = 0.41$; store, $M = 4.61, SD = 0.75$), including the word "promise" in the contract description did not affect ratings of the store or the manager (t -values < 1), ruling out the increased humanness of the store as a possible mediator.

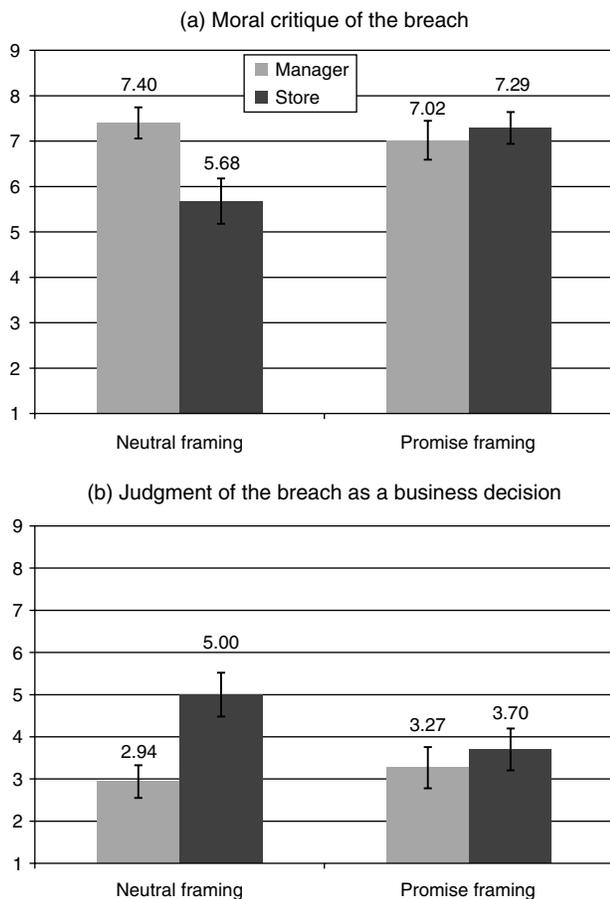
2.6.2. Participants and Procedure. Ninety U.S.-based participants (69% females; mean age, 36.34) completed a "Contract Scenario Survey" for \$0.10 each. They read the same description of the chair supply contract used in the pilot study, with the addition that, after receiving a higher value order for similar chairs from a hotel, the store decided to cancel the banquet hall's order and supply the chairs to the hotel instead. In a 2×2 between-subjects design, the type of breaching party was manipulated by varying its identity (the store or the store manager), while the contract–promise link was manipulated by varying the phrasing of the contractual obligation: one group read that "the contract stipulated that the chairs will be supplied within 30 days," whereas the other group read that "in the contract, the store [manager] promised to supply the chairs within 30 days."

Next, participants rated the extent to which they thought the breaching party's behavior was immoral, unethical, and greedy, as well as the extent to which they thought it was a reasonable business decision and something they believed they would have done had they been in the breaching party's position. In addition, participants rated their support for payment of monetary compensation by the breaching party to the banquet hall. The order of presentation of all items was randomized between participants, and all measures were on a nine-point scale.

2.6.3. Results. An exploratory factor analysis produced two Promax rotated factors representing five of the six items and corresponding to two constructs—moral judgment and judgment of the breach as a business decision. These two factors account for 77.47% of the variance. The items were grouped into two variables representing the two factors. Table 1 shows the items, factor loadings and reliability scores.

A series of two-way between-subjects ANOVAs revealed a significant interaction of breaching party type and framing of contractual obligations on moral judgments of the breach ($F(1, 86) = 5.88, p = 0.02, \eta^2 = 0.06$) and a marginally significant interaction effect on judgments of the breach as a business decision ($F(1, 86) = 2.95, p = 0.09, \eta^2 = 0.03$). As Figures 3(a) and 3(b) show, when the contractual obligation was framed in neutral terms, a person–organization discontinuity was observed: a breach by the store manager was judged more harshly than a breach by the store ($t(46) = 2.87, p = 0.006, d = 0.85$), whereas ratings of the breach as a legitimate business decision were higher when the breaching party was the store than when it was the manager ($t(46) = 3.20, p = 0.002, d = 0.94$). In contrast, framing the contractual obligation as a promise eliminated the discontinuity: the two cases of the breach, by the store and by the manager, were judged equivalently, both

