

The influence of psychological contract on supplier satisfaction: in the preferred customer cycle

Authors: Feng Jiang
University of Twente
P.O. Box 217, 7500AE Enschede
The Netherlands

ABSTRACT

The role of psychological contract in the business relationship has attracted much attention, which has inspired the research on the influence of psychological contract on the supply relationship. This research focuses on the impact of psychological contract breach on supplier satisfaction and then discusses influence on preferred customer status. We use the preferred customer cycle and psychological contract theory as the theoretical framework of this research. Data from interviews with suppliers and the customer company in the wool textile industry reveals the negative effects of the psychological contract breach on supplier satisfaction, and these effects did not significantly impact preferred customer status. The study explores the difference of influence from two aspects: relationship psychological contract and transaction psychological contract. This research contributed to the theoretical research on combining preferred customers with the psychological contract view and put forward management recommendations for the customer company.

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prof.dr.L.A. Knight

Keywords

Preferred customer cycle, supplier satisfaction, antecedents, psychological contract, psychological contract breach, negative impact, balance

1. INTRODUCTION

In the process of realizing their strategic goals, customer companies increasingly rely on their suppliers in providing critical resources, products and services due to the issue of outsourcing (Schiele & Vos, 2015, p.139). The economic performance and reputation of the customer company are closely linked to the supplier, so the reliability of their suppliers is of paramount importance. For example, when Takata recalled their airbag from the market due to the potential failure of their product in case of deployment, 19 automobile customer companies had suffered huge economic and reputational losses as the product liability of the supplier were put into questions (Consumerreports, 2021). Meanwhile, beyond reliability, customer priority has also become the pursuit goal of the customer company due to the benefits of preferred customers, such as scarce resource allocation (Schiele et al., 2012, p.1179). Currently, since most companies face the risk of supply interruption during the pandemic (Accenture, 2021), initiating and maintaining priority privileges on supplier resources becomes even more emphasized and can bring an incomparable competitive advantage.

Preferred customer is defined as the buyer who obtains better resources from a supplier (Williamson, 1991, p. 79). As stated in the past research (Schiele et al., 2012, p. 1179), resource distribution from suppliers to buyers is a selective process. Preferred customers are considered to have priority leading to many benefits: new technology access and scarce resources and other benefits such as supplier consulting services and sales growth potential, ranging from economic benefits to relationship benefits (Hanemann, 2014; Oosterhout, 2020). More and more attention has been paid to how to become a preferred customer, in fact, customer attractiveness and supplier satisfaction are two parameters frequently mentioned in the research of this field (Christiansen & Maltz, 2002, p179; Ellegaard, Johansen, & Drejer, 2003, p.350; Hald, Córdón, & Vollmann, 2009, p.961; Ramsay & Wagner, 2009, p.135; Mortensen & Arlbjørn, 2012, p.159; Aminoff & Tanskanen, 2013; Tóth et al., 2014, p.723). Customer attractiveness symbolizes the willingness and expectation from the supplier side to cooperate with the customer in question, and a greater customer attractiveness would enhance the likelihood to initiate a supply relationship (Nollet et al., 2012, p. 1188).

Supplier satisfaction is defined as “if the quality of the result of the buyer-supplier relationship meets or exceeds the supplier’s expectations, the supplier’s satisfaction can be regarded as achieved” (Schiele et al., 2012, p.1181). Schiele et al. (2012, p. 1180) proposed the ‘Preferred Customer Cycle’ to incorporate these two elements, their research suggested that even though customer attractiveness consists of the primary feature to initiate a supplier-customer relationship, the supplier’s satisfaction is mostly essential for the customer company to maintain priority over others. (Mortensen, 2012, p. 1206) Therefore, the present research emphasis on how to maintain the preferred customer status, thereby making the supplier satisfaction as one of the main research directions.

In order to maintain a high supplier satisfaction and preferred customer status, it is fundamental to understand their antecedents in both economic and non-economic dimensions (Pulles et al., 2016). For example, factors like purchasing volume and trust are important antecedents affecting the supplier satisfaction ((Hanemann, 2014; Driedger, 2015). Growth opportunities and relational behavior also significantly affect the status of preferred customers (Hüttinger et al., 2014).

Furthermore, non-economic factors such as the psychological state of trust are more difficult to evaluate in a quantitative manner than economic factors. Previously studies demonstrated that Psychological Contract (PC) have influence on satisfaction at the intra-organizational level. For example, the fulfillment of psychological contracts has been confirmed to have a positive relationship with job satisfaction (Rayton & Yalabik, 2014; Birtch et al., 2016, p.1217). Moreover, the extended research on the PC has reached the organizational level. For instance, psychological contract breach, which correlates to the unfulfillment of mutual commitment between two parties, can significantly corrode the supply relationship by deeply affecting the perception of fairness (Blessley et al., 2018, p.216; Gakovic & Tetrick, 2003). Additionally, Lövblad and Bantekas (2010) provided empirical support connecting relationship orientation and psychological contract fulfillment. Since all these empirical findings contribute to the solid status of psychological factors such as trust and fairness in developing and maintaining interpersonal or person-to-institute relationships, one may question the potential of fulfilling the PC as an essential influencing actor on supplier satisfaction and preferred customer status. While most studies focus on the impact of the PC on the intra-organizational relationship, few works have reported its influence on the development and maintenance of inter-organizational relationships. Therefore, the present studies aimed to systematically investigate the impact of PC on supplier satisfaction and answer the following research question: To what extent does psychological contract breach affect customer satisfaction and erode preferred customer status?

In addition, although some empirical research were devoted in exploring the economic and non-economic antecedents in several industries and confirmed the importance of supplier satisfaction to preferred customer status, the supplier satisfaction survey has not been extended to a wider range of industries. While previous studies have been focusing on traditional industries such as automobiles (Pulles et al. (2016), food, tobacco, printing and publishing, pulp, paper, and machinery (Baxter, 2012), many other industries also need to be investigated in detail. This research would take the wool textile industry as the subject of study to further investigate the supplier satisfaction while exploring the existence of industry-specific factors affecting such an issue in question.

With these premises and questions, this research intends to align the preferred customer cycle and PC theory by constructing an influence framework of PC in the preferred customer cycle in order to determine whether PC affects supplier satisfaction and the potential mechanism behind it. In the present paper, the basic concepts of preferred customer cycle and psychological contract theories were first introduced, and then followed by the depiction of the empirical setting and methodological approach. Subsequently, both the research findings and drawn conclusions were presented in detail. Finally, several management suggestions to preferred customers were put forward, along with reflection on the present research and suggestions for future work.

