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Strategic Gift Giving in Vendor Relationships: The Gift of Cognitive Regard

Completed Research

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Abstract

Increasing competition in the IT vendor landscape means it is increasingly difficult for vendors to sustain themselves by competing on price. Thus, many vendors desire to become strategic partners with their clients to thereby acquire a secure monopoly-like position on IT services. How should vendors do so? We argue one way is via the strategic distribution of gifts. This research unpacks one particularly effective gift type- the gift of cognitive regard through a qualitative analysis of a client-vendor relationship. This gift type has five properties: (1) Known Effortfulness, (2) Deep cognitive understanding, (3) Inalienability, (4) Nontransferrability, and (5) Contract temporality and signals to the client that (1) the vendor understands the client's specific business practices, (2) the vendor can do things to improve the client's business and (3) the vendor has unique value to the client.

Keywords

Gift giving, client-vendor relationships, case study

Introduction

The IT vendor landscape is becoming increasingly competitive (Padmanabhan 2018). At one end of the spectrum, IT has become a commodity (Velasquez 2015), where intense price competition shapes the market (Oh and Lucas 2006). At the other are IT vendors who serve as strategic partners, providing advice and thought leadership to clients (McGowan and Zhang 2016). Because of their trusted positions, strategic partners can obtain monopoly profits. Clearly, it is better to be a strategic partner than a commodity IT vendor. But how can a vendor move from the commodity market to the strategic one?

Being a strategic vendor requires social capital and trust between client and vendor. While substantial research has explored and acknowledged the need for social capital in strategic client-vendor relationships (Gopal and Gosain 2010; Rai et al. 2009; Sarker et al. 2012; Srivastava 2009), little research explores how such social capital can be built (Chua et al. 2012). A vendor seeking a transition from being just another price-competitive vendor to having a strategic relationship is seeking to build social capital with its client. The gift giving literature highlights that gift giving exists principally as an adaptation to "an economy of insecurity" (Cheal 1988). The gift's "central role [is] in distributing and aggrandizing power and creating and dismantling relationships in all aspects of social life" (Zionkowski and Klekar 2009). Thus, gift giving appears an ideal way to build social capital. However, what gifts and how these gifts help a vendor to build social capital are still understudied. Our research question is:

What specific kinds of gifts and gift properties can help a vendor gain social capital with their clients?

This paper describes what we call the cognitive regard gift type, a particular kind of gift that helps build social capital in strategic client-vendor relationships. It is one gift type we have discovered by applying a gift giving lens to an in-depth study of a New Zealand IT vendor and its client. The vendor successfully transitioned from a price-competitive to a strategic vendor. The cognitive regard gift type has five properties: (1) Known Effortfulness, (2) Deep cognitive understanding, (3) Inalienability, (4) Nontransferrability, and (5) Contract temporality. The cognitive regard gift type is particularly powerful, because it signals to the client that (1) the vendor understands the client's specific business practices, (2) the vendor can do things to improve the client's business and (3) the vendor has unique value to the client.

Social Capital and Gift Giving in Strategic Client-Vendor Relationships

Social capital is a critical ingredient in strategic client-vendor relationships (Lee et al. 2004). Srivastava (2009) demonstrates that social capital impacts both the client-vendor knowledge transfer and knowledge combination process. Rai et al. (2009) argue it is critical for offshoring success. Other research using related social theories such as social exchange theory (Gefen and Ridings 2002), guanxi (Wang et al. 2017), and trust (Gefen 2004; Lamothe and Lamothe 2012; St. John et al. 2014) confirm this relationship.

Social capital is an unusual form of capital. Unlike land, labor, physical capital or intellectual capital, social capital is not possessed by a person, but is instead found in the relationship between people (Newell et al. 2004; Wasko and Faraj 2005).

There are three subdimensions of social capital (Nahapiet and Ghoshal 1998):

- *Structure*: essentially the layout of a social capital network, i.e., who people know.
- *Cognitive*: shared language and understandings between individuals.
- *Relational*: the affective element of social capital, i.e., whether people trust, like, or otherwise feel for the other person.

