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But you promised! Managing consumers' psychological contracts

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Abstract In management literature, a psychological contract generally refers to an employee's beliefs about the reciprocal obligations that exist between him or her and an organization. Legal contracts, on the other hand, are agreements that create obligations between the parties that are enforceable by law. Psychological contracts are different from legal contracts in that they are characterized by the *belief* that both parties have entered into a set of mutual obligations. While marketing scholars and practitioners have largely overlooked the notion of psychological contracts, this article argues that a firm's customers might view the promises they believe a firm has made to them as psychological contracts. Psychological contracts are as relevant to marketing as they are to management. This article expands the notion of psychological contracts to marketing relationships and outlines internal and external strategies firms can employ to manage psychological contracts more effectively.

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1. But you promised. . .

"I thought, wow—that's a great, great offer. You never get points when you redeem," said a customer of a major Canadian retailer. She was a member of the retailer's loyalty program, which offered its branded money to its shoppers as a loyalty incentive. The money is offered in cash (voucher) form or electronically to customers who are registered, and can be spent in its stores. The customer had received the offer that read: "On October 3rd, redeem

e-CT 'Money' right at checkout and collect 50X on the amount you redeem."

She interpreted the offer to mean that she'd receive a big payout, so she made a purchase to redeem \$25 from her loyalty account. "I redeemed \$25—I was supposed to get 50 times that amount. To me, that was \$1,250," she said. The incident was featured in national media, including television news, but the retailer seemed to prefer not to explain the offer when asked. In a statement, a spokesperson simply said: "We regret the confusion this caused and we will reach out to the customer to make sure she remains a customer for life." The customer felt differently: She received no additional points or money. Later, when she called to complain and the company opened a file, they made an

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adjustment. “They ended up depositing \$6.56 in my account,” she said. They offered no explanation of why they weren’t fulfilling what she believed to be a promise.¹ Says the customer: “But you promised!”

In the case above, as in countless others, the consumer believed that she had entered into a psychological contract with the retailer; hence, the money would be received as promised. By spending her points on the day the offer required, the consumer perceived that she had fulfilled her side of the contract and that the company would in turn fulfill its obligations. Now the company has a very disappointed and angry customer. This is obviously not the ideal way to maintain a marketing relationship.

A psychological contract in the example above comprises a consumer’s beliefs about the reciprocal obligations that exist between him/her and an organization. A psychological contract is different from a legal contract in that it is characterized by the *belief* that both parties have entered into a set of mutual obligations. In the example above, the consumer believed that by fulfilling her side of the deal—namely, spending the required number of points on the exact day of the offer—the company would credit her account with the advertised number of points. Unlike a psychological contract, a legal contract is an agreement that creates obligations between the parties that is enforceable by law. If either of the parties fails to fulfill their obligations, there can be legal consequences. In the example above, there are no legal consequences for the non-reimbursement of the customer. However, even if the company had the legal contract on its side, the fact remains that the firm now has a very disenchanted and frustrated customer because of the psychological contract that she holds.

While the notion of the psychological contract is well established in the management literature (e.g., Conway & Briner, 2005; Robinson, 1996), it has largely been overlooked in marketing and in the relationships of firms with their customers. In this article, we explore the notion of consumers’ psychological contracts, the implications they have for firms, and how firms can manage their relationships with customers effectively in order to minimize the negative consequences of consumers’ interpretation of psychological contracts and maximize the positive impacts. In the next section we briefly review the work of management scholars on psychological contracts as well as the marketing literature that has dealt with customer expectations of service quality. Then we more explicitly

look at psychological contracts and consumers, with special attention to how consumers make and interpret them. Following this, we identify some strategies that managers can formulate and implement in dealing with psychological contracts for consumers.

2. Psychological contracts and customer expectations

Management literature has explored psychological contracts for many years. The ideas that underlie theory and research on psychological contracts can be traced back to scholars such as Simon, Smithburg, and Thompson (1950, pp. 381–382), who argued that:

Each participant and group of participants receives from the organization inducements in return for which he makes to the organization contributions. . . . Each participant will continue his participation in an organization only so long as the inducements offered him are as great as or greater than the contributions he is asked to make.