2. LITERATURE REVIEW

2.1 Preferred customer cycle

2.1.1 Definition

Since Hottenstein (1970, p. 46) proposed in 1970 the existence of customer ranking lists in many companies, the notion of customer priority has attracted attention from both industry and academia. Subsequent research found that preferred customers are given priority in scarce resources (Bew, 2007, p. 1). As the benefits of preferred customers are increasingly revealed, the

status of traditional supply relationships has been reversed, and even buyers are ‘selling’ themselves to suppliers, especially in areas where suppliers are scarce, such as the luxury car industry (Wagner & Bode, 2011). In the exploration of preferred customers, the two most frequently mentioned aspects are supplier satisfaction and customer attractiveness. Based on the reciprocity of social exchange theory (SET), the preferred customer cycle proposed by Schiele (2012, p. 1180) believes that supplier satisfaction determines the customers’ status.

Through the exchange of resources, normal customers would gradually deepen their relationship with the suppliers over time and eventually become preferred customers because of the high supplier satisfaction if no higher satisfaction has arisen from other competitive customers. Such a positive feedback cycle would continue in the absence of any adverse interruption (Schiele et al., 2012, p.1181). As mentioned above, customer attractiveness depends on the expectations of the supplier to initiate the relationship (Nollet et al., 2012, p. 1188). In sum, high customer attractiveness, i.e., high expectations, initiate a relationship, and supplier satisfaction determines whether the relationship would be intensified.

Some external factors in the preferred customer cycle cannot be ignored, such as the availability of alternative customers and their quality, also have a greater impact on the status of preferred customers (Piechota et al., 2021, p.11). Therefore, many external elements like the quality of the substitute customer are at least equally valuable, if not more valuable, as the subject of study than supplier satisfaction variables. Regardless of the broad representation of Piechota et al. in their research, the availability and quality of external relations are almost outside the scope of the customer company's influence, thereby beyond the realm of this study, that is, provide a practical perspective for customer companies rather than standing the perspective of suppliers. Although the number and quality of competitive buyers have become an important factor for suppliers to select preferred customers, this research focuses on in-depth exploration of the PC as a factor affecting the supplier satisfaction as well as the impact of the latter feature on developing and maintaining preferred customer status.

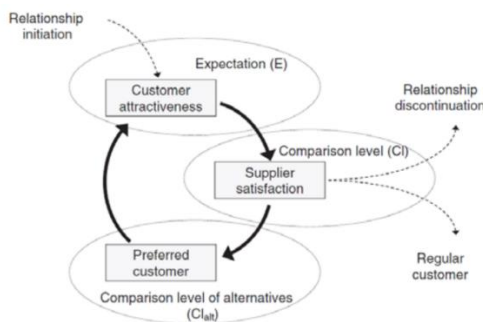


Fig. 1: The cycle of preferred customership (Schiele et al., 2012, p. 1180)

2.1.2 Preferred customer Antecedents

As shown in Table 1 (University of Twente, 2020; Oosterhout, 2020), the specific antecedents provide economic and non-economic clues to help find the antecedents, and also serve as the basis for the verification and supplement of this research. It is worth thinking that the frequently mentioned purchase volume is not considered to be an important antecedent in other cases. In interviews with suppliers in the construction industry, the purchase volume is considered to have little impact and the

maturity of the supply relationship such as policy and operation is considered more important (Bemelmans et al., 2015, p.188). Besides, communication as an antecedent is not pronounced in the research of the automotive industry because of the regular communication between supplier-customers, it is more valued in the unstable supply chain (Hüttinger et al., 2014, p.712). Perhaps antecedents have different emphasis due to industry and supply chain characteristics, we will bring this question into the study.

Table 1. Preferred customer antecedents

Preferred customer status Antecedent	Amount	reference
Purchasing volume	7	(Hanemann, 2014; Driedger, 2015; Kokozinski, 2015; Hebestreit, 2015; Vural, 2015; Franck, 2016; Mastebroek, 2016)
Long-term focus	6	(Hanemann, 2014; Kokozinski, 2015; Hebestreit, 2015; Vural, 2015; Franck, 2016; Vejt, 2016)
Business opportunities	4	(Schmidt, 2014; Driedger, 2015; Vural, 2015; Franck, 2016)
Geographical proximity	4	(Schmidt, 2014; Hebestreit, 2015; Vural, 2015; Franck, 2016)
Trust	4	(Driedger, 2015; Kokozinski, 2015; Vural, 2015; Franck, 2016)
Communication	3	(Hanemann, 2014; Driedger, 2015; Vural, 2015)
Fairness	3	(Schmidt, 2014; Hebestreit, 2015; Vural, 2015)
Respect	3	(Driedger, 2015; Vural, 2015; Schmidt, 2014)

2.2 Supplier Satisfaction

2.2.1 Definition

Supplier satisfaction normally depends on how customer companies meet the expectations from the supplier side (Harris, O'Malley, & Patterson, 2003). Schiele et al. also proposed a similar formula to explain supplier satisfaction, which is ‘outcomes quality of the buyer-supplier relationship’ \geq supplier expectations (Schiele, 2012). Many related research investigates that the realization of expectations mainly depends on economy-related results such as growth opportunity (Hüttinger et al., 2014), payment habit (Oosterhout, 2020, p.18), and financial sales performance (Yilmaz et al., 2004). Alternatively, some researchers have embedded psychological factors (see table 2.) such as mentality, feelings, and cognition into supplier satisfaction definition and demonstrate that both economic and non-economic factors have a significant impact on supplier satisfaction (Soetanto, 2002; Benton, 2005; Essig, 2009; Böreği, 2014). This study defines satisfaction as the evaluation of expectation fulfillment, which possesses the dual nature of economic factors and psychological characteristics altogether, such as trust (Blessley et al., 2018), fairness and reliability (Hüttinger et al., 2014). In the next section, the findings of previous studies on the antecedents of supplier satisfaction were discussed in further details.