Figure 3 Mean Judgment Scores of a Breach of Contract as an Immoral Decision (a) and as a Business Decision (b) by Breaching Party Type and Framing of the Contractual Obligation Type in Experiment 6



Note. Error bars indicate ± 1 standard error.

with regard to the moral side and to the business side of the decision (t -values < 1). Participants also displayed a stronger preference for enforcing damages in the manager's case than in the store's case when the scenario was phrased neutrally (manager, $M = 6.84$, $SD = 2.72$; store, $M = 4.39$, $SD = 2.86$) ($t(46) = 3.04$, $p = 0.004$, $d = 0.90$), but not when it included the word "promise" (manager, $M = 7.65$, $SD = 1.69$; store, $M = 6.82$, $SD = 2.42$) ($t(40) = 1.28$, $p = 0.21$).

2.6.4. Discussion. The results of Experiment 6 highlight three interesting points about the person–organization discontinuity in judgments of a contract breach. First, making an explicit association between the contract and a promise eliminated the discontinuity and altered the essence of judgments of the contract's breach by the organization to be more similar to those of a breach by a person. This result suggests that keeping a promise, like refraining from harming the environment but unlike keeping a contract, is a consensual moral norm, and our moral intuitions evoke expectations that everyone will obey the norm

and keep the promise (Haidt 2001). Also, as in Experiment 3, participants did not see the organization as either inherently evil or as a completely value neutral actor, but rather, they judged its behavior according to some moral standard, which applies equally to organizations and individuals with regard to keeping promises. Thus, the difference in perceptions of the neutrally phrased contract may reflect different levels of moral awareness or the degree to which the contract itself was perceived to be relevant to moral judgment (Butterfield et al. 2000).

Second, the word "promise" did not affect judgments of a contract breach by a *person*. This suggests that participants may have already been thinking of a promise when reading about the store manager's contractual obligation, and to make the association, they did not need to be reminded that this contract can be seen as a promise. This finding is consistent with the results of Experiment 5, which revealed a strong implicit contract–promise link in contracts of individuals.

Finally, this experiment shows that the person–organization discontinuity can be remedied, at least in the context of contracts, by a rather subtle intervention. The goal of preventing an executive of an organization from getting away with breach of contract by hiding behind the organization's identity can be achieved by inserting the word "promise" into the contractual obligation.

2.7. Experiment 7: Putting the Contract–Promise Association to Work

The results of Experiment 6 demonstrated that including the word "promise" in a contract's description makes judgments of its breach by an organization similar to those of a breach by an individual. This finding suggests that phrasing the contractual obligation as a promise *in the contract itself* may help attenuate the person–organization discontinuity in case the contract is breached, and it may make judgments of the breach more consistent across different types of agents. In Experiment 7, participants read a real contract document that was signed either by individuals or by organizations, and the obligations it outlined were phrased either neutrally or in a way that included the word "promise." Participants then learned of the contract's subsequent breach and provided their judgments of this action and their thoughts about its practical implications. The prediction was that whereas in judgments of the breach of the neutrally phrased contract a discontinuity will appear, including the word "promise" in the contract's clauses will eliminate these person–organization differences in judgment.

2.7.1. Participants and Procedure. One-hundred fifty U.S.-based participants were invited to complete a “Contract Judgment Survey” online in exchange for \$0.25 each. Four responses from participants who had already logged into the study were removed from the data set. The final sample included 146 participants (44% females; mean age, 29.25), who were randomly assigned to one of four groups in a 2 × 2 design. Each group read a contract for the purchase of an industrial air compressor. The contracts were identical between groups, except for the identities of the signers and the wordings of the contractual obligations. The contract’s signers were manipulated between conditions. In one condition, the signers were a dealership and a company, both of whom signed the contract with their corporate seals. In the other condition, the contract’s signers were the dealership’s sales manager and, referred to in the contract as the buyer, the company’s VP. All identifying details (i.e., the names and addresses of the dealership, the company, and of the individual signers) were blacked out in the document itself. In addition, the wording of the contractual obligations was manipulated. For half of the participants, the clauses of the contract were phrased neutrally (e.g., “The dealership [manager] shall deliver the compressor to the company’s [buyer’s] property”), whereas for the other half, the phrasing included the word “promise” (e.g., “The dealership [manager] promises to deliver the compressor to the company’s [buyer’s] property”). An example of the contract used in the study is in the appendix.

