



# Psychological contract violation and customer intention to reuse online retailers: Exploring mediating and moderating mechanisms



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## ABSTRACT

This study examines the impact of psychological contract violation (PCV) on customer intention to reuse online retailer websites via the mediating mechanisms of trust and satisfaction. The moderating role of perceived structural assurance (SA) is also investigated. An empirical study conducted among online shoppers confirms the indirect effects of PCV on customers' intention to reuse via trust and satisfaction. The findings also support the moderating impact of perceived SA in the network of relationships. The study underscores the importance of SA as a trust-building mechanism for mitigating the deleterious effects of PCV among online customers, although the role of SA in preserving satisfaction is found to be limited. The findings suggest that online retailers may benefit by investing in SA and addressing the negative effects of PCV proactively rather than simply relying on post-failure service recovery mechanisms.

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## 1. Introduction

Online retailing is rapidly emerging as an alternative to traditional brick and mortar retailing across a host of product categories throughout the world (Richard & Chebat, 2016; Smith et al., 2013). The literature argues that every buyer–seller interaction in the online marketplace can be characterized by the psychological contract (Pavlou & Gefen, 2005; Theotokis, Pramatar, & Tsiros, 2012), as online buyers are generally governed by their implicit understanding of the seller's transactional obligations rather than by the explicit rules in legal contracts (Pavlou & Gefen, 2005). Psychological contracts are based on perceived promises, and arise when one party believes that another party is obligated to perform certain behaviours (Rousseau, 1995). From a buyer's perspective, psychological contracts comprise the buyer's perceptual beliefs about the seller's contractual obligations. Thus, buyers' individual perceptions of psychological contract violation (PCV), which arise if they think they are not getting what has been promised by a contractual agreement, are considered to be the most relevant for understanding and predicting their behaviour in online marketplaces (Pavlou & Gefen, 2005; Theotokis et al., 2012).

While the literature has established the negative effects of PCV on employee trust, satisfaction, commitment, and retention within the context of the employee–organization relationship (Bal, De Lange, Jansen, & Van der Velde, 2008; Niehoff & Paul, 2001; Zhao, Wayne, Glibkowski, & Bravo, 2007), few studies have explored its impact and relevance in buyer–seller relationships. Despite the extensive research on service failures and their interaction with service recovery (e.g. McCollough, Berry, & Yadav, 2000; Smith, Bolton, & Wagner, 1999; Weun, Beatty, & Jones, 2004) and perceived justice (Smith et al., 1999; Tax, Brown, & Chandrashekar, 1998; Wang, Wu, Lin, & Wang, 2011), 'little attention has been given to how service failures influence customer–company relationships' (Sajtos, Brodie, & Whittome, 2010, p. 216), especially in online environments (Holloway & Beatty, 2003; Sousa & Voss, 2009; Wang et al., 2011). In this context, most studies focus on analysing the negative impact of either the type (Meuter, Ostrom, Roundtree, & Bitner, 2000; Smith & Bolton, 1998; Surachartkumtonkun, Patterson, & McColl-Kennedy, 2013) or severity of service failures (Sajtos et al., 2010; Wang et al., 2011) on customer attitudes and behaviours. As PCV damages the bond between the customer and the company created by the psychological contract, we propose that PCV may provide a better explanation of how service failures may influence customer–company relationships. While injustice dimensions have been studied as a surrogate for PCV (e.g. Fang & Chiu, 2014), specific research on the role and impact of PCV from the psychological contract theory perspective in online contexts remains scant. Given the

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deleterious effects of PCV within organizational relationships, such an investigation is vital, especially as the literature suggests that service failure and PCV are closely related yet different concepts (see *Goles, Lee, Rao, & Warren, 2009; Wang & Huff, 2007*).

Service failures can be understood as unfavourable service encounters that lead to customer dissatisfaction (*Bitner, Booms, & Tetreault, 1990*). *Palmer, Beggs, and Keown-McMullan (2000)* define service failure as ‘any situation where something has gone wrong, irrespective of responsibility’ (p. 515). Hence, service failure is an unmet expectation, where the responsibility is unknown (*Goles et al., 2009*). While customers understand and may be willing to accept that service failures are inevitable (*Joireman, Yany, Berna, & Tripp, 2013*), customers experience psychological contract violation when the responsibility for the service failure can be directly attributed to the trustee (i.e. seller) (*Goles et al., 2009*). Thus, in a buyer–seller relationship, PCV occurs when the buyer perceives that the seller’s failure violated a psychological contract between the seller and the buyer (*Wang & Huff, 2007*). As psychological contracts are promissory in nature, unlike expectations, both real and perceived instances of unmet expectations can lead to violations of psychological contracts (*Rousseau & Tijoriwala, 1998*). Therefore, PCV could be caused by actual contract violations or by misunderstandings regarding what the contractual obligations are, often referred to as (respectively) ‘reneging’ or ‘incongruence’ (see *Pavlou & Gefen, 2005*). Thus, buyers may perceive PCV even when the explicit contract rules may not have been violated; on the other hand, buyers may not perceive PCV even if certain legal obligations are breached. For example, a buyer may acknowledge an unethical act by the seller but consider it a trivial matter and hence may not experience PCV (see *Hill, Eckerd, Wilson, & Greer, 2009*). As explained by *Niehoff and Paul (2001)*, only salient problems typically result in PCV. Moreover, PCV can be prevented via ex post problem resolution (*Pavlou & Gefen, 2005*). In this context, the literature indicates that those seller behaviours that suggest a sense of betrayal lead to buyers’ PCV perceptions most often (*Goles et al., 2009*). Thus, PCV is seen to have repercussions that are more intense and significant than those of unmet expectations (*Robinson & Rousseau, 1994*) because ‘the intensity of the reaction is attributable not only to unmet expectations of specific rewards or benefits, but also to more general beliefs about respect for persons, codes of conduct, and other patterns of behavior associated with relationships’ (*Robinson & Rousseau, 1994*, p. 247). Since buyer behaviour in online marketplaces is guided mainly by their subjective perceptions of PCV (*Pavlou & Gefen, 2005*), it is vital to understand how PCV influences customer loyalty, which may be more important in e-services than in comparable, traditional services (*Reichheld & Scheffer, 2000*). Consequently, calls have been made for more research in an effort to understand the challenges induced by PCV, and how these could be overcome in online retail environments (*Goles et al., 2009; Lövblad, Akmal, & Lönnstedt, 2012; Pavlou & Gefen, 2005*).