Most outsourcing research focuses on how vendors' ability to fulfil client needs improves relationships and trust (Levina and Ross 2003; e.g., Oshri et al. 2015). The enactment of strategic actions to build relationships and trust remains underexplored. One way to build social capital is via gifts (Malinowski 1922; Mauss 1954; Zionkowski and Klekar 2009). Gift giving has social and relational dimensions beyond market exchanges. Market exchanges focus purely on the exchange of physical capital in the political economy (i.e., goods and services). Gifts, however, are simultaneously exchanges of symbolic capital (i.e., status, regard, prestige) (Malinowski 1922; Mauss 1954; Zionkowski and Klekar 2009). As an example, compare a Rolex watch your parents gave you to an equivalent watch you bought yourself. If you had to sell a watch, which would you prefer to sell? Your parents' watch has embedded symbolic capital.

The symbolic capital in a gift is a representation of regard. Mutual regard, when two parties reciprocate gifts, produces social capital (Offer 1997). Social capital is unusual in that it is capital that only exists in a relationship between parties (Newell et al. 2004; Wasko and Faraj 2005). Thus, social capital is shared, and not owned by an individual. A gift communicates the three essential ingredients of social capital-structure, cognition, and relationships (Nahapiet and Ghoshal 1998), but only from one party to another. The giving of the gift establishes there is a structural tie. The nature of the gift demonstrates the giver's understanding of the receiver (cognitive tie). Finally, that a gift is given signals the giver's desire to establish or strengthen a relational tie. When the receiver reciprocates with a corresponding gift, structure, cognition, and relationships become bidirectional, and social capital is built.

Rules of Gift Giving

All gift giving functions under inviolate rules. We present only the rules applicable to this paper here:

Rule 1: When the receiver is offered a gift, the receiver is obligated to accept it and reciprocate with another gift (Elliott 2009; Mauss 1954), except: (1) the receiver rejects the relationship (Marcoux 2009), or The receiver acknowledges inferiority in social status to the gift giver (Laidlaw 2000). This is why we feel bad

when someone gives us a surprise Christmas gift. Our inability to immediately return the gift puts us in obligation to the giver.

Rule 2: The given gift cannot be returned to the giver to satisfy the need to return (Schwartz 1967). A return of a gift results in the worsening or termination of the relationship.

Rule 3: Gifts can be given between organizations. However, all organizational gifts are simultaneously gifts between individuals (Mauss 1954). Thus, if a vendor salesperson gives a technology sample to an engineer at a client firm, and the engineer leaves the client firm, both the relationship between the salesperson and client firm and the relationship between the salesperson and engineer at the new firm exist (Darr 2003).

Rule 4: The giver chooses the gift. The gift choice signals critical information about the giver and receiver (Malinowski 1922; Mauss 1954). For example, if the giver gives the receiver an edible item the receiver is allergic to, this suggests low cognitive ties - the giver does not know the receiver well enough to give an appropriate gift. When the receiver explicitly requires a particular gift, it is not gift giving, but something else, e.g., bribery or corruption (Verhezen 1960).

Rule 5: Gift giving is done in an open, often ritualistic manner (Malinowski 1922; Mauss 1954). When gift giving is not open, a revelation that the gift was given should not materially negatively impact the social status of the giver or receiver. Hidden "gift giving" is often an alternate form of exchange, e.g., bribery or corruption (Verhezen 1960).

Properties of Gifts

Gifts have various properties that affect social relationships. Three properties are relevant to this paper: (1) inalienability, (2) transferability/transformability, and (3) temporality of return.

Inalienability is the extent a giver's identity remains with the gift after it has been given (Strathern 1988; Weiner 1992). The Microsoft Software Development Network Academic Alliance (MSDNAA), for example, has high inalienability. Participating universities use Microsoft products for little to no cost. The gifted software is always recognized as distinctly Microsoft. In contrast, a parent's Rolex watch gift has limited inalienability. Inalienability is maintained only while it remains a family heirloom. Once the watch is pawned, it loses inalienability. Finally, some gifts have little inalienability. Consider a box of generic chocolates gifted by an employer at Christmas. After a month, the employee cannot remember whether the box was given by the employer, or some other casual acquaintance who gave the identical box.

Transferrability: Some gifts are easier to regift than others (Mauss 1954). For example, a vendor could write a white paper analysis of a technology product. This report is easy for the client to regift to others. Conversely, a gifted report from a vendor detailing areas the client could improve on is not so easy to regift.

