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# **A STUDY OF THE IMPACT OF PERCEIVED PSYCHOLOGICAL CONTRACT AND PERCEIVED FAIRNESS AS MEDIATORS BETWEEN STRUCTURAL ASSURANCE CONSTRUCTS AND PURCHASING INTENTION IN B2C E-COMMERCE**

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## ***Abstract:***

This study examines whether perceived psychological contract and perceived fairness can serve as mediators between certain website design features (retailer guarantees and seals of approval guarantees) and perceived trust and risk beliefs. Based on the psychological contract theory and organizational justice theory, this research would examine the nomological validities of perceived psychological contract and perceived fairness in business-to-consumer e-commerce context. The results could demonstrate how perceived trust and perceived risk can be influenced by certain design features, and help online retailers improve their website design and business practices.

## ***Keywords:***

*Perceived psychological contract, perceived fairness, structural assurance, trust, risk, intention*

## **1. Introduction**

Business-to-consumer (B2C) e-commerce grew tremendously over the last decade. The Amazons of B2C e-commerce are gaining much larger shares of the overall retail market and posing serious threats to traditional retailers in many retail channels. Besides these e-commerce behemoths, there are still many small retailers that might serve as web fronts for small businesses. Most of them are not well-known, and remain obscure. These retailers could still face stiff competitive challenges. Some of the challenges might come from customers who may believe that it is too risky to purchase online, particularly from unfamiliar retailers. In responding to these challenges, examining the mechanism of the concerns became an important research stream in the Information Systems (IS) literature. Research results show that trust and risk beliefs do play important roles in determining behavioral intentions. Trust beliefs are usually examined as perceived trustworthiness about an online retailer's perceived specific attributes, such as ability, integrity and benevolence (McKnight, Choudhury & Kacmar, 2002). Risk beliefs are usually examined by IS researcher as perceived risk (Featherman & Pavlou, 2003; Fortis & Rita, 2016; Kim, Ferrin & Rao, 2008, 2009; Yang, et al, 2015; Yen, 2015), etc. While significant

progress has been made in understanding the nature of these constructs and how they would influence intentions, there are still questions need to be answered about what factors that might play important roles in eliciting these trust and risk concerns.

This research proposes that the perceived psychological contract and perceived fairness could serve as antecedents of perceived trust and perceived risk. In B2C e-commerce, online retailers frequently make promises in their customer service policies, such as “100% satisfaction guarantee,” full refund, quality products, protection of privacy, and correct product information, etc. These promises are usually prominently displayed on these retailers’ websites. These claims could be the basis for consumers to believe that the online retailers would keep these promises and be fair in their business operations. These beliefs could in turn cause consumers to lower their risk concerns and trust the retailers. Psychological contract is defined as perceived mutual obligations between two entities, such as an employee and an employer (Rousseau and Tijoriwala, 1998). The psychological contract theory proposes that psychological contract, i.e. perceived binding agreement between entities in a relationship, could significantly influence each entity’s intentions and behaviors, particularly in the organizational context. Formal, written documents, such as existing policies, protocols, and actual contracts, are important sources of psychological contract.

Perceived fairness is defined as a customer’s beliefs that he/she would be fairly treated by an online retailer. Organizational justice theory proposes that individuals would weight their expenses (monetary, time, expectations, etc.) against potential or realistic outcomes (what they get) in an exchange relationship context. Perceived fairness would be achieved if there is an appropriate balance between what they pay and what they get. It might be possible that online retailer claims may induce perceived psychological contract and fairness beliefs, and subsequently these beliefs may influence customer intentions through trust and risk concerns. This investigation is particularly important to practitioners because they can easily improve their customer service policies if the effect of these policies on consumer intentions is indeed valid. Otherwise, online retailers would be better off to invest their capital in other areas of their business.

## **2. Literature Review**

The foundation of psychological contract is mutual obligations between two entities, which means one party of the exchange relationship believes that there is a mutual understanding regarding each other’s responsibilities and obligations (Rousseau and Tijoriwala, 1998; Rousseau, 2001). The understanding of mutual obligations can be developed from three unique organizational sources, communications with colleagues, daily observations of the workplace and formal rules and regulations (Rousseau, 1995). There are two types of psychological contract, transactional psychological contract and relational psychological contract. Transactional psychological contract is about perceived mutual obligations in a tangible contractual relationship. Relational psychological contract is about perceived reciprocal, mutual obligations generated based on intangible agreements “that cannot be carefully scripted, concrete, or formalizable” (Bunderson, 2001). In organizational context, contractual agreements may include actual documentation about performance requirements and evaluation, job security, training,

compensation and promotion, and intangible agreements may include workplace verbal communications and organizational practices (Rousseau and Tijoriwala, 1998). Therefore, psychological contract focus on perceived, reciprocal mutual obligations between two parties and could exist without a formal contract (Robinson & Rousseau, 1994).

