Dimensions of the psychological contract in industrial customer-supplier relations

Abstract
This explorative study examines customer-supplier relationships from the perspective of psychological contracts. Based on findings from a multiple case study, the content of the psychological contracts of individuals involved in customer-supplier relationships are presented. The study provides support for the use of psychological contracts for describing the dynamics of customer-supplier relations on an individual level, as well as for a transactional-relational dimension of the psychological contracts.

Keywords: Psychological contract, social exchange theory, dyadic relationships
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**1. Introduction**

The market for industrial goods has over the past years become more and more service intensive, often demanding a bundling of goods and services into increasingly complex solution packages (Matthyssens and Vandenbempt, 2008; Windahl, 2007; Gebauer, Fleisch and Friedli, 2005). Offering solutions rather than mere products has also in many cases been a strategy for fighting commoditization (Matthyssens and Vandenbempt, 2008). Jacob (2006) found in a study of companies in the business-to-business sector that all respondents in the study offered customized products or services, and that the typical share of such offerings was 80% or more of the company’s total revenue. Accordingly, less standardized solutions offered to industrial customers, and the ability to provide technical know-how and consultation services has become a distinct feature of many successful companies supplying these customers (Boyt and Harvey, 1997). One effect of this change, which has often been neglected in marketing theory (Celuch, Bantham and Kasouf, 2006), is the increasing importance of the individuals involved in the customer-supplier relationships. A crucial aspect of the focus on the individual is the fact that the roles of the individuals involved in the relationship changes as a result of the transition of the product/service offer. People representing the supplying firm might be handling solution packages instead of the traditional pure products, and people buying these packages need to be able to judge which supplier to choose based not only on product performance but also on factors such as support, service availability and technical know-how. Accordingly, the roles and challenges have changed, placing relationships between customers and suppliers under new circumstances where the roles are different from the traditional.

Within organizational research, a concept which has proven valuable for understanding roles in relationships and their effect on relationship performance is the psychological contract (Conway and Briner, 2005). In the present study, the psychological contract is used as an analytical tool, and the purpose of this study is to describe the content of psychological contracts in customer-supplier relations and show how this can be used for building theory. In a conceptual paper, Lövblad, Hyder and Lönnstedt (2009) hypothesize potential connections between psychological contracts and affective relationship commitment. In this paper, the first empirical step in researching these hypotheses is taken by describing the psychological contracts found in case studies performed on the market for industrial supplies in Sweden and the USA.

In organizational psychology, the psychological contract has been defined as “an individual’s belief in mutual obligations between that person and another party such as an employer” (Rousseau, 1990; Rousseau and Tijorwala, 1998) and has since long been used to explain the relationship between employers and employees (Conway and Briner, 2005). With few exceptions (e.g. Kingshott 2006; Pavlou and Gefen 2005), the research has concentrated on intra-organizational settings. The psychological contract is a mental model regarding a specific relationship (Rousseau 2001), and has its theoretical foundation within cognitive psychology. The psychological contract refers to an individual’s perception of mutual obligations, as expressed in the definition above. It is thus not the acted mutuality that is in focus, but the mental picture an individual has regarding his/her own obligations as well as the counterparts obligations in a specific relationship (Rousseau 2001). These obligations can either have been explicitly stated (in a written contract or in discussions), or have been interpreted as obligations through other events. An example taken from organizational research is that of employees interpreting an employer’s treatment of colleagues as a promise of similar treatment for oneself.

Using psychological contracts for the analysis of marketing relationships is not entirely new, and at least two empirical studies have been conducted where the concept has been applied to these settings. The first study was published in 2005 by Pavlou and Gefen and dealt with psychological contract violations in online marketplaces. In this study, the authors find that the buyers in online markets are rarely aware of the explicit legal terms regarding the transactions. Therefore, the experience of contract breach will not be guided by explicit contracts, but by the psychological contract in the mind of the customer. The second study, which investigated the impact of psychological contracts on trust and commitment, was conducted by Kingshott in 2006. In this study of relationships between suppliers and distributors on the Australian motorized vehicle market, a direct effect of psychological contracts on relationship commitment and trust was found. Kingshott justifies the extension of the psychological contract concept into marketing theory by noting that “Marketing
scholars modelling dyadic distributor-supplier relationships from the perspective of social exchange (Anderson and Narus 1984, 1990) tend to suggest that the psychological contract is also likely to have both theoretical and managerial implications for marketing relationships grounded in social exchange theory” (Kingshott 2006, p. 725).