Temporality: Finally, the time period for reciprocation varies between gifts (Komter 1996a; Malinowski 1922). Christmas gifts, for example, must be reciprocated during the Christmas period (Komter 1996b). In contrast, a vendor salesperson who gives product samples would expect his gift to be returned as a sales order far in the future (Darr 2003).

Methods

Our intent is to develop prescriptive theory on gifts and properties that facilitate a transition to a strategic vendor. Given the research is exploratory, we employ a theory-driven, exploratory qualitative approach. Data was collected from a large New Zealand agricultural collective and its application development and support vendor. The agricultural collective is one of the largest in the world- it sells over a quarter of the world's supply of a globally traded agricultural product. They invited us to the field site to observe their contract renegotiation with their large, Indian CMM5-certified IT vendor. Originally, the vendor was contracted for commodity work, specifically, to provide application support, and manpower to supplement internal staff for IS projects. The vendor has a small staff in New Zealand that handles matters requiring a

New Zealand presence- e.g., facing the customer and physically maintaining infrastructure like servers. The vendor has a larger staff in various overseas offices, especially India, that performs most technical work.

When the contract was due to expire, the client wanted to renegotiate it so the vendor would provide "thought leadership" in addition to its support and project resourcing roles. The client desired this transition, because of its overall satisfaction with the vendor.

> *We're currently in a renegotiation phase with [vendor]… We will ask for a new commercial model in July. Then contract negotiations in August… The [vendor] relationship is going well. We're trying to optimize and go better places… Bring in thought leadership and innovation from [vendor]* (Client)

The field site was thus excellent for exploring the transition from commodity vendor to strategic partner.

Data Collection

We interviewed management from both the client and vendor involved with the contract renegotiation. We interviewed the client CIO and his direct reports up to two levels down. These included the client's contract expert, vendor executive sponsor, and quality assurance head. We also interviewed the vendor's client engagement manager, his subordinates, and the leads of each vendor functional silo. Table 1 summarizes the interviews.

Consonant with our focus on the development of social capital, we asked questions about the work the vendor did, and how the client/vendor relationship evolved. Most interviews were audio recorded and transcribed verbatim.

Stakeholder	# Interviews	# Distinct Interviewees
Client	17	13
Vendor	8	8
Total	25	21

Table 1. List of Interviewees

We collected all available physical documentation on the relationship such as the contract, and minutes of meeting. The client is an agricultural cooperative. Many of its client-shareholders are small farmers. Thus, the culture of the client relies principally on relationships and the client tends to have poor formal processes. As a result, much formal documentation simply did not exist.

Data Analysis

Our data analysis was principally theory-driven where we relied on theory from gift giving to code data. We reviewed interviews to identify actions not specified in the contract. These were potential gifts. Each potential gift was then subject to the rules presented in our literature review. Potential gifts that passed the rules were then considered gifts. We then analysed the various gifts for their properties (i.e., inalienability, transferability, and temporality) and observed the factors interviewees identified as driving the production and outcome of the gift. Note gifts can have other properties than those listed. Given space constraints we cannot fully review the properties of gifts. Presented here are only the properties relevant to this research.

A gift was inalienable if one could always identify that the gift came from the giver (either client or vendor). A gift of a client recommendation letter to another client was inalienable, given the letter could always be identified as from the client. A box of Cadbury chocolates (a regular New Zealand gift item) was not.

A gift was transferrable if the receiver could transfer the gift to others. A gift was transformably transferrable if the gift could be regifted after some transformation. For example, a part of a project awarded without a competitive bid could be subdivided by a vendor to subcontractors. A gift was

nontransferrable if the gift could not be given to others. For example, a gift knowledgebase is nontransferrable, because the client-specific knowledge is useless to other organizations.

Finally, temporality was assessed as to when the expected gift would be returned. A gift of allowing a project milestone to be missed was a short duration gift- the expectation was the delay would be quickly rectified at vendor cost. A gift of software produced by the vendor for free had a longer term span- the expectation was the client would renew the vendor's contract.

Findings

We found multiple examples of the cognitive regard gift type. We present two here, (1) the Service Delivery Manager role, and (2) the revisiting of helpdesk delivery. Understanding both requires some context. In both cases, the vendor offered additional product/service with no explicit request for a return.