This exchange between employee and employer, conceptualized above as an exchange of inducements for contributions, is one case of something that is pervasive in human society: the social exchange of activities or goods. Gouldner (1960) argued that social exchanges are governed by what he termed the “norm of reciprocity.” Blau (1964, p. 89) described the functioning of this norm in a social exchange between two individuals as follows: “An individual who supplies rewarding services to another obligates him. To discharge this obligation, the second must furnish benefits to the first in turn.” Thus, there is a norm in human societies—both inside and outside of organizations—that if person A gives person B something, person B is obliged to give something to person A in return.

In the employee-employer relationship, the norm of reciprocity is manifested in psychological contracts. Employees’ psychological contracts comprise their beliefs about the reciprocal obligations that exist between them and their organizations (Morrison & Robinson, 1997). Implicit in these contracts is a belief about mutual agreement: that both sides have mutually agreed to this set of obligations (Rousseau, 2004). While employees believe that organizations have long-term, relational obligations, they perceive that they too have long-term, relational obligations. Reciprocity is therefore an important characteristic of the psychological contracts between employers and employees.

¹ For the full story, see O’Shea (2015).

Scholarship has identified many negative effects of perceptions of psychological contract violations (e.g., Raja, Johns, & Ntalianis, 2004; Robinson, 1996; Robinson & Morrison, 1995; Robinson & Rousseau, 1994). There are two main consequences when individuals perceive that their employers have violated their obligations: First, they respond by lowering their perceptions of their own obligations. Second, they adjust their behavioral intentions and their behaviors in ways that are generally detrimental to the functioning of organizations, including reduced job satisfaction, lowered organizational commitment, and an increased intention to quit (Raja et al., 2004).

A number of characteristics of psychological contracts with employees in organizations have clear equivalents in the relationships that firms have with their customers. These are summarized in Table 1, which shows how closely the psychological contracts between organizations and their employees match those between firms and their customers.

There is a vast literature in marketing on customers' attitudes toward the service quality delivered by firms (e.g., Brown, Churchill, & Peter, 1993; Carman, 1990; Parasuraman, Zeithaml, & Berry, 1985, 1988). Much of this resonates with the notion of psychological contracts in management, although this has never been explicitly stated.

Table 1. Psychological contracts: Management and marketing implications

Psychological Contracts in Management		Psychological Contracts in Marketing	
Characteristic (Rousseau, 1990, 2004)	Implications	Characteristic	Implications
Multiple contract makers exist	<ul style="list-style-type: none"> • Several different entities can shape individuals' psychological contracts, such as recruiters, HR managers, direct supervisors, and co-workers. • Written documents such as management policies, employee manuals, and training materials can communicate psychological contracts implicitly. 	Multiple contract makers exist	<ul style="list-style-type: none"> • Customers can be communicated to by salespeople, call center staff, service delivery workers, etc. • Advertising, warranties, and instruction pamphlets communicate implicit promises to customers.
Incompleteness	<ul style="list-style-type: none"> • Neither worker nor employer can immediately identify all the details of a long-term employment relationship. • There are gaps that may or may not be filled in over time. 	Incompleteness	<ul style="list-style-type: none"> • When firms and their customers have long-term and/or complex relationships, neither party can perfectly remember or anticipate all the implications and consequences of the bond.
Mutuality	<ul style="list-style-type: none"> • Exists when parties to the psychological contract have a shared understanding of its terms. • Psychological contracts are more likely to be kept when both parties agree on the terms. • <i>Example:</i> Both worker and employer concur that the employer has committed to providing career development opportunities. 	Mutuality	<ul style="list-style-type: none"> • Commitment-trust theory: Successful relationship marketing requires that organizations and customers be committed to and trust each other (Morgan & Hunt, 1994). • <i>Example:</i> Airbus and Boeing cannot commit to designing a new aircraft without a number of major airlines committing in advance to purchase the new product once it reaches the manufacturing line. Airlines have to trust that the manufacturer will be able to design, produce, and deliver the new plane 10 and 20 years hence.

Parasuraman et al. (1985) and Parasuraman, Zeithaml, & Berry (1988) defined service quality as the difference, or ‘gap,’ between a customer’s *expectations* of the service they should receive from a provider and their *perceptions* of the actual service they receive. It is clear that there is overlap between expectations in this case and the psychological contract—or belief about a promise—as discussed above. The research on service quality (e.g., Carman, 1990; Parasuraman et al., 1985, 1988; Pitt, Watson, & Kavan, 1995) has found that the most important dimension of service quality for customers is that of *reliability*. Parasuraman et al. (1988, p. 13) defined reliability as “the ability of a service provider to deliver the *promised* service dependably and accurately.” When a customer believes that a service provider has promised to deliver a service dependably and accurately, and he has met his perceived obligation in turn—such as providing complete information, prompt payment, or showing up on time—we argue that the customer believes himself to be in a psychological contract with the provider.