Table 2. Definitions of Satisfaction

Authors	Definition	Year
R. Soetanto, D.G. Proverbs	"[Contractor] Satisfaction is regarded as an internal frame of mind, tied only to mental interpretations of performance levels"	2002
W. Benton, M. Maloni	"A feeling of equity with the supply chain relationship no matter what power imbalances exists between the buyer-seller dyad"	2005
M. Essig, M. Amann	"Supplier satisfaction is defined as a supplier's feeling of fairness with regard to buyer's incentives and supplier's contributions within an industrial buyer-seller relationship."	2009
Y.D. Böreği, A. İleri Say, H. Kabasakal, Y. Rofcanin	"Supplier satisfaction is an evaluative attitude that has affective, cognitive and behavioural aspects. It represents a supplier's current state of mind about its relationship with a buyer."	2014

2.2.2 Supplier Satisfaction antecedents

Numerous research have been conducted over past years on the antecedents of supplier satisfaction, and these results can well serve as the background and inspire the direction of the present work. In fact, antecedent for supplier satisfaction can be categorized into two different classes (Vos et al., 2016), based on whether it directly affects satisfaction. Profitability, growth opportunity, relational behavior and operative excellence are considered to directly affect supplier satisfaction and therefore locate at the first layer (Hald et al., 2009, Hüttinger et al., 2012, Ramsay and Wagner, 2009). On the other hand, support, reliability and involvement and contact accessibility possess an indirect impact on satisfaction, landing them in the second layer (Vos et al., 2016). More dimensions have been proposed for the classification of antecedents of satisfaction (see table 3). In addition, aligned goals and collaborative practices (technical collaboration, investment) are also welcomed by suppliers (Patrucco et al., 2020). Based on a comprehensive and systematic literature review on different antecedents of supplier satisfaction, this research aims to verify and expand the antecedents of supplier satisfaction.

Table 3. Supplier Satisfaction antecedents

Relational Antecedent	Relational Behavior	
	Growth Opportunity	
	Operative Excellence	
	Reliability	
	Innovation Potential	
	Involvement	
	Access to Contacts	
	Support	
	Economic Antecedent	Profitability
		Sales Growth

2.3 Psychological Contract

2.3.1 Definition and types

By definition, a psychological contract is the perception of an exchange agreement between oneself and another party (Argyris, 1962, p.33; Rousseau, 1989, p.121), which involves expectations, beliefs, obligations and reciprocity (Conway & Briner, 2005). Schein (1978) defined it as ‘a set of unwritten reciprocal expectations between an individual and the company’.

Currently, there are two mainstream schools in the research concerning psychological contract: a content-based approach and an evaluation-based approach (Pearce & Rousseau, 1998). On the one hand, the content-based approach emphasizes on the transactional, i.e., extrinsic factors like economic or other specifically defined features (Alcover, Martínez-Iñigo, & Chambel, 2012; De Cuyper & De Witte, 2006); and relational elements of the psychological contract. Please note that the transactional elements mainly differ themselves from relational ones by their short-term nature on the PC whereas the latter elements tend to have a more indefinite, intrinsic, non-economic, emotional and open-ended relationship like those based on simple trust (De Cuyper & De Witte, 2006, p.397; Rahman et al., 2017, p.1104).

On the other hand, the evaluation-based psychological contract mainly involves the perceptions of employees regarding their fulfillment or breach. For instance, psychological contract fulfillment can be measured by the employees’ perception of the fairness during their employment (Conway & Briner, 2005, p.94). However, when the employee's expectations related to mutual commitments have not been fulfilled, researchers usually refer to it as the psychological contract breach (Gakovic & Tetrick, 2003). PC breach is usually divided into two situations: disruption and reneging (Eckerd et al., 2013; Mir et al., 2017). Disruption describes the scenario when suppliers cannot achieve the PC due to some external factors, such as strikes and natural disasters.

Reneging often relates to the supplier's decision to refuse to perform by the PC (Blancero & Ellram, 1997; Eckerd et al., 2013; Rousseau, 1995). For instance, instead of updating the logistics status for the customer in time, suppliers can choose to rather ignore the request. Suffering from this situation, the other party tends to feel lost, frustrated and other adverse emotions. Such a typical PC breach would lead to the generation of bad feelings like anger and/or betrayal, which eventually ends in for example, turnover (Robinson & Wolfe Morrison, 2000).

2.3.2 Empirical findings related to intra-organization and inter-organizational level

Rousseau suggested that the psychological contract is an employee’s belief in a reciprocal obligation between the employee and the organization (Rousseau, 1989, p.121). He also contended that the psychological contract is subjective in nature and relies on the perspectives of employees regarding to the obligations and promises (Rousseau, 1990, p.391). In essence, employees will have the same obligations to the organization as the organization do to them (Koh & Yer, 2000). The perception of the psychological contract has been established in the Human Resource Management area for a long time; most of these articles emphasized on the employee-organization relationship (see table 4.)

Table 4. Empirical findings in inter-organizational level

psychological contract is positively connected with desirable employee outcomes such as commitment	(Rousseau, 1990; Conway, Guest, & Trenberth, 2011, p.275; Solinger, Hofmans, Bal, & Jansen, 2016, p.497)
psychological contract is positively connected with job satisfaction	(Rayton & Yalabik, 2014; Birtch et al., 2016, p.1217)
psychological contract is positively connected with organizational citizenship behavior	(Hui, Lee, & Rousseau, 2004; Kiazad, Kraimer, & Seibert, 2018, p.1315)
psychological contract is negatively related to employee outcomes (e.g., turnover intention)	(Blomme, Van Rheede, & Tromp, 2010; Kraak et al., 2017).

While an abundant amount of research targets the issue of PC from the perspective of employee-organization relationship, the impact research of PC has started to extend to the B2B relationship. Some scholars believe that similar to employment relationships, supply relationships also involve interacting activities, information flow and mutual evaluation (Blessley et al., 2018, p.216). The psychological contract influences that were clearly observed and investigated at the intra-organization level can also serve as a reference framework for the supply relationships. Here is some empirical research concerning the impact of PC at the organizational level (table 5).

Table 5. Empirical findings in organizational level

Supplier fairness as a mediating factor in the supplier performance reseller satisfaction relationship	(Yilmaz et al., 2004)
PC have a positive impact upon the level of trust and commitment within the relationship	(Kingshott, 2006)
Psychological contract either partially mediates or fully mediates the relationship between the buyers unethical activity and the suppliers trust in that buyer.	(Hill et al., 2008)
psychological contract plays a central role in mediating the effects of several antecedents to affective commitment .	(Lövbld et al., 2012)
Psychological contract violation mediates the relationship between breach and behavior	(Mir et al., 2016)
psychological contract breach, individuals from the U.S. express less trust in their supply chain partner and less willingness to work with that partner again in the future	(Eckerd et al., 2016)
PC breach has a direct impact on fair perception and emotional response which could cause the switch in supply relations	(Blessley et al., 2018)
Trust repair mechanisms, such as penance and regulation, in actually improving buyer-supplier relationship resilience after a psychological contract breach	(Kaufmann et al., 2018)
PC breach is negatively related to neglect and loyalty and thus nibbling away the B2B relationship	(Kingshott et al., 2020)

In the past ten years, research on the PC at the organizational level has gradually penetrated into the supply relationship, where PC serves as an intermediary factor affects some satisfaction antecedents, such as trust level (Kingshott, 2006) and fairness perception (Yilmaz et al., 2004; Blessley et al., 2018). For instance, Eckerd et al. (2016) proposed that a PC breach would harm the trust level between two cooperating parties, thereby reducing the willingness to collaborate in the future. On the other hand, PC breach can cause emotional responses and trigger supplier switching (Mir et al., 2016; Blessley et al., 2018). However, the final result of any PC breach depends on the context and choice sets (Mir et al., 2016). In addition, Kingshott et al. (2020) found that PC breach is negatively related to loyalty, thereby nibbling away the B2B relationship.