The vendor fundamentally is an IT consultant. Its business model maximizes the amount of time every employee is chargeable to the client. "Overheads," i.e., employees whose work is not chargeable, are minimized. The vendor is thus heavily circumscribed by the contracts it signs. These contracts specify the vendor's revenue, and the number of personnel the vendor may deploy as overhead and into specific roles. Any increase in manpower the vendor makes that does not result in improved revenue is a cost. Thus, unless a change impacts the vendor's key performance indices (KPIs), there is no contractual incentive for the vendor to improve non-revenue enhancing dimensions of an engagement like quality or user experience.

Service Delivery Manager Role

Initially, the vendor supplied the client with personnel based on the contract.

> *Initially [we were] obviously a little more hands off. More professional. [We focused our] engagement around the RFP [contract].* (Vendor)

However, as the engagement continued, the vendor discovered the client expected certain kinds of engagement not specified in the contract. The below quote is from a New Zealander who transferred from the New Zealand client to the Indian vendor.

> *So New Zealanders for example like myself. We like the relationships... I like to understand their personal, wife, kids. that sort of stuff. I typically ask start the conversation or the meeting with, "Hey, how are you how's the family what's happening?" ... Whereas our guys tend to come in and [be] quite serious up front...The realization between [vendor] and [client was] that we needed to spend a little bit more building those sorts of relationships and that's where the SDM roles came from. (Vendor)*

To manage this unwritten expectation, the vendor created the Service Delivery Manager (SDM) role and filled it with two people. Because these roles were not in the contract, they were not billable and therefore ate into the vendor's profit.

> *There is a plus to include more SDMs, but SDMs are not billable. All are on [vendor's] payroll.* (Vendor)

Service Delivery Managers functioned as the vendor's relationship managers. Their job was to engage with multiple stakeholders in the client to understand what those stakeholders were doing, and to determine how stakeholder actions could potentially impact future work. For example, Service Delivery Managers helped with demand forecasting; they could identify through conversation with the client if favourable weather patterns would create an upcoming spike in agricultural production (which would affect the IT like routing algorithms), or if a project requiring more manpower would be shortly approved.

The client liked the SDMs, and felt they substantially improved the engagement between client and vendor. As a result, during the contract renegotiation, the client was actively considering paying for SDMs.

> *[It] wasn't in the contract. Its right to do KPIs, but much of the contract needs to change. The contract provides a governance form. Good governance is about managing to outcomes, not managing to*

> *contract… Its about the spirit of the relationship… It's a bit like a marriage. You work on the relationship every day. Are we doing the right thing for each other?* (Client)

Helpdesk Delivery

When the vendor first began working for the client, the vendor politely listened to the client and followed client instructions. The client instructed the vendor on how the client had previously addressed helpdesk issues and the vendor dutifully followed the client's instructions, even if they disagreed with them.

> *[Client] is a … company that doesn't like to be told what to do. They feel … they're special and they need to be treated that way so they need to be part of the decision making process and almost driving the decision making process and so [vendor] have reacted. I think the Indian [vendor] culture … is you know they want to please.* (Client)

Because the vendor dutifully followed client instructions, the vendor performed at the same mediocre level of the client prior to the helpdesk being handed to the vendor.

> *Being a Kiwi, I know everything. So I'll go I don't think you're doing SAP Basis correctly. I haven't got any SAP Basis experience or anything to actually justify that on… And they'll just go, "It's probably not working right let's go and have a look." Whereas they have the capability, they've got the expertise to come back and say, "No, its working right, the design is wrong. We need to change the design, it will cost this much to change the design, and we can get it done in three months."* (Client)

As the relationship progressed, the vendor finally summoned the courage to suggest improvements to the helpdesk delivery process. One of the main problems with helpdesk delivery was the volume of helpdesk requests. The way the helpdesk delivery model had been structured, the vendor manned the helpdesk with a small group of highly skilled individuals. These individuals were handling simple tasks like resetting passwords and creating new accounts.

> *People with 8-10 years of experience are doing a repetitive job. For this kind of work, you don't need that kind of capability.* (Vendor)

At their own cost, the vendor developed a wiki called the Known Error Database that identified the common IT issues the client had. The vendor then hired a large number of inexperienced people from India to staff the helpdesk. These inexperienced people would refer to the wiki to troubleshoot problems. These changes (which contravened the contract) improved helpdesk performance dramatically. The 1.5 team below is this team of inexperienced people.