From these two studies, we have indications that the construct of psychological contracts do have relevance for increasing our understanding of customer-supplier relations from a social exchange perspective. However, none of the studies have problematized the construct as such and investigated if the dimensions of the construct are the same when applied in this new setting. Contrary to these studies, this paper argues that even though the construct as such seems fruitful for understanding marketing relationships, we first need to understand construct as such in this new setting before we can start linking it to dependent variables.

The rest of the paper is structured in the following way. First a brief theoretical background regarding psychological contracts is given, followed by the research methodology. Thereafter, the empirical findings are presented. The paper ends with an analysis of the research findings, a discussion section and suggestions for further research.

2. Background: Psychological contracts

The psychological contract can be described in several different ways. One of the fundamental aspects is the content of the contract, i.e. the specific obligations that the individual perceive as relevant for the relationship. Looking at the content of the psychological contract, we can learn about what promises an individual perceives has been made in the relationship by the involved parties. However, the specific content is often idiosyncratic depending on factors such as the goals of the individual and the circumstances of the organization (Shore & Tetrik, 1994) and is therefore problematic for building theory. In order to overcome these difficulties, much of the later research work on the content of psychological contracts has been focused on developing dimensions of the content. In their conceptual article, Lövblad et al. (2009) describe three dimensions of the psychological contract which in organizational psychology has been found relevant for understanding affective relationship commitment. The first, which is also the most commonly used dimension, is the transactional vs relational orientation of the contract (Conway and Briner, 2005). A transactional psychological contract is commonly quite explicit and has a short term, economic scope (O’Donohue, Sheehan, Hecker and Holland, 2007). A relational orientation on the other hand is often more complex, long-term oriented and interdependent (ibid). Drawing on findings from organizational studies by Millward and Hopkins (1998), Lövblad et al. (2009) hypothesise that a relational orientation of the psychological contract has a positive effect on affective relationship commitment in customer-supplier relationships, while a transactional orientation has a negative effect on the same. The second dimension of the psychological contract is the perceived balance of obligations in the relationship. Shore and Barksdale (1998) found in their study of MBA students that there was a correlation between the balance of obligations and affective commitment. Lövblad et al. (2009) hypothesise that this is also valid for customer-supplier relationships. The third dimension is the stage of development of the contract. Referring back to the theoretical foundations of the construct within cognitive psychology a cognitive structure regarding a certain phenomenon (like a relationship) is constantly evolving and that it gets increasingly complex and stable the more experience we have regarding that phenomenon. Lövblad et al. (2009) discuss that a relationship can be regarded as quite crucial for the individual, or as unimportant and that this is likely to have an effect on how well structured the psychological contract is regarding this relationship. The authors also suggest that there is a correlation between the stage of development of the contract and affective relationship commitment.

The content of a psychological contract is likely be quite different in a customer-supplier relationship than in an employment relationship, and this should arguably also have effect on what is to be regarded as a transactional or relational psychological contract, when it is regarded as balanced vs. unbalanced etc. It is therefore important not to take these dimensions for granted only because they have proven valuable in employer-employee relationships, but to examine them empirically and see what the relevant dimensions in this new context are.