There are also some studies that have put forward the impact of PC on supplier satisfaction to another direction. For instance, Lövblad et al. (2012) came up with the idea that the evaluation of the psychological contract directly affects satisfaction. Furthermore, Kaufmann et al. (2018) reported that through trust repair mechanisms, such as penance and regulation, the flexibility of the relationship between buyers and sellers can actually be improved even after the psychological contract was breached.

Based on the abovementioned empirical research, trust is an important factor defining the nature of a supply relationship, and fairness is proven to be a mediator between supplier performance and supplier satisfaction (Yilmaz et al., 2004; Doney and Cannon, 1997). Despite some studies have already reported the impact of the PC on psychological factors like trust and fairness in terms of general supplier relationship and satisfaction, there is hardly any work relating the PC to the preferred customer status yet.

2.4 Synthesis section- three propositions

The supply relationship begins with high expectations between the two parties. Since these expectations involve multiple dimensions (Vos et al., 2016) that cannot be fully stated in words, they thus co-exist in the form of written contract and psychological contract. For instance, one antecedent of supplier satisfaction is reliability in which the explicit promise and the implicit promise are realized consistently (Ellis et al., 2012, p. 1265).

Breach of the psychological contract means that the expectations are not fulfilled, then results in emotional reactions such as disappointment, neglect, frustration, betrayal, and anger (Robinson & Wolfe Morrison, 2000). Breaches of the transactional psychological contract are more likely to be related to economic results. Relational PC breach, although there is no direct economic loss, it would cause negative results by affecting the perception of fairness (Bessley et al., 2018) and negative emotional reactions (Mir et al., 2016). There is also a combination of two psychological contract breaches that may cause the most severe PC breach. Therefore, we propose the first proposition, (P1) *relational and transactional PC breach, and the combination of the two each causes negative impact on satisfaction*.

Meanwhile, from the perspective of both the cognitive and dynamic natures of the psychological contract, the judgement over the particular PC vastly differs among individuals, perhaps some people are more concerned about economic expectations, for example, suppliers expect the possibility of increasing revenue, so growth opportunities are even more important (Hüttinger et al., 2014). While others value relationship expectations more, lack of fairness or relationship behavior issues (such as communication issues) may have a significant impact. Which type of psychological contract breach has the

greater impact is unknown, to explore whether the impact of PC breach is different depending on the type of breach, we put forward the second proposition, (P2) *The impact degree of PC breach on supplier satisfaction depends on the type of psychological contract*.

An unsatisfied supplier may attempt to leave the existing supply relationship and switch to another customer company. Bessley et al. (2018) found that the emotional response mediates the decision of the supply relationship and proposes that the emotional response can be hold-up to change the switching decision. On the contrary, some researchers believe that although PC breach affects task behavior, it is not the primary cause for changes in supply relations (Eckerd et al., 2013). Contradictory conclusions call for a more in-depth study to investigate to what extent PC breach affects the supplier relationship decisions. As a determinant of the supply relationship, satisfaction is multi-dimensional. Relational PC breach or transactional PC breach may influence in a certain aspect, which does not mean overall dissatisfaction. In other words, some non-fulfill will be balanced by other satisfactions. For example, a supplier said even if the price is higher than their expectations, a good cooperative attitude and high transparency make them willing to maintain the supply relationship (Blessley, 2018, p221). Perhaps the PC breach has caused some satisfaction variables to remain low, preferred customer conversion may still be avoided when other variables are maintained at a satisfactory level because supply relationships are characterized by their multilateral nature (Eckerd et al., 2013). Hence, we put forward the last proposition (P3) *PC breach impact supplier satisfaction negatively in certain dimensions, and ultimately these can be mitigated by high satisfaction in key dimensions*.

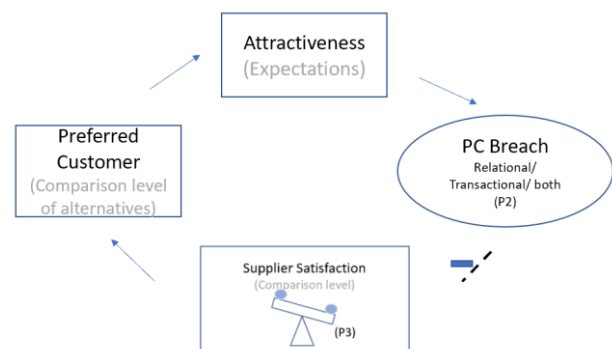


Figure 2. Research Framework

3. METHOD: RESEARCH DESIGN AND DATA COLLECTION

3.1 Research Design

3.1.1 Qualitative Case Study

To answer 'how' and 'why' questions, there should be qualitative research rather than quantitative research in the current context (Yin, 2003). A single case study was organized, in which the entity is one customer company, and subunits are its suppliers. Here, a single case study was selected because the data can be analyzed across these subunits, where each supplier was first analyzed individually, and the obtained results were then returned to the global level to evaluate the difference and similarities across all subunits (Yin, 2003). Although multi-case analysis may be considered to be more adequate to compare differences and see the similarities (Yin, 2003), a single-case

study is also able to fulfil the research targets when considering time constraints.

Considering the method of data collection, both interviews and surveys are able to understand the thoughts of the participants and get detailed answers such as answers in open text. But our research is more focused on limited problems, and more in-depth. This requires flexible sub-questions to supplement the questions based on the participants' previous answers. By contrast, surveys are fitting more to discover broad and relatively short questions. Additionally, the format of the questionnaire, such as paper or online, cannot observe the expressions and emotions of the participants, this can also be compensated by the sound and vision of the interview. Therefore, interviews are more suitable for this research to capture complex and discrete information (Irvine, 2018).

3.1.2 Interview

Semi-structured interviews served as the main data sources, and purposeful sampling methods were used to ensure the relevance of the samples. Supply department personnel or managers were invited to the interviews because they are experienced to offer insightful comments on supplier satisfaction and supply relationships.