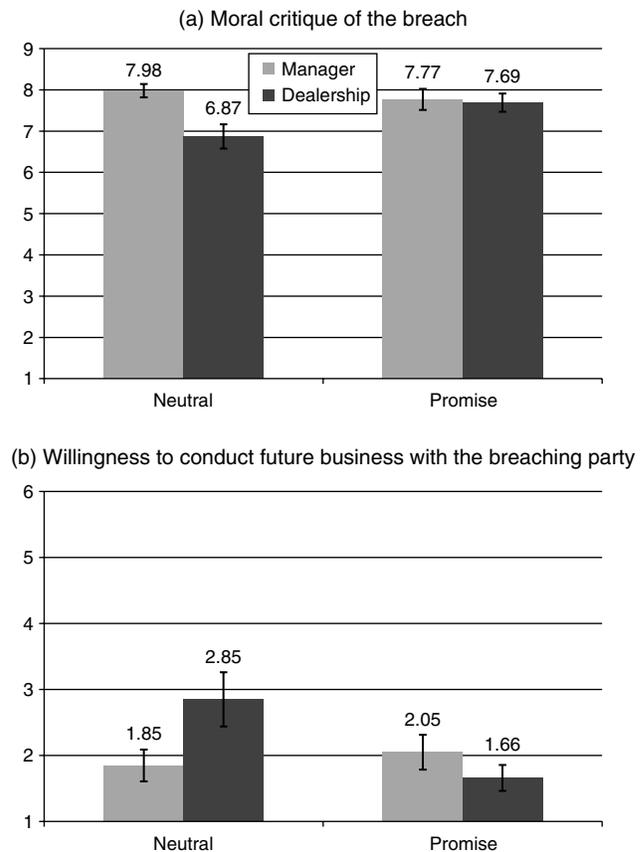
After they read the contract, participants learned that after having signed the contract, the dealership [manager] received a higher offer for the compressor from another party, broke the contract with the company [buyer], and sold the compressor for the higher price. Participants then rated the degree to which they believed the breaching party’s behavior was unethical, immoral, and a betrayal of the aggrieved party. They also evaluated the degree to which they believed this behavior was rational, a reasonable business decision, and something they would have done if put in a similar situation. In addition, participants rated their willingness to conduct business with the breaching party in the future and their support for legal action against the breaching party, regardless of the actual harm caused by the breach (i.e., in the event that the aggrieved party managed to buy an identical compressor for the same price somewhere else). All items were rated on a nine-point scale and presented in a random order.

2.7.2. Results. An exploratory factor analysis on judgments of the contract breach produced two Promax rotated factors consisting of five of the six judgment items and corresponding to two constructs—moral judgment and judgment of the

breach as a business decision. The items were thus grouped together to represent the two factors, which account for 71.22% of the variance. The items, factor loadings, and reliability scores are presented in Table 1. The practical implication items did not correlate significantly with one another and were analyzed separately.

A two-way between-subjects ANOVA revealed a significant interaction between signer type and wording of the contractual obligation on moral judgments of the breach of contract ($F(1, 142) = 4.89, p = 0.03, \eta^2 = 0.03$). Simple effects tests show that when the contract was worded in neutral terms, moral judgments of the breach displayed a person–organization discontinuity, such that a breach by the sales manager was judged more harshly than was the breach by the dealership ($t(72) = 3.48, p = 0.001, d = 0.82$). However, when the commitments by the parties were described in the contract using the word “promise,” judgments of the breach did not differ significantly between conditions ($t < 1$) (see Figure 4(a)). Willingness to conduct future business with the breaching party

Figure 4 Mean Moral Judgment Scores of a Breach of Contract (a) and Willingness to Conduct Future Business with the Breaching Party (b) by Breaching Party Type and Contract Phrasing in Experiment 7



Note. Error bars indicate ± 1 standard error.

