

THE IMPACT OF PSYCHOLOGICAL CONTRACT ON RELATIONSHIP QUALITY IN FINANCIAL SERVICES MARKET

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Abstract

The theoretical arguments of the psychological contracts arise from the social exchange theory. According to this theory, all the parties involved in any type of relationships want to build a relationship based on mutual respect and fairness. The main goal of this paper is to explore the influence that psychological contracts have on the quality of the business-to-business relationship in the financial services market. The research conducted in this paper continued the pioneer work of Kingshott and Pecotich (2007) and by extending their conceptual model it provided the theoretical and practical insights specific to the business-to-business market. In the empirical part of the paper, the relationship between hotels and financial institutions in the Republic of Croatia is tested using the canonical correlation analysis. The results of the analysis confirm that the psychological contracts have an influence on the relationship quality between the partners in the financial services market.

Key words: *Psychological contract, Relationship quality, Business-to-business marketing*

1. INTRODUCTION

For the past several years, a big financial crisis has been shaking the world economy. Significant changes have been occurring in the financial services market, especially in the business financial services market, a market which is very important for the economic development. Almost every day we read about big financial scandals, bankruptcies of major financial institutions, credit rating downgrades of numerous world-renowned financial institutions, the increasing volatility of convertible

currencies, increasing risk of doing business, and consequently rising interest rates, etc. All this affects the relationship between users and providers of financial services on the business-to-business market.

Kingshott and Pecotich (2007) were the first to show that psychological contracts have an impact on trust and commitment within the business-to-business market. Their study was conducted before the global financial crisis. Psychological contracts are the construct of dynamic characteristics whose impact on the quality of the relationship and its dimensions, have not been tested in the times of global financial crisis. Therefore, this paper attempts to upgrade their model in order to investigate how and to what extent psychological contracts influence the quality of the relationship between hotels and banks in the business-to-business financial services market in the time of crisis.

2. LITERATURE REVIEW

The psychological contract is a construct that is frequently used in the context of management when defining the relationship between workers and employers (Atkinson, 2007, 2006 and 2001, Davila and Elvira, 2007, Deery, Walsh and Iverson, 2006, Granrose and Baccili, 2005, Maguire, 2002, O'Neill and Adya, 2007, Schalk and Van Dijk, 2005). To the authors' knowledge, there is only paper in marketing literature, i.e. the one by Kingshott and Pecotich (2007), that successfully tests the impact of the psychological contract upon the business relationship between suppliers and distributors in the Australian automotive industry.

Kingshott and Pecotich (2007) start from the assumption that the marketing relationship and collaboration (Morgan and Hunt, 1994), as well as the psychological contract (Rousseau, 1989, 1990 and 1995) are grounded in the social exchange theory. Rousseau (1995) defines the psychological contract as a mental construct that takes into account the consent of the give and take between the two parties involved. The author emphasizes that thus defined psychological contracts, which are not written and are in the minds of individuals, can be generalized in almost all relationships, most often in the employee-employer relationships, but also in the vendor-customer relationship, doctor-patient relationship, priest-congregation relationship, and relationships between business entities (Kingshott and Pecotich, 2007). Kingshott and Pecotich (2007) state that the issues of reciprocity and trust in the exchange of the parties involved are the underlying assumptions of the social exchange theory, and are also extremely important for the marketing relationships and psychological contracts.

Garbarino and Johnson (1999) indicate that the outcome of relationship marketing is best observed in the relationship quality among business entities. The higher the relationship quality among business entities, the more successful their mutual exchange is.

A generally accepted attitude in the academic community is that the quality of the relationship between companies is a result of the strength of their overall relationship (Caceres and Paparoidamis, 2007, Garbarino and Johnson, 1999, Smith, 1998). However, there is currently no consensus among researchers on the number and types of dimensions that relationship quality consists of. Researchers (e.g. Hennig-Thurau, Langer, and Hansen, 2001, Crosby, Evans and Cowles, 1990) argue that the relationship quality consists of trust in and satisfaction with the relationship, while some other researchers (Caceres and Paparoidamis, 2007, Roberts, Cheats and Brodie, 2003, Hennig-Thurau, Gwinner and Gremler, 2002, Leuthesser, 1997) also include commitment as an integral part of the relationship quality. The three key definitions of the dimensions of relationship quality central to this study:

- Anderson and Narus (1990) define satisfaction as a positive, affective state resulting from the appraisal of all aspects of the relationships among companies.
- Morgan and Hunt (1994) define trust as the firm's belief that another company will perform actions that will result in positive outcomes for the firm, as well as not take unexpected actions that result in negative outcomes for the firm.
- Morgan and Hunt (1994) define relationship commitment as an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely.