> *India is very different from New Zealand in how they work, you know … They can go out and get 20 new staff within an hour, because just the employee base there is just so huge. We had an example where we set up … we call it a 1.5 team, … they're kind of a front-line team that just fixed all the lower level stuff, and if they couldn't, then they would pass it on. But they were 24-7. …They had that team in place running 24-7 within 2 weeks, staffed with 30 people… if that's what's working and we're getting what we want, we're measuring it and they're achieving…why should we care?* (Client)

The level 1.5 team was so important, that just losing this team would be a significant loss to the client.

> *These guys built [client] specific knowledge. People, process, applications, the wiki. Its quite inclusive. Business processes are in there. Communications and problems. There's lots of material. If we jumped off, there'd be a loss of people the first year. We built up knowledge in people in [vendor]. If we change providers, it will be one year gone backwards. They're a big part of us, a real partner.* (Client)

Discussion

Both client and vendor spoke positively about each of these gifts. Given this was a single field site, it is impossible to demonstrate true cause, but there is evidence these gifts facilitated the signing of the

enhanced contract. How did these gifts influence the client? Our research suggests one way is via the Cognitive Regard gift type, which has the five properties in Table 2.

Known Effortfulness. When the receiver of a gift wants to maintain a relationship with a gift giver, the reception of the gift inherently creates a sense of obligation (Elliott 2009; Malinowski 1922; Mauss 1954). The level of obligation created depends on properties of the gift. Here, gifts were not only effortful, but the client was aware of the effort put in. The vendor spent its own money to put senior people into Service Delivery Manager roles, and into developing the knowledgebase. The client must be aware of the degree of effort, because that creates a corresponding degree of obligation.

Deep Cognitive Understanding. The gifts also demonstrated the vendor had a deep understanding of the client and the evolving client/vendor relationship (Ward and Broniarczyk 2016). The vendor developed the SDM role, specifically because their client was a New Zealand business that relied on relationship building rather than formal governance. This SDM role was specific to the New Zealand business and was not replicated in the vendor's worldwide engagements.

Property	**Explanation**	**Reason**
Known Effortfulness	It must be difficult for the vendor to produce the gift. The client must know the gift is effortful to produce.	Creates intense obligation on the part of the client.
Deep cognitive understanding	The gift demonstrates an understanding of the client's unique characteristics.	Signals unique value of the vendor. Vendor cannot be easily substituted for.
Inalienability	The gift must clearly have come from the vendor.	It is clear who the client is obligated to.
Nontransferrability	The gift is highly client-specific.	The gift has high client-vendor asset specificity. The client suffers a material loss if the relationship is terminated.
Contract temporality	The gift ceases to exist once the contract is terminated.	The client suffers a material loss if the relationship is terminated.

Table 2: Properties of Gifts of Cognitive Regard

The Level 1.5 teams, similarly were a solution leveraging the vendor's unique capabilities (i.e., its ability to arbitrage labor markets) to solve the client's specific problem, i.e., a high volume of helpdesk calls not easily addressed through automation. In other words, the gifts demonstrated the vendor's deep understanding of the client (i.e., cognitive social capital).

Inalienability. The gifts were always clearly identified as from the vendor. The service delivery managers and level 1.5 team were vendor employees, and the knowledgebase was constructed at vendor expense.

Nontransferability. It was impossible for the client to hand these gifts to others. Both gifts had high client asset specificity. This is inherent in the gifts' signaling of cognitive social capital. The gifts demonstrated the vendor understood the client in a deep way. While service delivery managers were selected for their social skills (and therefore could be used meaningfully with other clients), the knowledge and relationships developed were exclusive to the client. A termination of the vendor contract would mean those relationships would have to be rebuilt.

Similarly, the level 1.5 team could only function because of the client-specific knowledgebase. This knowledgebase, as a vendor commissioned product was owned by the vendor. Were the client to terminate the contract, the client could advise the new vendor on how to efficiently man the helpdesk, but the new vendor would have to rebuild the knowledgebase from scratch.

Contract temporality. Finally, gifts of cognitive regard have temporality associated with contract renewal. The Service Deliver Manager model was unsustainable as this was an ongoing vendor cost. Similarly, the continued existence of the level 1.5 team was contingent on the contract being renewed.