Interview questions were designed into 2 parts, covering three themes: supplier satisfaction, psychological contract and preferred customer association. Semi-structured interviews have space to ask sub-questions in the goal of extending the main interview content while staying on the track (Gill et al., 2008, p. 291). Two versions of interview questions were determined by the dual perspectives of the supplier and the buyer. About 13 interview questions (see Appendix 1) made the interview lasting about half an hour. Regarding the interview format, online interviews have freed the interview location, and incorporated safety considerations during the epidemic. In order to create a comfortable conversation atmosphere, the interviews were conducted in the form of either video calls or voice calls depending on the interviewee's preference. In accordance with the UT ethical approval, the interviewee must sign a voluntary interview agreement prior the interview. The confidentiality of all interviewees is strictly kept protecting their privacy. Recording during the interview was agreed by the interviewee and only used to generate the interview transcript. A brief company introduction is shown below.

Table 6. Company introduction

Interviewees (managers)	Business Scope	Size and history	Sales (output)
Customer company (1)	Cashmere textile producer	122 employees, built in 1999	The annual output exceeds 2.8million items, sold to China, Japan, and South Korea
Supplier (1)	Textile raw materials (wool)	40 employees, built in 1995	Input: more than 650-ton raw wool, supply more than 300 ton semi-manufactured
Supplier (2)	Textile raw materials (wool)	31 employees built in 2007	Annual supply of approximately 570 tons of raw wool (2020)
Supplier (3)	Textile raw materials (wool)	37 employees, built in 2012	Annual supply 240-ton semi-manufactured wool
Supplier (4)	Textile raw materials (wool)	28 employees, Built in 2005	Annual supply 200-300 ton semi-manufactured wool

The customer company (C1) is a cashmere textile company located in the western province, China. Due to the developed animal husbandry and long history of wool production, wool textile enterprises, especially small and medium-sized (SMEs) enterprises, are concentrated. C1 has developed and gradually grown since the 1990s, as a representative of local wool textile SMEs, it has nine raw material suppliers in the same province. The manager of customer company and its four supplier

managers will be interviewed. Among them, Supplier 1 (S1) is the earliest established and largest supplier of C1. The four suppliers all purchase raw wool from pastures, process them into semi-finished products (after cleaning and carding), and then supply them to the customer company for cashmere scarf production.

3.2 Data Collection and Analysis

3.2.1 Interview Transcript

The process of interpreting the interview materials was illustrated in Figure 3. The interview transcripts were first generated and then delivered to the interviewee for feedback. In case there was a misunderstanding about the answer content, the transcripts could be adjusted accordingly (Rashid et al., 2019, p.10). Subsequently, the thematic coding method, which is considered an efficient means to enable open text is transformed into quantifiable and applicable information (Medelyan, 2021), manually coding is adopted for initial coding and grouping of the content analysis. Diverse labels were assigned to interview answers via coding in the goal of finding out common themes based on important and repeated words or sentences. Eventually, the common themes can be quantified and grouped to further analysis.

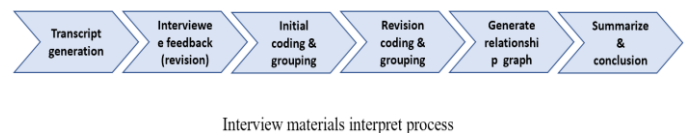


Figure 3. Interview materials process

The manual coding was chosen since the workload for five interview transcripts was not overwhelming, and the manual operation could ensure a high perceptual accuracy (Medelyan, 2021).

Open coding is conducted, which starts by separating interview answers into pieced answers, and then starts labeling each piece of data and adding descriptions to generate the initial code. Next, code is categorized based on associations among code such as repetitiveness (Hashimov, 2014). Coding framework was based on the research framework in section 2.4, the first two propositions that determined the 3 variables (PC, PC breach type, satisfaction influence) should be paid particular attention as shown in Figure 4.

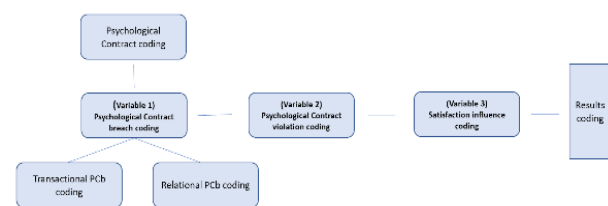


Figure 4. Coding framework

It is important to note that manual coding has the potential risk of being guided by personal understanding and preference, the secondary checks are necessary, therefore the code revision process is completed by another researcher to ensure that the code is not obviously biased or ignored.

3.2.2 Data Analysis

After establishing the coding framework, we use the NVivo platform to complete the entire coding, classification and relationship analysis. According to the imported interview transcript, the five interviews were named C1, S1, S2, S3, and S4.

The initial coding was generated by reading each interview answer one by one and filtering out the informative content. Initial coding was 88 items in total, and they were automatically arranged in the order of creation. As mentioned above, a second check was necessary for ensuring the coding accuracy, therefore another researcher independently created the second version of initial coding. In order to improve the authenticity of the data, the Holsti Index was employed to test the inter-coder agreement coefficient. Holsti index is used to verify the coding reliability by calculating the agreement percentage of two (or more) coders coding the same document (Holsti, 1969). Although there is no universally accepted threshold representing acceptable reliability, an index ranging between 0.81 and 1 is usually considered as nearly perfect agreement (Landis & Koch, 1977).

$$\text{Holsti Index} = \frac{2 \times \text{number of agreements}}{\text{number of units coded by coder 1} + \text{number of units coded by coder 2}}$$

(for 2 coders)

Coder 2 obtained 92 coding in total, among which a total of 79 coding agreed with those from Coder 1. Hence, the final Holsti index result was 87.78%, which surpassed the credibility requirement of 80%. Then initial codes were divided into 10 categories according to keywords and meanings, see the table.

Table 7. Coding and group

Coding Sequence	Group	Repeated words and Meanings (e.g.)
1	Satisfaction (affecting factors +/-)	Purchase volume, payment, credit, overhigh require
2	Preferred customer	Profit, long-term, purchase volume
3	Psychological Contract	Contact, visit, keep words,
4	Psychological Contract breach	Payment delay, not visit, not answer phone call
5	Psychological Contract violation	Disappointed, worried, angry, unpleasant
6	Satisfaction influence	Unsatisfied, unfair, no influence
7	Reactions	Call, discussion,
8	Results	No influence, a bit influence
Reasons	Decision reasons	'Because xxx', 'unless xxx'
Z	Interviewer's interested sub questions but not directly related to research	

In order to facilitate the classification of coding according to the frequency of key words and the sentence meaning, the interview questions were pre-set with clear directions, so the logic of the answers was easily distinguishable. For example, even though the factors of satisfaction were rather dispersed, they were concentrated in the two interview questions, which provided clues for the coding classification. Nonetheless, several relevant answers were scattered in the answers to other questions, which required artificial interpretation to read over and over again to ensure that there was no coding missing.

Next, themes are based on groupings of coding and PC is one of the main directions of this research. We have established the PC cycle theme and put PC, PC breach, and emotional reactions into one group. Then the project diagrams were created to show the relationship between the variables.