Kingshott and Pecotich (2007) confirmed the importance of psychological contract on managing the relationship between companies in the business-to-business market. However, they investigated the impact of psychological contracts on trust and commitment as important elements within the marketing of relationship and cooperation on the business-to-business market. In the available scientific literature and available databases, no paper examining the psychological impact of the contract on the quality of relations between businesses, which consists of three dimensions: trust, loyalty, and satisfaction by mutual relationship were found. Therefore, in order to clarify the impact of psychological contract on the relationship quality, the following main and auxiliary hypotheses were developed:

- H₁. There is an empirically provable relationship between psychological contract and the quality of relationships at the business-to-business market.
- H_{1.1}. There is a connection between psychological contract and relationship satisfaction at the business-to-business market.

H_{1.2}. There is a connection between psychological contracts and trust at the business-to-business market.

H_{1.3} There is a connection between psychological contract and connection at the business-to-business market.

3. RESEARCH METHODOLOGY

Empirical research was carried out by the survey method. The data were collected using a questionnaire consisting of four different measurement scales, previously used and named in the professional literature, which include the following:

1. scales for measuring psychological contract (Rousseau, 1990),
2. scales for measuring trust and commitment (Morgan and Hunt, 1994), and
3. scales for measuring relationship satisfaction (Kekre, Krishnan and Srinivasan, 1995).

Measurement scales have been slightly modified and adjusted to requirements of our research. The structural model was tested using correlation analyses.

The research was conducted on the total sample of 698 tourist facilities. The questionnaire respondents were financial managers of the tourist facilities who were responsible for negotiating the use of different financial products or services with financial institutions. The actual number of questionnaires analyzed was 356, which equals a response rate of 51%.

4. EMPIRICAL FINDINGS

Canonical correlation analysis was used to further assess the effects of the four dimensions of psychological contracts on each of the three dimensions of the relationship quality, namely, trust, loyalty and relationship satisfaction. Three canonical correlation analyses were conducted and the results are presented in Tables 1-5. Principal component analysis for each dimension of the psychological contract¹ created new variables PC1, PC2, PC3, and PC4 in non-standardized form for easy interpretation, which was a prerequisite for doing canonical correlation analysis between a set of dimensions of the psychological contract and each of the three dimensions of relationship quality.

The results of the canonical analysis (see Table 1 and Figure 1) show that there is a linear combination between the two sets of canonical variables i.e. between the dimensions of psychological contract and relationship satisfaction.

¹ The dimensions of the psychological contract are: Good faith and fair dealing, Relational benefits, Relational conditions and Intrinsic relational characteristic.

Table 1: Canonical correlation between the dimensions of psychological contract and relationship satisfaction

	Eigenvalue	Canonical correlation	Wilks' Lambda	Chi-Square	Degrees of freedom	p-value
1	0.520792	0.721659	0.479208	258.938	4	0.0000

Source: authors' calculation

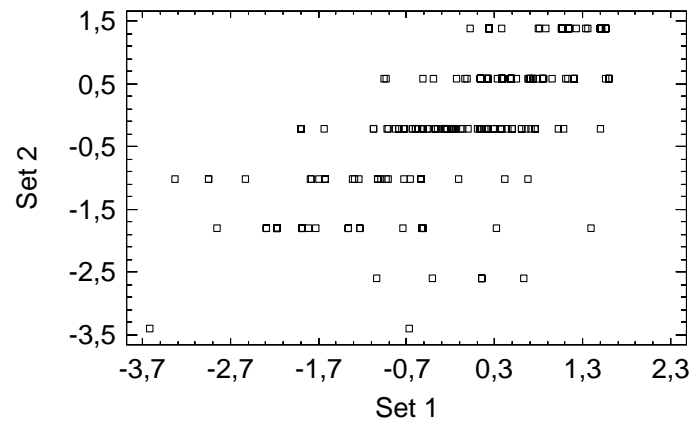


Figure 1: Scatter plot with two sets of variables: the psychological contract and relationship satisfaction²

Based on the value of the canonical correlation coefficient of 0.721659, we can say that these sets have statistically significant correlation with a confidence level of 95%. Canonical correlation between these variables is moderately strong. Bearing the above, the auxiliary hypothesis H1.1 can be considered as valid.