The question then is, "Why can gifts of cognitive regard transition a vendor from a price competitive vendor to a strategic one?" The answer lies in a complex interplay of factors underlying the nature of gifts, and this specific gift type. The literature demonstrates the type of gift is often a critical part of social capital formation (Choi et al. 2018; Goodman and Lim 2018). Gifts are risky economic acts. Recipients of gifts are under only social, not economic obligation to return gifts (Offer 1997). Under the social rules of gift giving, by foregoing a gift return, a recipient of equal or higher social status declares it is weakening or terminating the social relationship (Marcoux 2009). Thus, such gifts force the client to reveal their evaluation of the vendor and signal their intent. Contract temporality ensures the vendor does not spend too much on clients who do not reciprocate- recall gifts of cognitive regard have known effortfulness- they are expensive.

Nontransferability also locks in the client who cannot easily convert the value of the gift by reselling or regifting it. A refusal to renew the contract runs the client the risk the gift will depreciate and expire. The known effortfulness component of the gift also means the gift has high value- it is worth maintaining.

A strategic relationship between client and vendor puts a client at considerable risk. Strategic vendors have high knowledge specificity, and terminating such relationships is costly and disruptive to clients. Gifts of cognitive regard overcome client hesitation by signaling both vendor intent and ability, effectively reducing client risk. Intent is signaled via the known effortfulness of such gifts. The vendor risks the loss of non-gift reciprocation, thus signaling to the client that it will not act in a mercenary way. Because such gifts have embedded deep cognitive understanding, such gifts signal to the client that the vendor has the ability to enter into a strategic relationship with the client.

Finally, inalienability is a crucial property for large clients (as ours was). Gifts are always initially exchanged between individuals (Mauss 1954). Members of the client organization that do not participate in the gift-giving ceremony are thus initially unaware of the vendor gift. However, these non-participating members eventually partake of the gift- they call the helpdesk, or engage with an SDM. Because the gift is inalienable, they recognize where the gift comes from. Thus, when it comes time to reciprocate the gift (i.e., sign a new contract), these non-participating client members understand their social obligation to reciprocate.

Our research thus provides one practical way for price-competitive IT vendors to become strategic partners with their clients- vendors should invest in and produce gifts of cognitive regard. The more uniquely valuable such gifts are, the stronger the bonds between client and vendor. Such gifts cannot be produced immediately upon the signing of a contract. Instead, such gifts can only be created as the vendor engages with and gets to know the client. Gifts of cognitive regard are signals to clients that cognitive social capital is being built- the unique way each gift addresses a special characteristic of the client demonstrates this.

Furthermore, because these gifts are costly to the vendor, they cannot be sustained under a commodity contract model. So long as the gifts are viewed as valuable to the client, the gifts encourage the client to move to a strategic partnership. Furthermore, the client cannot just renew the vendor contract to maintain the gifts- the ongoing cost the vendor expends must be compensated for in some way. The client understands that some of the monopoly profits the vendor makes will go to sustaining the value of the gifts.

Conclusion

This research attempts to understand how vendors can transition from being price-competitive IT vendors to becoming client strategic partners. This is valuable, because strategic partners can reap monopoly profits from their relationship with clients. We studied this problem on a successful case, where the IT vendor transitioned from being a price-competitive vendor to being the client's strategic partner. Using the lens of gift giving, we discovered the concept of the gift of cognitive regard. We discovered giving such gifts can be part of a successful transition strategy and have five properties: (1) Known Effortfulness, (2) Deep cognitive understanding, (3) Inalienability, (4) Nontransferrability, and (5) Contract temporality.

Of course, our research has limitations. For analytical tractability, we model the world as comprising commodity and strategic vendors when clearly there is a large spectrum. Given our vendor transitioned from the former to the latter, this does not affect the internal validity of our research, but may impact generalizability to other vendors.

We have a rich dataset on this client/vendor relationship, and our investigation into gift giving is ongoing. Of course, we found other kinds of gifts. These are not presented in this paper due to space constraints. Also, because gift giving practices differ across cultures, we are extending our analysis to other cultures to ascertain whether our results hold. Specifically, we are performing a cross-case analysis comparing our data with a Chinese/Japanese client-vendor relationship.

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