3. Research methodology

To obtain rich data regarding the psychological contracts of individuals involved in customer-supplier relationships, an embedded multiple case study design was chosen. The use of a qualitative case study design was chosen since the research is explorative (Yin 1994). The unit of analysis is the individuals involved in
these relationships since the psychological contract by definition is held by the individual. The cases are however viewed as embedded in the customer-supplier relationship in which the individuals are involved. Since the project was conducted in cooperation with a Swedish firm manufacturing and marketing industrial supplies (Firm A), respondents where selected based on their active involvement in relationships where this firm had the role of supplier. A total of 21 in-depth interviews where conducted with as many respondents. The length of the interviews were 30 minutes up to 1 hour and 10 minutes, with the majority on the upper part of that scale. 18 of the respondents were representatives of companies buying from Firm A, with roles within the purchasing and/or production organization. The remaining three respondents were representatives of the sales organization of Firm A. The relative overweight of respondents from the buying firms represents the structure of the relationships on this particular product market. Four different relationships where represented in the study, with three to eight respondents in each relationship. Sampling was done with the aim of theoretical replication (Yin 1994), and was done in three steps. First, discussions with the sales management of Firm A was performed regarding what customer firms they had a stronger vs. weaker relationship to, and what relationships of each type they thought would be accessible for the research project. Second, the responsible sales representative was contacted and asked to identify people in the customer organization which were frequently involved in the relationship. Third, the customer firm and the identified representatives were contacted and interviews were booked. All firms contacted agreed to participate, though in some cases with limitations of the number of respondents to be interviewed. 14 of the interviews where conducted in Sweden and the remaining 7 in the USA. Before each interview, a questionnaire was sent to the respondent along with an instruction to fill it out and bring to the interview. The purpose of this questionnaire was both to prepare the respondents for what we were going to talk about during the interview and to act as a basis for our discussions. One critique that could be raised against such a design of the interviews is that it would limit the discussions and direct the thinking of the respondents. However, a prestudy performed during 2007 proved this way of working more successful than a less structured design. After the interviews, each interview was transcribed word-by-word and analysed using the coding technique described by Strauss & Corbin (1998).

4. Psychological contracts in customer-supplier relations

The presentation of the empirical evidence will be on a relationship level, i.e. the specific, individual psychological contracts will not be presented as such. Instead, common themes in the psychological contracts are presented, with comments regarding individual deviances. Since the majority of the respondents are representatives of the customer firm, they will be the main focus.

4.1 Relationship 1

The two companies involved has a long-standing relationship dating back more than 20 years, and for the most part the respondents feel that it has been a fairly smooth ride along the way. Until three years before the interviews the same salesman had managed the relationship from the supplier side. Apart from discount policies, quotes, orders etc., there is no paperwork or agreements regulating the relationship between the companies. In spite of the long history of the relationship, this is one of the relationships that the supplier describes as “less committed”.

Respondents on the customer side stress the obligation of the supplier to act as a competence resource for them, a service commonly offered from suppliers within the product market but generally not charged for. The supplier should be able to perform problem solving tasks in the production. They expect the supplier to be attentive to the specific circumstances of the customer, their needs, wishes and objectives. The supplier should further (not surprisingly) keep their promises or promptly and clearly communicate when they are unable to do so. A humble and respectful attitude was also expected from the supplier representatives. When it came to discussing what the customer representatives saw as their obligations in the relationship, this is one of the relationships that the supplier describes as “less committed”.

4.2 Relationship 2

Also this relationship is an example of a long-standing relation. None of the respondents have a clear picture of when it started, but it is at least some 20 years ago. During this time, the relationship has had its ups and downs according to several of the respondents on the customer side, mainly due to periods of lacking attention from the supplier. Since about 7 years, the supplier is one of the customers so called “preferred
suppliers” for this type of products, meaning that there is a formal agreement between the companies regulating quite in detail the obligations of the two parties. All of the respondents are aware of the agreement and the main outline of it. The supplier firm describes this relationship as a strong and stable one.

Also in this relationship, there is a perceived obligation from the customer side regarding how the supplier should act as a competence resource and be able to solve technical problems, but in this case there is also an obligation to proactively suggest improvements and new ways of working. It is also important that the supplier show active devotion to the relationship. There is an obligation to promptly and clearly communicate when it is not possible to live up to promises made. Most respondents in Relationship 2 stress that the supplier should be present at the customer site regularly, or at least be easily accessible by phone or email. Other commonly mentioned obligation is to share the production objectives of the customer, and that the supplier has a long term view of the relationship.

All respondents on the customer side except one have quite a clear picture of what their obligations towards the supplier is. Commonly mentioned is to integrate the supplier into the organization, to give them good circumstances to do a good job (like being clear with project directives) and being open with information. One respondent from the customer firm described the cooperation with the supplier in the following way: “We here, we are the best there is regarding our own products, we know how they work. We have the best knowledge about our machines. The [product] suppliers are the best at their [products]. Then there is usually a third part involved when we do investments and that is the machine builder, he knows most about his machines. When you bring these three together and work in kind of a team you could call it, then you usually get a very good result”.