Table 2: Canonical correlation between the dimensions of psychological contract and trust

	Eigenvalue	Canonical correlation	Wilks' Lambda	Chi-Square	Degrees of freedom	p-value
1	0.648352	0.805203	0.260757	469.785	24	0.0000
2	0.160967	0.401207	0.741529	104.515	15	0.0000
3	0.0832382	0.28851	0.88379	43.1757	8	0.0000
4	0.0359652	0.189645	0.964035	12.8015	3	0.0051

Source: authors' calculation

The results of canonical correlation analysis (see Table 2 and Figure 2) show that there are four linear combinations between the two sets of variables (psychological contract and trust) that possess the highest mutual correlation.

² Values of canonical variables are standardized in all the graphs (Figures 1, 2 and 3). A correlation of positive direction and relatively high intensity can be observed on all graphs.

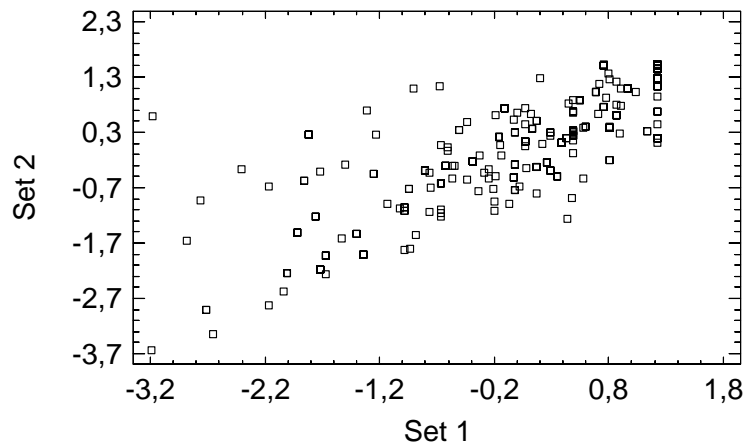


Figure 2: Scatter plot with two sets of variables: the psychological contract and trust

Table 2 shows the correlation of the estimated value of all linear combinations of sets of canonical variables. Based on the value of the total canonical coefficient R of 0.80520 (see Table 3), and given that all four linear combinations of canonical variables have the empirical significance level (p-value) of less than 0.05, we can say that this is a strong observed correlation between the two sets of variables and a strong correlation between the dimensions of psychological contract and trust. Bearing the above, the second auxiliary hypothesis H1.2 can be considered as valid.

Table 3: Summary of the results of the canonical correlation analysis between the dimensions of psychological contract and trust

Summary of canonical analysis			Set: trust	Set: psychological contract
Canonical R	0.80520	Number of variables	6	4
Chi-Square	469.79	Average variance extracted	95.6507%	100.000%
p-value	0.0000	Overall redundancy	54.6388%	42.0682%

Source: authors' calculation

Furthermore, the relationship between the sets of variables of psychological contract and commitment was analyzed using canonical correlation.

The results of canonical correlation analysis, presented in Table 4 and Figure 3, reveal that there are four linear combinations of two sets of variables (psychological contract and commitment) that possess the highest mutual correlation. Table 4 shows the estimated values of all linear combination of sets of canonical variables.