Information system researchers begin to adopt psychological contract as a new perspective in examining reciprocal relationships in the IT industry, particularly in outsourcing and online marketplaces. In IT outsourcing, perceived outsourcing success is significantly related to a supplier's perceived obligations, such as clear authority structures, effective human capital management, knowledge transfers and building effective interorganizational teams (Koh, Ang & Straub, 2004). In online marketplaces, Pavlou and Gefen (2005) found that a violation of psychological contract could reduce both a bidder's trust in the community of sellers and the bidder's transaction intentions.

In B2C e-commerce, customer service policies are used to specify what kind of products and services can be expected from an online retailer. Once become aware of online retailers' promises, consumers may form beliefs that the retailers would fulfill their explicit obligations specified in their own policies or implicit obligations which may be based on consumers' experience with other retailers and/or feedbacks from other customers. This research proposes that these beliefs constitute a psychological contract between an online retailer and a customer. In organizational research context, psychological contract could have significant influence on an employee's long term commitment to an organization. In B2C e-commerce context, a customer's psychological contract may have significant influence on the customer's trusting beliefs and risk beliefs. A breach of this psychological contract would likely reduce the customer's intention to purchase from the online retailer.

Hypothesis 1: A customer's psychological contract with an online retailer would significantly influence his/her trusting beliefs toward the retailer.

Hypothesis 2: A customer's psychological contract with an online retailer would significantly influence his/her perceived risk toward the retailer.

Organizational justice theory proposes that individuals would weight their input (what they pay) against potential or realistic outcomes (what they get) in an exchange relationship context. Perceived fairness would be achieved if there is an appropriate balance between what they pay and what they get. An imbalance could come from three potential sources, overvalued outcomes or undervalued outcomes, inappropriate policies or procedures, and the manner which a person is treated. In B2c e-commerce, consumers would expect that they will be fairly treated by online retailers. The price and product information displayed on an online retailers' websites should be fair valued and accurate. Customer service policies deemed fair by consumers may have significant influence on consumers' beliefs and subsequent intentions. Consumers should feel they are fairly treated if they enjoy a smooth and trouble-free interaction with an online retailer. Existing research often proposed that distributive fairness, procedural fairness, and interaction fairness are the three dimensions of a secondary construct, perceived fairness. This research follows this framework and proposes that perceived fairness, as a second level construct, has

three dimensions, distributive fairness, procedural fairness, and interaction fairness, and its impact can be tested in a nomological network with two other constructs, trusting beliefs and perceived risks.

Hypothesis 3: A customer's perceived fairness beliefs would significantly influence his/her trusting beliefs toward an online retailer.

Hypothesis 4: A customer's perceived fairness beliefs would significantly influence his/her perceived risk toward an online retailer.

In B2C e-commerce, about 75% of the dot-com companies fail in their first two years of existence (Nataraj and Lee, 2002). Under these circumstances, building a stable, trusting relationship with an online retailer becomes very difficult. Customers may need to depend on the formal, institutional structures as their safety net to provide a sense of assurance when they shop online. Zucker's (1986) institution-based trust theory suggests that institutional structures can be used to build trust to expedite business transactions when familiarity is lacking. Based on the institution-based trust theory, the institutional structures in B2C e-commerce can be separated into four types: 1) retailer specific guarantees, 2) seals of approval, 3) credit card guarantees, and 4) legal legislations. Credit card guarantees and legal legislations are usually out of online retailers' direct control, and therefore they have little means to manipulate them to increase sales. On the other hand, retailer specific guarantees and seals of approval are under online retailers' complete control, and can be manipulated for business gains. Therefore, this research concentrates on retailer specific guarantees and seals of approval.