4. FINDINGS AND CONCLUSION

We drew a comparison between literature and case study results, the results showed that most antecedents were supported, but some antecedents are both as satisfaction and preferred customer antecedents. Payment and purchase volume were recognized to mainly affect supplier satisfaction, suppliers explained the industry-related reasons in the interview. Secondly, from the perspective of psychological contract, the three propositions have been supported, there are no empirical findings indicating PC breach has a strong influence on customer status in supply

relationship in our cases. This section includes three parts: interview results, discussion and conclusion.

4.1 Antecedent verification and supplement

4.1.1 Supplier Satisfaction Antecedents

We found that stable or increasing purchase volume and timely payment are considered to mainly affect satisfaction (see table 8). Purchasing volume as the antecedent of preferred customers in previous studies but was also considered an important antecedent of satisfaction in interviews. In addition, S1, S3 and S4 values timely payment in terms of satisfaction. While S3 talks about the high level of trust the customer company has placed on him, which makes him feel encouraged. From the perspective of the customer company, the manager thinks that they pay in time, and even pay in advance to alleviate the pressure on the supplier's funds, so they are favored by the supplier. Keeping promises is also mentioned by customer manager that it will positively affect supplier satisfaction, which can be regarded as a sub-dimension of reliability. Regarding the antecedents of satisfaction, the importance of timely payment has been emphasized by suppliers and customer company, which is different from theory.

The interviewees explained that the characteristics of the industry determine the satisfaction factors to a certain extent, first the wool harvest is seasonal, and that raw wool should not be stored for a long time to maintain its strength and luster. Second, the wool acquisition occurs from the ranch in around the first two months of the summer, raw wool may need to be stored up to one year before being purchased by customers. Therefore, the storage pressure of raw materials and the pressure of prepayment of suppliers make the purchase volume and payment the key to the supplier satisfaction. Another point related to the wool industry is that, due to the relatively simple technology of primary wool processing, technical factors are hardly mentioned in the interview.

Table 8. Supplier Satisfaction

Factors	Sub-dimension	Interviewee
Economic	Purchase volume	S1, S2, S3, S4
	Payment habit	S1, S2, S4, C1
	Profit	S2,
Non-economic	Contact Access	S1
	Trust	S3
	Reliability-keep promise	C1

4.1.2 Preferred Customer Antecedents

The case study identified several preferred customer drivers mentioned in the literature. More specifically, all participants agree that they are motivated for long term focus (see table 9). S1 and S3 both mentioned they are willing to assign a lower price to the preferred customer and keep a long-term relationship to achieve a win-win situation. At the same time, from the view of customer, lower price and high quality are the driving force to maintain long-term relationships. C1 also mentioned that in more than twenty years of cooperation, based on trust and friendship, S1 understands the reliability of C1 and therefore makes it a preferred customer.

Two of four suppliers (S3, S4) mentioned the location is the influential element of customer status, since they believe that the store location of the customer company directly affects sales and thus the purchase volume, and large cities are also favored because promotion capabilities are broader than small places. S3 thought that the growth opportunities brought by preferred customers, such as entering new markets (another province) increased its profits, have become an important factor. Finally,

the two suppliers (S2, S3) talked about measuring a customer's ability to pay based on their financial performance.

Generally speaking, customers and suppliers have a consensus on long-term cooperation as an antecedent. However, customer attributes reliability as another important antecedent, rather than the purchase volume that suppliers value.

Table 9. Preferred Customer antecedent

Factors	Sub-dimension	Interviewee
Economic	Purchase volume	S1, S2, S4
	Financial performance	S2, S3
	Profit (growth opportunity)	S2, S3
Non-economic	Long term focus	S1, S2, S3, S4, C1
	Location	S3, S4
	Reliability	C1

4.2 Psychological Contract breach impact

4.2.1 Existence of Psychological Contract

The concept of psychological contract was unfamiliar to some interviewees, who had not even realized its existence. For example, two interviewees expected to maintain good communication with customers, but they stated as they did not have the concept of psychological contract in mind. An interesting point in the interview is that directly mentioning the term of psychological contract makes interviewees biased towards denial, while sharing examples inspired them to share their own expectations and stories.

As shown in table 10, three suppliers (S1, S2, S3) bluntly stated that their biggest psychological expectation is that customers' annual orders can keep growing. Delayed payment by customers makes on-time payment desired by the S2 and S4, even though the payment date is clearly stipulated in the contract. Regarding relational psychological contracts, in addition to the common expectations of communication, two kinds of PC were emphasized by suppliers: customer visiting (S3) and unexpected requests for raising product quality (S1). While customer visiting is often considered signs for expanding collaboration, thereby a boost towards supplier satisfaction, encountering picky customers requesting raw materials with better quality than contract standards would raise supplier's concern on fairness. In the PC perspective, customer companies focus on relational contracts such as keeping promises, while suppliers pay more attention to the transactional PC.

Table 10. Psychological Contract

Transactional PC	Relational PC
Purchase Volume increase (S1, S2, S3)	Good communication (S1) Fairness-unexpected require (S1)
Pay on time (S2, S4)	Keep promise (C1) Visit supplier company (S3)

4.2.2 Psychological Contract Breach

The psychological contract breach experienced by each interviewee is varied (see table 11).

Transactional PC breaches are mainly due to payment delays and reduced order volumes.

Relationship psychological contract breach includes three aspects: relationship behavior (such as contact problems), fairness and trust. Although most suppliers said they often maintain good communication and interaction with the customer company, S1 pointed out that he had encountered a customer only responding when he urgently needed raw materials and ignored his phone calls at other times. The contact problem and the customer's attitude break his expectations of good

communication. In addition, S1 remembers that a customer made additional requirements beyond the contract, such as requiring 2% of crude wool content to be higher than 5% as agreed in the contract, which makes him feel unfair. The customer company's point of view is that he has not experienced the psychological contract breach with these four suppliers, but he once negotiated with a famous supplier, he found that the quality of the raw materials is far from the expectation, B explained that the trust was built in the brand's good reputation, he felt angry when the expectation was violated (which can be seen as a combination of relational and transactional breach).

Table 11. Psychological Contract Breach

Transactional PC breach	Relational PC breach
Purchase Volume decrease (S1, S2)	Contact issue (S1) Unfair-unexpected require (S1)
Payment delay (S3, S4)	Brand reputation (C1) Not visit (S3)

As we assumed, whether the relational psychological contract or transactional psychological contract is violated, it is accompanied by varying degrees of negative emotional reactions and trust, fairness issues.

