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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.


## 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.

[1] For the full story, see O'Shea (2015).

## 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.