Chapter 16

Integrating Psychological Contract and Service-Related Outcomes in Emerging Economies: A Proposed Conceptual Framework

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ABSTRACT

The authors present a theoretical framework integrating psychological contract and two key service-related outcomes: service innovation delivery and service-employee citizenship behavior. This particular framework is rooted in the social exchange perspective, incorporating the concepts of psychological contract and services management. Based on this framework, the authors propose research propositions and discuss possible organizational consequences. They also explore how the fields of organizational psychology and services management are beginning to converge around the area of psychological contract, and propose a number of implications of this convergence. From an emerging markets perspective, this particular discussion and theoretical conceptualisation is of utmost importance considering the rapid transition that such markets are making and the movement away from a largely product-driven orientation to a service-dominant logic.

INTRODUCTION

There has been burgeoning research in the services sector, which can be attributed to its ever-increasing role in economies world-wide. By the mid-1990s, the share of the services sector grew to almost two-thirds of world GDP from about half in the 1980s. In developed countries, the sector accounts for more than 70% of the economy while the numbers are increasing in developing economies as well (UNCTAD, 2012).

Different emerging markets have charted different growth paths. Early bird developing countries such as China have relied on labour intensive
Integrating Psychological Contract and Service-Related Outcomes in Emerging Economies

manufacturing to ensure its development. It’s only in the last few years that China has made great strides in developing and investing much more in its services sector. India, on the other hand, is an interesting example of a fast developing market that has largely relied on services growth rather than labour intensive manufacturing to help spur its development (Eichengreen & Gupta, 2011). Whilst it may be true that the share of agriculture in India’s GDP has fallen from 55% in 1950-51 to less than 17% in 2008-09, critics such as Panagariya (2008) have highlighted that India’s service growth has largely been in the informal sector, personal services and public service sectors with limited spill-over effects (Eichengreen & Gupta, 2011). This maybe a characteristic of most emerging countries where the above mentioned service sectors tend to grow first, however, if key emerging markets more commonly referred to as BRICS’ (Brazil, Russia, India, China and South Africa) have to consistently perform well, ‘modern’ services such as business services, communication and banking need to grow much more than the global average. This imperative brings into focus the overall objective of this work that tries to bring together issues that yet may not have been looked at in great detail but the unravelling of which will provide a fillip to the service sector within emerging economies.

Keeping in mind the importance of the services sector within emerging economies, it is crucial to maintain the quality and sustainability of its growth. This in turn has key implications for service sector organizations. Service excellence makes a strong case for inclusion in an overall organizational strategy. At the same time, doing ‘that little bit extra’ for customers may not bear results for firms if there isn’t sufficient differentiation from the other competitors in the market. Fundamentally, this differentiation can only be achieved if there are sufficient levels of innovation built into the service. As services become more homogeneous and competitive advantage dissipates, service innovation becomes paramount (Berry, Shankar, Parish, Cadwallader, & Dotzel, 2006). However, service and services being as they are, service innovation cannot be separated from the person who is delivering this service. Thus, service innovation delivery in emerging markets brings into focus the role of front line employees in sustaining growth, differentiation and the adoption of innovation amongst customers/clients.

The service dominant logic (SDL) espoused by Vargo and Lusch (2004) stands in radical opposition to more than 100 years of the mainstream economic logic that has been used by marketers all over the world and which has mainly been based on the goods dominant logic of marketing. The goods dominant logic views firms as being largely product orientated and as sellers of goods and products who would like to maximise profits through the efficient distribution and selling of goods. Here, the thinking is that goods and products are embedded with value (in the manufacturing process). However, SDL views service, rather than goods, as the focus of economic and social exchange. Thus, service is exchanged for service. This logic stands irrespective of a firm selling a commodity such as oil or a professional services firm selling its consulting expertise to clients. As a part of this logic, every firm views itself as delivering a service and applying competences for the benefit of another entity. Vargo and Lusch (2008) also offer foundational premises which are the cornerstones of the SDL. These premises include the following:

- Service is the fundamental basis of exchange.
- All economies are service economies.
- Value is always uniquely and phenomenologically determined by the beneficiary.

Another important aspect that needs to be pointed out here is that SDL places people at the core of value creation and this deep transition across sectors, countries and cultures demands a fundamental change in how employees view
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