4.3 Influence on Supplier Satisfaction

Regarding the answer to how PC breach affects satisfaction, only one supplier (S4) talked about the fact that he can understand and tolerate customers sometimes delaying payments because sometimes he also faces the funding pressure. Although a little disappointing, it had no significant effect on satisfaction. Other suppliers felt the negative impact on satisfaction, for example, customer (C1) frequently mentioned that trust and reliability are the most important for him, while he suffers PC breach reduces the level of trust, his satisfaction is obviously negatively affected.

The other three suppliers suffered transactional psychological breach. S1 mentioned that although the excessively strict quality requirements made him feel unfair, the huge economic pressure caused by delayed payments would have a greater negative impact. S3 is also concerned about payment issues, he believes that failing to pay in time brings more worries than not being able to visit. Furthermore, S2 thinks that the reduction in purchase volume has a serious impact on the profit and if this problem cannot be solved, the preferred customer will be switched finally.

Psychological contract is different and perceptual. It is found that failure to reach one party's expectations is enough to cause emotional reactions and decreased satisfaction. In the comparison between transactional PC breach and relational PC breach, the results show that three (S1, S2, S3) of four suppliers agree that the PC breach caused by payment and purchase issue has a greater impact, while only S4 believes that has little impact on the satisfaction. Customer (C1) supposes that the impact of relational PC breach (trust breach) is the most serious.

At this point, the negative impact of PC breach has been highlighted. By comparing the type of PC breach, the previous propositions are supported (P1 and P2). The degree of impact is cognitive and even varies from person to person. In our case, most suppliers point out that transactional PC breach would have strong consequences.

4.4 Impact of PC breach on preferred customers

In proposition 3, we predicted that PC breach does not have significant influence on the satisfaction, because other highly satisfied factors may balance the effect. To test P3, we designed

interview questions about the final decision to respond to PC breaches as well as reasoning behind such a decision.

It turns out that although the interviewees fully expressed their emotional reactions and dissatisfaction, the final decision regarding switching customers or even preferred customers was not significantly influenced. Satisfaction is a multi-dimensional and complex index. Obviously, the negative impact identified in P2 would partially, and not entirely, determine the final turnout.

As the bar graph showed (see figure 5), only one case of five (S2 in particular) supported the significant influence. S2 said that PC breach like decline in purchase volume due to the poor sale records of the company would ultimately affect suppliers' own profitability. For the survival of the organization, the preferred customer will eventually be converted, which shows that the transaction breach will bring profit consequences and affect customer status.

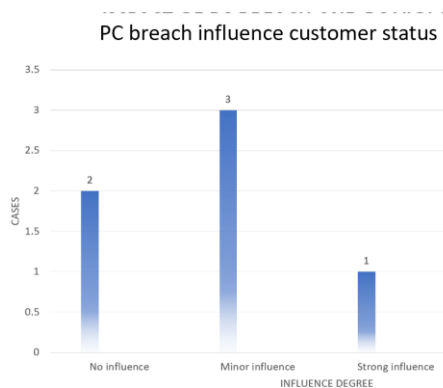


Figure 5.

It should be noted that the S2 mentioned that apart from the breach like decrease in purchase volume, he can tolerate other types of PC breach, such as delays in payment, thereby not affecting the status of preferred customer.

On the other hand, it comes to no surprise that S4 stated that PC breach has little impact on supplier satisfaction as his answers did not support P2 from the beginning. Similarly, S3 also proposed that economic outcomes prioritize over all other PC breach, transactional or relational, in terms of maintaining the status of preferred customers. Particularly, he raised the example that although the lack of customer visiting sometimes would cause doubts and questioning about the future of a supply relationship, if the customer finally signed a large order, all the dissatisfaction and emotional reaction were alleviated. In this case, S3 believed that preferred customer status would not be impacted.

The remaining two cases offered the same reasoning as S3 in explaining the minimal impact of PC breach in determining the status of preferred customers. They considered the most important and core part of their satisfaction is the purchase volume since it threatens the profits, if the purchase volume of preferred customers has not been greatly reduced, all other breaches can be accommodated.

4.5 Discussion

Building on the preferred customer cycle theory (Schiele, 2012), we pay attention to the antecedents of supplier satisfaction and preferred customers. The research results of supplier satisfaction highlight the purchase volume and payment. The purchase volume is considered to drive profits, thus supporting the literature proposition about first layer antecedents (Vos et al., 2016). The difference is that the prepayment pressure of

suppliers in this industry gives priority to timely payment of antecedents, which can be seen as a new element.

For preferred customer antecedents, long-term attention and purchases volume occupy the top two positions. The difference is that location antecedent, the geographical factor involved in the theory refers to proximity, but suppliers in our case considers the sales prospects of geographic location, not distance. Large cities and downtown areas are preferred. Another difference is about trust, as an antecedent was repeated in the interview answers. The customer introduced his friendship-trust mechanism. There are many ways to build trust, but the friendship established through years of cooperation to deepen trust is not pronounced in the theory. This is an interesting angle to see friendship as a driver of the trust antecedent.

In the psychological contract perspective, firstly, the new research direction is about the difference of PC type in influence, and the result of 3:1 (transactional: relational) implies that transactional psychological breach has more significant influence than relational PC. Judging the impact varies from person to person, and industry characteristics such as materials storage pressure affect it. As a result, more samples included in the research are needed to test and generalize the results, but at least our claim that the type determines the degree of the impact is supported since no participant thinks they have the same impact. However, there is no empirical data found that PC breaches will eventually significantly impact customer status. Suppliers consider satisfaction comprehensively (Caniato et al., 2014, p.433); dissatisfaction caused by PC breach may not account for a large proportion of overall satisfaction or is balanced by other satisfactions. Offset has been mentioned many times by suppliers, for example, the supplier experienced the disappointment of the customer's refusal to visit and then was balanced by this customer's reorder, finally he thought it had almost no negative impact on satisfaction. The only case (S2) that showed strong influence stated that the PC breach caused the switch of a preferred customer after confirming serious economic consequences. Economic losses have become an intermediary factor that cannot be ignored (Bessley et al., 2018, p.223), and from this side can support our proposition that PC breach only causes a limited negative impact, or economic consequences can strengthen its impact.

A new perspective comes from the supplier's answer, which can be seen as our extra findings. The supplier mentioned the words 'offset' and 'tolerance' to varying degrees in response to some dissatisfaction. The reason for this is that they consider the current situation in the industry is that customer company is more likely and easier to find other satisfied suppliers than suppliers to new customers. S1 stated that the supply relationship is like a fish-water relationship, relying on each other for survival. Changes in the supply relationship are not only determined by negative emotional reactions or partial dissatisfaction, the degree of dependence also affects customer status. Griffith et al., (2017, p.126) put forward a proposition in support of this view. When the supply relationship becomes more dependent, the two parties will pay more attention to this relationship and avoid conflicts (Scheer et al., 2014). On the contrary, if the dependence is low, they are more likely to value short-term benefits. Our findings are consistent with this view. Suppliers have emphasized long-term focus, realized the dependence on customers, and are therefore willing to balance or compromise the negative results caused by PC breach to avoid conflict.