Table 4: Canonical correlation between the dimensions of psychological contract and trust

	Eigenvalue	Canonical correlation	Wilks' Lambda	Chi-Square	Tolerance	p-value
1	0,642441	0,801524	0,202468	558,213	24	0,0000
2	0,344596	0,587023	0,56625	198,767	15	0,0000
3	0,127573	0,357174	0,863971	51,1024	8	0,0000
4	0,0096922	0,098449	0,990308	3,40395	3	0,3334

Source: authors' calculation

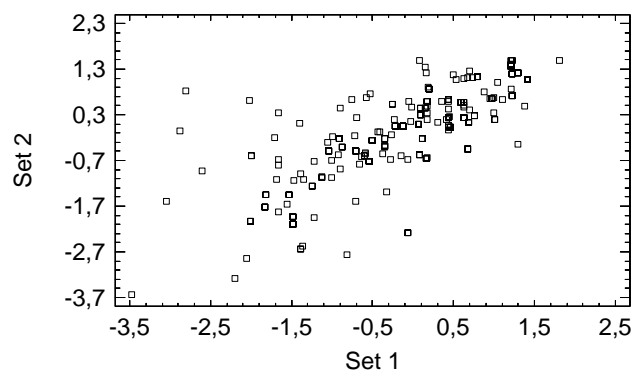


Figure 3: Scatter plot with two sets of variables: the psychological contract and commitment.

Based on the value of the total canonical coefficient R of 0.80152 (see Table 5), and given that three out of the four linear combinations of canonical variables have the empirical significance level (p-value) of less than 0.05, we can say that this is a strong correlation between the two observed sets of canonical variables and a strong correlation between the dimensions of psychological contract and commitment. Bearing the above, the auxiliary hypothesis H1.3 can be considered as valid.

Table 5: Summary of the results of the canonical correlation analysis between dimensions of psychological contract and commitment

Summary of canonical analysis			Set commitment	Set: psychological contract
Canonical R	0.80152	Number of variables	6	4
Chi-Square	558.21	Average variance extracted	88.9506%	100.000%
p-value	0.0000	Overall redundancy	44.6172%	46.8521%

Source: authors' calculation

After conducting canonical correlation analysis between the two sets of canonical variables (psychological contract and the relationship quality), further correlation analysis was conducted

between the four individual dimensions (latent variables) of psychological contracts previously calculated using principal components analysis and the three-dimensional relationship quality.

Table 6: Correlation between the dimensions of psychological contract and relationship quality

Dimensions	Relationship satisfaction	Trust	Commitment
Good faith and fair dealing	0.6765	0.7522	0.6752
Intrinsic relational characteristic	0.5367	0.5354	0.5646
Relational benefits	0.4870	0.4919	0.4847
Relational conditions	0.5197	0.5576	0.6027

Note: p-value of all correlations was 0.000, and the sample size is 356

Source: authors' calculation

Table 6 shows that three out of four dimensions of psychological contracts have a statistically significant correlation (with a confidence level of 95%) with the dimension of the relationship quality having a positive direction and being of medium intensity. Relational benefits, i.e. the fourth dimension of the psychological contract, have a statistically significant correlation with the dimensions of the relationship quality that have a positive direction and are of medium intensity.

5. CONCLUSION

The relationships between the basic constructs of the research model were analyzed using canonical correlation analysis, in order to accept or reject the main hypothesis (H1) and the associated auxiliary hypotheses. Testing the first auxiliary hypothesis (H1.1) proved a statistically significant correlation of medium intensity ($R = 0.721659$), i.e. the satisfaction with the relationship between hotels and banks depends among others on psychological contracts of hotels' CFOs. Bearing the above, the auxiliary hypothesis H1.1 can be considered as valid. Furthermore, the test results for the auxiliary hypothesis (H1.2) show a strong correlation ($R = 0.80520$) between the psychological contract and trust. As this is a statistically significant correlation of strong intensity, it means the auxiliary hypothesis (H1.2) can be considered as valid. In other words, when CFOs believe mutual obligation will be met, based on the perception of given promises, the trust between hotels and banks can be developed or eroded. The results of the canonical correlation ($R = 0.80152$) also confirm a statistically significant association of high intensity of the belief of fulfilling mutual obligations and the belief that their relationship is worth working on to ensure that it lasts forever. Based on these results, the auxiliary hypothesis (H1.3) that a relationship between psychological contract and commitment exists, is accepted.

The results of the research have confirmed Kingshott's and Pecotich's (2007) results that, on the business-to-business market, there is a statistically significant direct relationship between the

psychological contract and trust as well as between the psychological contract and commitment. Finally, by accepting auxiliary hypotheses (H1.1), (H1.2) and (H1.3), the main hypothesis (H1), that there is a relationship between psychological contract and the relationship quality in the business-to-business market, is accepted.

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