Despite the empirical studies on the impact of PCV on trust in online retail environments – in which PCV is demonstrated to negatively influence trust among online buyers (e.g. *Goles et al., 2009; Pavlou & Gefen, 2005*) – studies on the effects of PCV on online buyers’ overall satisfaction are negligible. As trust and satisfaction are considered the two key ‘stepping stones’ for successful e-commerce B2C relationships that can influence buyers’ repurchase intentions directly (*Kim, Ferrin, & Rao, 2009*), how PCV affects both trust and satisfaction warrants further research attention.

Moreover, little is known about how the adverse effects of PCV can be mitigated, a question of both practical and theoretical significance in e-retailing environments, where PCV seems inevitable (*Pavlou & Gefen, 2005*) and online customers experiencing PCV can exit the relationship simply by the click of a mouse (*Holloway & Beatty, 2003*). Since online shopping interaction does not take place at the retailer’s location and as the e-retailer cannot control all aspects of customer experience formation (*Verhoef et al., 2009*), structural assurance (SA) may play a crucial role, as it enhances the perceived security of the online

trading environment (*Balasubramanian, Konana, & Menon, 2003*). However, empirical research on the role of SA in the event of PCV remains scant (*Hogreve & Gremier, 2009*); more research is therefore required to examine the complex moderating role of SA in buyer–seller relationships (*Gefen & Pavlou, 2012*).

Extending PCV theory (*Rousseau, 1995*) and the stimulus–organism–response (S–O–R) framework (*Mehrabian & Russell, 1974*) to buyer–seller relationships in online marketplaces, this study develops and tests a conceptual framework to address the abovementioned research gaps and makes three important contributions to the e-retailing literature. First, this study extends the limited research on PCV in the e-retailing context and identifies the key mediating mechanisms underlying the relationship between PCV and a buyer’s intention to reuse the e-retailer’s website. Second, this study investigates the under-researched impact of PCV on the psychological states of customers and, in particular, explores the neglected relationship between PCV and customer satisfaction. Third, while most of the retailing literature emphasises firms’ reactive post-failure recovery strategies (c.f. *Brady, Cronin, Fox, & Roehm, 2008; Joireman et al., 2013; Smith et al., 1999; Tax et al., 1998; Tokman, Davis, & Lemon, 2007*), this study investigates how proactive strategies such as SA may help to mitigate the negative effects of PCV. Investments in SA are especially useful for online retail environments, as they are likely to strengthen customers’ beliefs about positive recovery expectancy (*Pavlou & Gefen, 2004*). Although interventions such as service guarantees, commitment, customer choice, and brand personality are suggested to have ‘dampening effects’ on negative customer experiences, mainly in traditional service settings (see *Brady et al., 2008*), no previous study has empirically investigated how SA moderates the effects of PCV in the e-retailing context.

This empirical study is conducted among shoppers in the Indian e-retailing context because India is now home to the largest online user base after China (*Verma, 2015*). India has seen an unprecedented growth in its e-retailing sector in the last decade (*Nair, 2013*), with an approximate combined annual growth rate (CAGR) of 21% (*Euromonitor, 2016*). From a modest market size of \$5 billion in 2015, the total online–retail market is expected to grow to a value of \$130 billion by 2025 (*Balachandar, 2015*). However, despite India’s phenomenal e-retailing growth, its e-retailing sector is plagued by persistent problems related to logistics and cash-on-delivery (COD) systems (see *Hartley & Walker, 2013; Pandey, Chawla, & Venkatesh, 2015*). Thus, instances of PCV, regarding delivery delays, reliability of the quality of goods delivered, and financial loss or fraud in transactions, are quite common and continue to inhibit the expansion of the Indian e-retailing sector (*Pandey et al., 2015*). Thus, given India’s growing global economic e-tailing impact and recent calls in the literature to investigate e-retailing issues in such developing-country contexts (*Chen, Yen, Pornpraphet, & Widjaja, 2015; Jin, Yong Park, & Kim, 2008; Rose, Clark, Samouel, & Hair, 2012; Smith et al., 2013*), this study is likely to be of interest to both researchers and practitioners.

The structure of the paper is as follows. First, a conceptual framework is developed and tested using a large-scale survey of online customers. Then, empirical results are presented and discussed. Next, managerial implications are discussed, along with the limitations of the study and suggestions for future research directions.

## 2. Conceptual framework

This study draws on the S–O–R model developed by *Mehrabian and Russell (1974)*, which has been applied in various retail settings, to explain consumer decision making (*Jang & Namkung, 2009; Yi & Gong, 2009*), including online retailing (*Kim & Lennon, 2010; Richard & Chebat, 2016; Wang, Hernandez, & Minor, 2010*). Within the S–O–R framework, the environment contains a stimulus (S), which influences the internal, organismic states of the individual (O), which, in turn, cause approach or avoidance responses (R). Thus, the organism,

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