4.6 Conclusions and future perspectives

All three propositions are supported based on our findings. Among the different impacts brought by the PC type, the transaction PC breach is considered by the supplier to have a greater impact on satisfaction. Dissatisfaction caused by PC breach could be balanced by other satisfactions, so no significant consequences are shown. Thus, answering our research question, PC breach negatively affects satisfaction and has not shown a large degree of erosion to the status of preferred customers. The following are our recommendations for future research based on findings and discussions.

Firstly, this research begins to explore the difference in impact from the PC type perspective, this study indicates that psychological factors related to relational behaviors have less influence on preferred customer status than economic (transactional) factors. In the future, apart from increasing the supplier base to test, the research is not limited to the wool industry, which calls for research in different industries to examine the applicability of the conclusion.

Secondly, the research on which factors threaten the preferred customer status is still in its infancy, PC breach impact calls for more in-depth research. As a new lens, additional interference factors can be investigated to build a ternary structure to evaluate PC impact, such as the dependence degree of customer-supplier as an intervention factor affects the impact of PC breach on satisfaction.

5. MANAGERIAL IMPLICATIONS FOR PREFERRED CUSTOMERS

The research direction is to maintain the status of preferred customers. Based on the results and discussions, we put forward two suggestions: first, the preferred customer should identify the primary criteria obtained the preferred customer. Secondly, due to PC fulfillment is beneficial to improve satisfaction, managers should incorporate PC fulfillment into supplier satisfaction evaluation.

All wool suppliers in our case agree that purchasing volume is their bottom line of satisfaction. Therefore, although the PC breach has caused dissatisfaction, these can be balanced by weighing other economic factors (such as maintaining or even expanding purchases) to maintain the status of preferred customers. However, from the customer's view, based on interviews, timely payment and alleviating the funding pressure of the supplier are the primary factors for them to become a preferred customer, as well as other reasons such as reliability. The importance of these factors cannot be denied, but suppliers and customer companies rank them in different priorities.

Managers find the supplier's first antecedent or bottom line is a practical way to avoid breach and avoid challenging suppliers' satisfaction. At the same time, fulfilling the first antecedent may balance other lower satisfaction (based on S1, S2).

The second advice comes from this study results, which shown that PC breach could affect one of the multiple dimensions of supplier satisfaction. For customer managers, PC can be included in the mechanism of measuring supplier satisfaction. Specifically, customer companies can regularly do supplier satisfaction surveys to find low-level satisfaction factors and try to repair them. Or they can understand supplier expectations better through face-to-face discussions and maintain a high-level satisfaction by fulfilling expectations of contracts and beyond tangible contracts, which is conducive to maintain preferred customer status.

6. LIMITATIONS

The findings have to be seen in light of some limitations. First of all, the aim of the present study was to study preferred customers in the wool textile industry, but only five cases were moderate. More samples are needed, and they should not be concentrated in one province in one nation. Therefore, the conclusion is only valid in this study and cannot be generalized in the entire industry because the number of samples in this study is limited (Rahman, 2017, p.106).

Second, the supply chain of the interviewed company is relatively short, making that the information available is not very sufficient and unevenly distributed. While the supply chain of the large company is long with more related factors, it is therefore more likely to put forward different insights. For example, when comparing results from interviews with first-tier suppliers and three second-tier suppliers, first tier suppliers provide more insights because of their longer supply chain. The second-tier suppliers mentioned that their supply relationship is simple and does not have too many expectations outside the contract, thus contributing less to the answers.

Lastly, quantitative analysis is missed. Qualitative analysis was produced from text, and the subjectivity of the analyst is inevitable (Explorable, 2009). Although the inter-coder agreement coefficient was evaluated to improve reliability, it is hard to say that researcher's personal biases and traits has been totally eliminated. Another disadvantage of qualitative analysis is that findings cannot be displayed by statistical means such as a model. For example, the negative impact and no significance to be confirmed in this experiment cannot be displayed through data models such as linear regression. Thus, the results and conclusions cannot be extended to a wider population because the research results have not been tested to find out whether it is statistically significant or accidental. We are still looking for better ways to combine qualitative analysis and quantitative analysis in future research.

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Appendix

Interview Questions

Question for suppliers

1. Do you assign different status types to customers? Which status types do you assign?
2. Have you assigned a preferred customer status to Company-X?
3. How do the status types influence your behaviour towards customers? What benefits do you offer to a preferred customer? (Remember the pyramid, check for logistics / production planning, innovation, special services, flexibility, earlier information etc.)
4. Are you satisfied with the business relationship with Company-X? What factors are affecting your satisfaction or dissatisfaction in this relationship?
5. What are your company's motivations for doing giving Company-X a preferred customer status? What did Company-X do to achieve the status? What could Company-X do to further improve its status?
6. What are measures that customer must undertake to achieve a preferred customer status and what is the necessary behaviour they must show?
7. Have you ever had the belief that there are expectations outside of the legal contract regarding your obligations towards each other?
 - Sub questions
8. How did psychological contracts affect your relationship with each other?
9. Have you ever experienced a psychological contract breach?
 - If yes, what was the effect on the relationship?
10. How did you react?
11. How did the counterpart react?
12. How were preferred customer status influences or how did the preferred customer status influence the reaction to a breach?

Questionnaire for customers

1. Is there management commitment to achieving preferred customer status with strategic suppliers? If so, how does this show? If not, how could management commitment help in this matter?
2. Whom do you have a preferred customer status with?
3. Which other benefits do you notice from having a preferred customer status?
4. What have you done in the past to become a preferred customer of strategic suppliers? Are there other actions you did not undertake that could have helped in reaching a preferred customer status?
5. Is your company able to provide supplier satisfaction with important suppliers in exchange relationships? Which factors induce satisfaction in these relationships? And which cause dissatisfaction?
6. Are there measures that are planned to be undertaken to become a preferred customer of other suppliers?
7. Have you ever had the belief that there are expectations outside of the legal contract regarding your obligations towards each other?
8. How did psychological contracts affect your relationship with each other?
9. Have you ever had the belief that supplier Y had expectations outside of the legal contract regarding your obligations towards Supplier Y?
10. Have you ever experienced a psychological contract breach?
 - If yes, how did it effect the relationship?
11. How did the counterpart react?
12. How were preferred customer status influences or how did the preferred customer status influence the reaction to a breach?