4.3 Relationship 3

The customer in Relationship 3 is a large firm which was created a few years ago when a number of firms with complementary production merged. Firm A had good, long-standing relationships with some of the involved firms, and less good or no relationship with others. At the time of the interviews, there is an agreement between Firm A and the customer which is described as quite informal and really not legally binding. The respondents instead describe it as a formalization of their intent to cooperate, something that has proven valuable in working with production facilities where the attitude towards Firm A is less favourable. The supplier firm describes the relationship as mainly a strong one, but with variations between the different production sites.

The respondents from the customer firm in Relationship 3 all mention the obligations for the supplier to visit their production facilities with some regularity, as expressed by one of the respondents: “They have to be in the plant. I mean that is where the issues are, that is where the [product] supplier brings their value.” They should also perform problem solving tasks and have a good understanding of the customer’s production. The supplier should have a good, personal contact with key individuals in the customer production and be actively involved. Open and clear communication behaviour is also requested.

The own role in the relationship is described as treating the supplier fair and giving them good circumstances to do a good job. The respondents also see it as their obligation to keep an open communication with the supplier and clearly communicate any problems they might experience in the relationship. Being receptive to the needs of the supplier was also mentioned by one of the customer representatives.

4.4 Relationship 4

This relationship has been going on for quite a few years, exactly how many is unclear. The relationship is described as stable, even if the supplier representatives categorize the customer as uncommitted. From the customer side, respondents communicate that they are satisfied with the relationship, but as stated by on of the respondents: “You know I´m not dedicated to [Firm A], I´m going to use whatever [product] that is going to cost me less per part. It is the cheapest per part that makes that part.” There are no formal or informal agreements between the firms regulating the dealings in the relationship.

For respondents representing the customer firm in this relationship, one important obligation for the supplier is to have a great deal of integrity, meaning that the customer wants to feel comfortable in sharing sensitive information with the supplier. The importance of being present in the customer production regularly is stressed, along with being available on phone or email. Having a good understanding of the customer’s
production circumstances was also commonly mentioned. Also in this relationship, problem solving abilities and acting as a competence resource for the customer organization to utilize is important, as well as sharing the production philosophy of the customer and having a open, clear communication behaviour.

There is a less clear picture of what the obligations of the customer representatives are towards the supplier. Among the respondents on the customer side of the relationship, there is actually only one statement made that relate to such obligations. In that case it was concerning the own integrity and making the supplier feel comfortable in sharing sensitive information with them.

5. Analysis

The purpose of this article is to describe the content of psychological contracts of individuals involved in customers and suppliers on industrial markets. In the introduction, it was referred to Lövblad et al. (2009) where hypotheses are drawn regarding relevant dimensions of the psychological contracts. The findings from the case studies presented in the previous section will here be analyzed based on these dimensions (transactional-relational, balanced-unbalanced and basic-developed), and indicators of each dimension will be identified.

5.1 Transactional or relational psychological contracts?

Thomas and Anderson (1998) provide a useful summary of components of transactional and relational psychological contracts found in research works within organizational psychology. In a transactional contract, the employee obligations are (for example) to give notice before leaving, accept to be transferred and not to support competitors. The employer is in return expected to provide rapid advancement and high, performance-based pay. In a relational contract on the other hand, the employee should do overtime, be loyal and perform extra-role behaviour, while the employer should provide training, job security and career development.

From the respondents in our study, there are also some transactional and relational aspects of the contract content. Looking first at transactional content, one notices the lack of long term obligations in Relationship 1 and 4. Even if both relationships have been going on for years, many of the respondents from the customer firms state that the every transaction is evaluated and has to be earned in its own right. A good example thereof is the statement presented in Relationship 4. Also statements such as that the supplier should be there when needed indicates a transactional orientation of the content. A more relational orientation is found in Relationship 2 and 3. In both of these relationships, there is a stronger focus on long term commitment, which has also been formally expressed in the case of Relationship 2. Statements relating to items such as keeping an open two-way communication, being a partner and sharing the production philosophy of the customer have a clear relational orientation.