showed a similar interaction effect ($F(1, 142) = 6.04$, $p = 0.01$, $\eta^2 = 0.04$): participants expressed significantly greater willingness to conduct business with the dealership than with the manager who breached a neutrally phrased contract ($t(72) = 2.18$, $p = 0.03$, $d = 0.51$), but this difference was not observed when the breached contract was phrased in promise terms ($t(72) = -1.19$, $p = 0.24$) (see Figure 4(b)). As for judgments of the breach as a business decision, a two-way ANOVA revealed a significant main effect of the contract's signer ($F(1, 142) = 5.51$, $p = 0.02$, $\eta^2 = 0.04$), suggesting a person–organization discontinuity existed in these judgments, too. Simple effects tests show that the discontinuity occurred when the contract was phrased in neutral terms (organization, $M = 4.73$, $SD = 2.13$; person, $M = 3.68$, $SD = 1.91$) ($t(72) = 2.23$, $p = 0.03$, $d = 0.53$), but not when the word “promise” was inserted into the contract (organization, $M = 4.23$, $SD = 2.34$; person, $M = 3.64$, $SD = 2.05$) ($t(72) = 1.15$, $p = 0.26$). The interaction, however, was not significant ($F < 1$). No significant effects were found in terms of participant willingness to sue the breaching party in case the aggrieved party is not harmed.

2.7.3. Discussion. The results of this experiment show that, as in Experiment 2, the effects observed in judging a story about the breach of a contract are also observed in judgments of real contracts. More importantly, the person–organization discontinuity in reactions to a breach of contract can be eliminated when the concept of promise is inserted explicitly into the contract. While real-world contracts typically do not include any reference to morally charged concepts and terms, this experiment's findings suggest that phrasing contractual clauses in promise terms can help correct a bias in people's judgments of these contracts. Thus, this experiment offers a simple and subtle intervention to ensure a fairer and more consistent reaction in the event that one of the parties walks away from a signed deal.

3. General Discussion

This work addressed two gaps in the literature. First, it tested whether people's judgments of the actions of individuals and organizations follow the corporate personhood assumption that these two types of actors are the same. Second, it tested the effect of type of contract signing party (e.g., individual versus corporation) on moral perceptions of the contract. Prior research has shown that people recognize two dimensions of contracts: one is formal, explicit, and related to the function of a contract as a business instrument, whereas the other, more implicit and subjective, represents the moral function of a contract as a set of mutual promises made by the signers to each other.

Since research finds that people perceive of organizations as being less sensitive than individuals, if at all, to the subjective, emotional features associated with the moral side of contracts, I predicted that people will allot more weight to the moral side of a contractual obligation when signed by a person and more weight to its business side when signed by an organization.

The data presented in this paper support this prediction and suggest that a contract signed by a person is perceived by people to represent a promise made by one signer to the other. The contract primes promise related concepts, and when it is breached, the behavior of the breaching party is judged harshly. Conversely, for an organization, the association between the contract and a promise is significantly weaker and, accordingly, so are the negative reactions toward an organization that breaches the contract.

This is not to say that organizations are generally expected to behave with lower moral standards than individuals. For example, the current work shows that acts such as harming the environment and breaking a promise are judged by the same standards, regardless of whether the culprit is an individual or an organization. Rather, it is the strength of the association between a contract and a promise that drives the effect: In Experiment 5, individual signers generated a stronger contract–promise association than organizations. In Experiment 6, creating this association made reactions to a breach by an organization similar to those to a breach by an individual, whereas in the absence of the contract–promise association, a discontinuity in reactions was observed. Together, these studies constitute an experimental-causal-chain design, which demonstrates that the person–organization discontinuity is mediated by the contract–promise link (see Spencer et al. 2005).

Identifying the contract–promise association as the cause for the discontinuity suggested a simple and subtle method to eliminate it. Describing contractual obligations in promise terms in Experiment 6 and including the word “promise” in the contract itself in Experiment 7 made perceptions of the contract's subsequent breach similar for organizations and individuals, and it eliminated the person–organization discontinuity observed when a neutrally phrased version of the contract was used.

The main theoretical contribution of this work is that it expands the discussion of corporate personhood from the normative to the descriptive field. Regardless of how the conduct of individuals versus that of organizations *should be judged*, the law currently assumes that the two types of conduct *are judged identically*. The findings of this paper, however, demonstrate that this is not the case, at least

with regard to contracts. People perceive a contract signed by an individual differently than they do a contract signed by an organization, even if it is the exact same contract. These findings demonstrate the potential contribution of research in judgment and decision making to debates in law and business ethics.

Another contribution in this paper is the shift from moral judgments of agents' (i.e., persons, organizations) character to evaluations of actions. The experiments reported here show that our moral judgments of behavior depend both on the type of agent exercising the behavior and on the context. In some contexts, reactions to a person's contract decision were more extreme than those to the same decision made by an organization; in others, judgments were no different for the two agent types. Therefore, we cannot make conclusions about a general sense of persons' and organizations' morality without looking at the framing of their decisions and actions.