Four other dimensions of service quality have been identified: assurance (the ability to deliver the service competently and securely); tangibles (the appearance of physical aspects such as buildings, equipment, and people); empathy (the ability to deliver the service in an individual, personal manner); and responsiveness (the ability to deliver the service willingly and promptly). These dimensions are all important; however, they can also be seen as process variables—or activities that firms can improve on—and customers are able to discern whether the provider is succeeding at them or not. Reliability is different because it is an outcome variable, and to the individual customer, a firm is either reliable or it is not. More than anything, reliability implies a promise, and a promise lies at the heart of a psychological contract. When a firm is perceived to be unreliable, the customer’s reaction is to say, “I kept my promise. You broke yours.” For example, a customer tells their auto repair shop: “You said that if I had my car here by 8 a.m., it would be ready and fixed by 5. It’s now 5 p.m. but it’s not ready and it’s not fixed.”

3. Psychological contracts and consumers

As alluded to above, promises and expectations are not synonymous to consumers. While the consumer might expect a service provider’s facilities to be modern and clean or the delivery person to be warm and friendly, a promise is never viewed as merely

something nice to have. It is seen as an essential obligation of the provider—a declaration or pledge that the provider will definitely do a particular thing. Reciprocity is an integral part of a psychological contract to a customer who believes that having given, she should receive something else in return. Reciprocity is, in a sense, proportional, and this is important from a service delivery perspective: the more effort the consumer exerts, the greater her sense of psychological contract breach when the provider fails to deliver. For example, when a consumer wakes at 5 a.m., drives through heavy traffic and bad weather to have her car at the dealership for a service by 7 a.m., and the car isn’t fixed and ready when promised, her feeling of letdown will be far greater than if she had driven two blocks to have the vehicle there by 9 a.m.

The principle of commitment and consistency is well established in the marketing persuasion literature (Cialdini, 1993). Individuals are driven to be consistent with commitments that they have made, and marketers have exploited this behavior in many different ways. These include competitions that require consumers to write down “in 50 words or less why X is the best product in the world” and pyramid marketing companies like Amway requiring their sales recruits to “write down their goals and then *sign them*.” It is a powerful tool for sellers to use because by having buyers commit, they are able to exploit the fact that individuals resist being inconsistent with commitments they have made. However, the principle works both ways: As part of psychological contracts, consumers—who wish to be consistent with their own commitments—also require firms to be consistent with theirs.

Breaking psychological contracts, as described in the management literature, has two important implications when applied to marketing. First, as noted earlier, management research has shown that when employees perceive that their employers have violated their obligations, they respond by lowering their perceptions of their own obligations (Rousseau, 1990). Likewise, when a consumer perceives that a service provider has not met its obligations, he is very likely to adjust what he believes to be his own commitments. For example, a car owner who is let down by a broken service promise from the dealer who sold him his vehicle will be less loyal to that dealer in the future. As a result, he might be willing to drive across town to have his car serviced at a competing dealer. Second, when individuals perceive that their employers have violated their obligations, they adjust their own behavioral intentions and behaviors in ways that are often detrimental to the functioning of organizations. In the marketing sphere, these behaviors by consumers

might manifest in a wide array of actions, including negative word-of-mouth about the firm and lower brand loyalty to the firm and its offerings. A famous example of this is the case of professional musician Dave Carroll and United Airlines (Deighton & Kornfeld, 2010). Carroll's expensive Taylor guitar was badly damaged by United's baggage handlers on a flight from Halifax to Omaha. After a year of haggling, United finally told Carroll that he would receive no compensation. Believing that the airline had broken a promise to him, Carroll wrote a song called "United Breaks Guitars" as part of a video uploaded to YouTube. It has been viewed more than 15 million times to date. A line in the song says, "You broke it, you should fix it"; the airline is viewed as a company that failed in its obligation to deliver luggage safely. The incident, the catchy tune, and the video were also featured in major news media such as CNN and *The Times* of London, which partly attributed the story to a 10% decline in United Airlines' stock price at the time.