The effect of these formal structures on consumer online trust could be conveyed through website design features, such as customer service policies, third party certification seals, and advanced encryption technologies, to earn consumers' trust and to ease their concerns (Pavlou, 2002; Pavlou and Gefen, 2002). Promises such as '100% satisfaction guarantee,' monetary refund, quality products, protection of privacy, and accurate product information, could be salient to consumers, and may be the basis to form psychological mutual understanding between consumers and online retailers, and influence consumers' intentions. Consumers may believe that the online retailers should keep their promises if they purchase from those online retailers. Therefore, retailer guarantees and seals of approval could help form the basis for perceived psychological contract and perceived fairness.

Hypothesis 5a: Perceived retailer-specific guarantee will have a significant impact on psychological contract.

Hypothesis 5b: Perceived retailer-specific guarantee will have a positive effect on perceived fairness.

Hypothesis 6a: Perceived seal of approval guarantee will have a positive effect on perceived fairness.

Hypothesis 6b: Perceived seal of approval guarantee will have a positive effect on perceived fairness.

When customers have strong cognitive risk beliefs, it is likely that they would significantly change their actions. Research has shown that perceived risk could significantly reduce the likelihood of a person’s intentions, such as the likelihood to purchase from the store (Jarvenpaa, Tractinsky and Vitale, 2000), the likelihood to adopt a e-service (Featherman and Pavlou, 2003), the likelihood to share personal information with a web (McKnight, Choudhury and Kacmar, 2002), and the likelihood of being a loyal customer (Gefen, Karahanna, and Straub, 2003), etc. Examining the impact of perceived risk on intention would provide a contrast and another validation to the impacts of other constructs. Therefore, the impact of cognitive risk is hypothesized as below:

Hypothesis 7: perceived risk will have significant effect on a customer’s intentions toward an online retailer.

When an online retailer demonstrates its trustworthiness, its fulfillment abilities, benevolence toward consumers and integrity in its actions (Jarvenpaa, Tractinsky and Vitale, 2000; McKnight, Choudhury & Kacmar, 2002), its customers will be more likely to purchase from the online retailer. Given ample empirical evidence for the direct relationship between purchase intentions and trusting beliefs, the nomological validity of the proposed research model can be established if a proven relationship is reconfirmed. This would provide additional evidence to support the proposed research model, even though it is not the focus of this research to reconfirm these relationships. Therefore, the impact of trusting beliefs on purchase intentions is hypothesized as below:

Hypothesis 8: A customer’s trusting beliefs will have a significant effect on the customer’s purchase intentions toward an online retailer.

Figure 1 is the graphical depiction of the proposed research model.

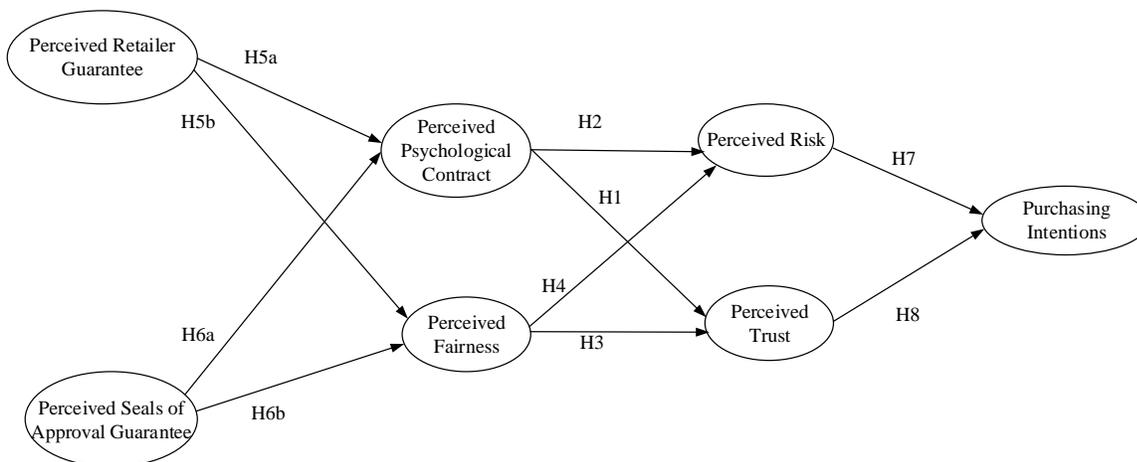


Figure 1 Proposed Research Model

This research project is still ongoing. Data is being collected with validated instruments. Results will be presented in the conference.

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