This paper bridges the gap between research findings on the malleability of moral judgments (Gino et al. 2010, Haidt 2007, Sunstein 2005), perceptions of personal responsibility and their relation to moral judgments (Darley and Latane 1968, Higgins et al. 1984), and uncertainty and relational issues in contracts (Bernstein 1992, 2001; Feldman and Teichman 2011). For example, Bernstein's (1992, 2001) research has highlighted the role of relational norms and interpersonal relations in contract negotiation and enforcement. One reason for the extensive use of attributes of interpersonal interaction may be that the parties recognize their power as moral deterrents against potential breach.

3.1. Limitations and Future Directions

This paper's findings raise a number of interesting questions about human behavior in actual contract scenarios and whether it is characterized by a similar discontinuity. Will an executive be less hesitant to breach a contract signed with a corporate seal, knowing that her actions will be attributed to the organization? If so, will people reach a contractual agreement with an individual more easily than with an organization? Also, does the perception of contracts as promises affect people's preferences for enforcing their completion over accepting monetary compensation for their breach?

Another intriguing set of questions involves the wider context in which the contract is signed. How do different types of agents perceive the relationships with their counterparts? Eigen's (2008) work on form-adhesive contracts (i.e., standard form contracts whose terms are not subject to negotiation, such as car rental or credit card agreements) demonstrated that people who viewed these contracts as binding were more likely to perceive of their relationship with their counterparts as relational, whereas those who

viewed the contracts as nonbinding tended to perceive of their relationships with their counterparts as transactional. Indeed, a robust difference in how the contracts of individuals versus those of organizations are perceived may imply a difference in the nature of the relationships they maintain.

Future research should also address a notable limitation of the present work, namely, geographical and cultural differences. The experiments reported here were all conducted in the United States, where the law typically does not recognize plaintiffs' rights beyond monetary damages in the amount expected to be gained had both parties adhered to the contract (Farnsworth 1999). In other countries, such as Germany and France, performance enforcement (i.e., a court order forcing the breaching party to perform its contractual obligations) is the norm rather than the exception (Zamir and Medina 2010). This, in addition to cultural differences in moral judgments (Haidt and Joseph 2004), may result in different perceptions of contracts in these countries.

4. Conclusions

This paper reports an empirical test of perceptions of the corporate personhood principle in contract contexts. The results of seven experiments reveal a robust difference between perceptions of a contract signed by an individual and one signed by an organization, such that a contract of the former type carries a moral significance, similar to that of a promise, which does not exist to the same degree in the latter kind. Although the law does not account for this difference, it has potentially serious implications for people's normative standards and moral judgments. In addition, this paper offers a way to prevent these effects by making a subtle change in the phrasing of contracts. A continued prescriptive and descriptive discussion, as well as multidisciplinary research on this topic, can enhance our understanding of people's moral judgments and business behavior, and ultimately help to promote cooperation and justice in contract situations.

Supplemental Material

Supplemental material to this paper is available at <http://dx.doi.org/10.1287/mnsc.2013.1745>.

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Appendix. The Contract Used as Stimulus in the Organization-Promise Condition in Experiment 7

Contract for Purchase of an Air Compressor

This contract for the selling of a portable 150 PSI air compressor is made this day, 4/12/2012, by and between [REDACTED] Equipment Supplies, hereafter referred to as the Dealership, and [REDACTED] Inc., hereafter referred to as the Company.

The Dealership and the Company agree to the following terms and conditions:

1. The Dealership promises to convey full ownership and title to the compressor described below, hereafter referred to as the Compressor:

Year: 1998 Make: [REDACTED] Model: [REDACTED]
VIN: [REDACTED] Engine hours: 7,600

2. The selling price of the compressor is \$14,300. A down payment of \$2,000 shall be payable upon signing this contract; the Company promises to pay the balance due upon delivery of the Compressor.

3. The Dealership promises to deliver the Compressor to the Company's property at [REDACTED] Rd., Marion, OH, 43302, on 4/23/2012, on which transfer of the ownership and title of the Compressor to the Company shall take place.

4. The Company shall receive the Compressor "as-is," with no warranties of any kind expressed or implied. The engine hours registered at the time of transfer shall identically match the number of hours indicated under (1) above.

In witness of their understanding of and agreement to the terms and conditions here in contained, the parties affix their signatures below.



The Dealership



The Company

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