4. Psychological contracts and consumers: Implications for marketers

Marketers should not overlook the fact that psychological contracts are as vivid in the minds of consumers as they are in the awareness of an organization's employees. Psychological contracts give marketers an additional lens through which to view important constructs in relationship marketing, such as service quality, expectations, and consumer satisfaction. In exploiting the notion of psychological contracts, marketers can focus on two domains: the organization itself and the marketplace. In each instance, we suggest three broad initiatives that can be undertaken.

Within the organization, marketers can first ensure that all employees—especially those at a service delivery level—understand that promises become psychological contracts in the mind of the customer. An off-the-cuff response such as "Oh, certainly by this afternoon" to a customer's query of when something will be ready can become a promise in the mind of the customer. The 'offer' in many firms is most frequently made by a low-level person in the organization, and then 'accepted' by the customer. In reality, the organization might not have empowered the person doing the offering to engage in making that contract, but without training, these responsibilities might not be clear—and of course the customer has no way of knowing that.

This brings us to the second internal initiative for marketers. An emphasis must be placed on consistent verbal and written communication—and this

needs to be trained, for it will not happen by itself. Clear communication does not mean a 50-page technical service warranty and description in legal style, because, as Richard Branson is quoted as saying: "If it can't fit it on the back of an envelope, it's rubbish" (Gallo, 2012). It simply needs to be something that both the service provider and the customer can mutually comprehend.

Allied to this is the third piece of advice for marketers: Turn psychological contracts into actual written contracts whenever confusion might arise. Although a written contract does not preclude misunderstandings, it typically offers greater clarity than verbal communications.

From an external (customer-focused) perspective, we suggest that marketers can do three things with regard to psychological contracts. First, revisit psychological contracts when they are detailed or of long duration. For example, a gardening service might contract to provide lawn mowing and weeding to a customer for one day every week for an agreed payment. Whether there is a breach or not, as part of simple good customer relationship management, the firm might wish to go over the relationship and its mutual responsibilities with the customer on a regular basis. This might help to avoid disputes over simple occurrences such as bad weather or the illness of an employee, which might prevent the service from being delivered for even just a day.

Second, it will be worthwhile to do some marketing research on how customers enact, interpret, and react to psychological contracts. This can preempt misunderstandings and enable firms to manage that which customers believe the firm is obligated to provide, as well as customers' own perceived obligations.

Finally, when it becomes known that obligations in a customer's psychological contract have been breached, overcompensate to fix it. As a saying in services marketing goes: "If it isn't right the first time, make it very right the second time." Not meeting an obligation carries with it not only the isolated failure to deliver that which was promised but also the broader consequence of being seen as an organization that cannot be trusted. In our opening example, not only does the consumer not receive the money she thought had been promised to her, she is also confronted with the emotion of having entered into a relationship with a company that she believes is insincere. The firm's actions subsequent to a psychological contract breach can therefore determine whether a customer will be willing to continue that relationship in the future. Furthermore, with the ongoing prolific use of social media as customer service contact points and viral vehicles for stories of broken psychological contracts, the

consequences of broken psychological contracts can be costlier for companies than fulfilling their side of a perceived breached contract.

5. Mutuality: The gold standard

Just as mutuality is a crucial consideration, or what Rousseau (2004) calls the ‘gold standard’ for employers seeking to manage their employment relationships effectively, marketers should strive for mutuality in their dealings with consumers and their psychological contracts. Mutuality is as much a gold standard in marketing as it is in management, because in order for consumers and firms to have satisfactory ongoing relationships, they must have a mutual understanding of the obligations that characterize those relationships. The firm should not only deliver what it promises, but also, more importantly, strive to deliver what the consumer thinks it promised. We have taken ideas regarding psychological contracts that have been in the exclusive domain of management and argued that they are equally applicable to marketing. Many of the concepts in management literature have parallels in marketing under such principles as reciprocity and consistency and commitment as well as in the significant advances that have been made in the field of service quality. We have shown that the strategies that firms have implemented in order to overcome the problems caused by psychological contracts with employees are also relevant to how firms can manage their relationships with customers. Marketers taking heed of these might more often hear customers saying “You delivered what you promised” rather than “But you promised.”

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