5.2 Balanced or unbalanced level of obligations?

The perceived balance of obligations does not relate to any specific contract terms, but rather to the level of obligation (Shore and Barksdale 1998). In their article, Shore and Barksdale (1998) say that “By balanced, we mean that employees perceive the level of employee and employer obligations within the psychological contract to be similar.” (p. 732) In the case of customer-supplier relationships, this appears to be quite different. In several cases, respondents from the customer firms in our study have seen no obligations (5 respondents) or very basic levels of obligations (3 respondents). Yet, when looking at what these respondents view as the obligations of the supplier, their level of expectation is often quite high. However, when looking at this group, all of them express psychological contracts which have a transactional orientation, indicating that there is a co-variation between the balance of obligations and the transactional-relational dimension of the psychological contract. A similar indication of co-variation between the two dimensions appears when looking at the group of respondents which have expressed stronger obligations regarding what they should do for the supplier. They often describe their own obligations with terms relating to integrating the supplier, to be open with information and to be receptive to the needs of the supplier. These obligations are of a relational nature and thus reinforce the picture of a relationship between balanced psychological contracts and relational orientation, as well as between unbalanced psychological contracts and transactional orientation. Whether this means that the balance of obligations is of less interest for inquiry than the transactional-relational dimension will have to be an issue for future research to resolve.
5.3 Developed or basic psychological contract?

As mentioned in chapter 2, whether a psychological contract is to be regarded as a basic or developed one is related to the stage of development of the contract. Within organizational research, this is referred to as the contracting process. Among the cases in this study, all of them had psychological contracts to be described as developed. Even though two of the respondents only list 5-6 obligations regarding what they expect from the supplier, these obligations are clearly negotiated and firmly established in the mind of the respondents. This homogeneous result might be due to a bias in the selection of respondents, since all of them had been dealing with the relationship to the supplier for a number of years.

6. Discussion and suggestions for further research

This explorative study indicates that customer-supplier relations can indeed be analysed by using the psychological contract as an analytical tool. It has also given support to the hypothesis drawn in Lövblad et al. (2009) regarding the relevance of a transactional-relational dimension of the psychological contract. The result also indicates that a lesser balance in the level of obligations correlate positively with a transactional orientation of the psychological contract. An example of this can be found from one of the respondents in the study. When asked about that she thinks the expectations from the supplier are on her, she states “Well, I mean, what they are going to expect from me is, I mean really, I just have to get my stuff on time that is all I care about.” The study further indicates a positive relationship between a more balanced level of obligations and a relational orientation of the psychological contract. This result could mean that one of the dimensions is redundant. However, even though the results correlate in this study, further research is needed before dismissing one of the dimensions. Does the fact that an individual has a transactional orientation of his/her psychological contract always mean that they perceive themselves to have to do less in the relationship with a supplier? Future research will have to tell.

In the present study, the relevance of a developed or basic psychological contract could not be supported since all of the respondents had been involved in the relationship for a number of years and had quite developed views of the obligations of each party involved. However, it seems intuitively correct to assume that there is a contracting process also in customer-supplier relation, just as it has been proven to exist such a process in employer-employee relations (e.g. Herriot and Pemberton 1997; Rousseau 1995). Therefore, future research should aim at understanding the contracting process, its influences and the effects on relationship outcomes.

The present study has two main limitations. First, it is only conducted on one specific product market, and it is likely to assume that research done on a different market would generate different results. A representative of a customer firm would probably have a different psychological contract for a relationship with a supplier of capital intensive machinery than with a supplier of industrial supplies. Secondly, this study has used relationships between one specific supplying firm and its customers, which could generate company specific biases.

There are several areas which need to be covered in future research, apart from those already mentioned. First and foremost, now that we have seen that psychological contracts are possible to apply to inter-organizational relationships, the value of the construct needs to be investigated. As previously mentioned, Lövblad et al. (2009) hypothesise that the construct can help in better understanding affective relationship commitment, and research by Kingshott (2006) as well as Pavlou and Gefen (2005) has given indications psychological contracts have explanatory value in this type of relationships. One of the main values, which are also evident in this study, is the clear focus on the individuals involved in the relationship. In Relationship 1, all respondents except one had a transactional orientation of their psychological contracts, and in Relationship 2 it was the reverse, that all except one had a relational orientation. This means that it is not enough to just view the firm as the unit of analysis when trying to understand inter-firm relationships. Instead we need to complement existing theory with models which helps us in understanding the individuals involved in the relationship. More specifically what aspects of the relationship it can explain and how this construct relates to other concepts and constructs already used within the field will remain to be seen.
References