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# SEEKING A FRIEND AND ALLY

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## INTRODUCTION

Alliances remain a popular strategy for organizations to grow. In Pricewaterhouse Coopers (PwC)'s 2015 executive survey (Snowden & Cheah, 2015), executives reported that alliances rather than acquisitions were more likely to be a part of their company's growth strategy. Thus, not just the formation of an alliance but also the volume of alliances is important to an executive's outlook on corporate strategy. Despite the intuitive and tangible appeal of an alliance, there remains variance in the extent to which firms will pursue strategic alliances. This suggests that other factors may come into play when determining not only whether a firm pursues these alliances but also how many they take on.

Scholars have closely studied the antecedents of alliance activity, attending to industry norms, reputation, and the firm's prior experience (Dollinger, Golden, & Saxton, 1997; Mellewigt, Thomas, Weller, & Zajac, 2017; Yin & Shanley, 2008). Of particular interest are the dynamics of social networks and trust in alliance activity (Das & Teng, 2000; Gulati, 1995a, 1995b; Ozcan & Eisenhardt, 2009). Researchers in this vein have found that social factors, such as board interlocks, and trust between the two partners, facilitate alliance activity.

However, the social factors that contribute to alliance activity do not emerge in a vacuum. There are important antecedents that contribute to the formation of social networks, building of trust, and increase in a firm's perceived trustworthiness— namely, the characteristics of the CEO such as their personality, desires, and motives. Research in other domains explores dispositional characteristics of CEOs that impact firm activities (Gupta, Nadkarni, & Mariam, 2019; Malhotra, Reus, Zhu, & Roelofsen, 2017). Yet, these antecedents have sparsely been examined when it comes to alliance activity.

The current study seeks to address the gap within the literature by examining how a CEO's internal motivation influences the strategic action they take. More specifically, in this paper we ask: what is the effect of CEO's need for affiliation on alliance activity? McClelland (1985) identified the need for affiliation — the concern with pursuing and fulfilling interpersonal social connections. This need should influence the extent to which CEOs engage in alliance activity. We analyze the impact need for affiliation has on alliance activity and the board's influence impacts this dynamic.

## NEED FOR AFFILIATION AND ALLIANCE ACTIVITY

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Firms choose to enter into alliances for a variety of reasons such as: gaining new resources, sharing risk, and improving valuation (Das & Teng, 2000; Dyer, Kale, & Singh, 2003; Ireland, Hitt, & Vaidyanath, 2002). Most of the research examining a firm's tendency to pursue alliances focuses on the macro-level effects such as industry norms, reputation, and the firm's prior alliance experience (Dollinger et al., 1997; Mellewigt et al., 2017; Yin & Shanley, 2008). The research examining micro-level effects on alliances, on the other hand, has considered attributional mechanisms, such as trust (e.g. Patzelt & Shepherd, 2008), while overlooking the role of CEO motivations, attributes, and perceptions. Most CEOs do not use a formal system to determine if an alliance is an optimal strategic choice (Dyer et al., 2003). Hence, the time and attention given to the firm's goals are shaped by a CEO's personality, wants, and needs (Gupta et al., 2019) — a critical component in forming an alliance (Das & Teng, 2001).

McClelland (1985) theorized that everyone is compelled to behave by conscious and subconscious factors whose manifestation is also facilitated by environmental factors and available resources. These factors include internal motives or needs that drive their behaviors (McClelland, 1985). These needs are considered trait-like since they are largely stable throughout an individual's life (Lang et al., 2012; McClelland, 1985). Of the needs identified by McClelland, the need for affiliation is of the greatest theoretical relevance to the alliance literature. The need for affiliation is characterized as having a desire to establish/maintain relationships and wanting to be liked by others (McClelland & Boyatzis, 1982). Individuals who are characterized by high levels of need for affiliation tend to be energized by interacting with others, more sensitive to cues related to affiliation, and learn about social connections faster (McClelland, 1985). In short, they are more primed to be interested in and pursue social activities. In line with this thinking, individual differences have been shown to be related to need for affiliation. Women tend to score higher on this need than men (Drescher & Schultheiss, 2016; Hays, 2013).

Though some research has linked CEO characteristics with alliance formation (Chandler et al., 2020; Pansiri, 2005). Prior research largely overlooks the impact of individual motives—particularly the need for affiliation—on this strategic choice. As noted by Hirsch and Clark (2019), there are multiple avenues by which affiliative and social needs can be fulfilled. These include personal relationships, praise, group membership, and small social interactions. CEOs with a high need for affiliation may therefore be motivated to create and foster relationships with other organizations (McClelland & Boyatzis, 1982), thereby going down the avenue of need fulfilment through interpersonal relationships. Some strategic decisions are more optimally suited to meet this need then others. Alliances are particularly well suited to fulfill this need. Alliance partners need to coordinate their efforts to obtain their shared goal (Gulati, 1995a; Ring & van de Ven, 1994). This may necessitate frequent communication and collaboration between the two CEOs (see Castañer & Oliveira, 2020). These opportunities allow the CEO to strengthen an old relationship or establish a new one.

By their nature, affiliation-motivated CEOs are more likely to be accommodating and sympathetic to the needs of others (Smith, 1992). A potential partner will view these qualities favorably since they will contribute to a smooth negotiation process. Affiliation-motivated CEOs are more likely to have a large network and more likely to be perceived as trustworthy, which will further enable them to form alliances. For these reasons, individuals with a high need for affiliation will have a greater desire to form alliances, resulting in higher alliance activity.

However, at certain point, the effect of CEOs' need for affiliation on alliances activity

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should flatten and turn negative. Firms are limited by their attention and resources (Ocasio, 1997). As such, affiliation-motivated CEOs will eventually reach a natural limit of how many new alliances a firm can form in a year. Given their job demands (Porter & Nohria, 2018), CEOs are limited in the number of individuals they can form or maintain a relationship with—especially if forming a new relationship or alliance will come at the cost of maintaining high quality established relationships. Hence, we expect that the positive relationship between affiliation motivation and alliance activity will plateau.

In order to explain our anticipated plateau and decline, we must explore the dynamics at play between CEOs and other stakeholders *within* the organization. CEOs have multiple fiduciary relationships as well, such as their relationship with the board of directors. The impact these relationships have on the strategic actions of the firm is important to consider. One way these individuals influence the strategic direction of a firm is through the advice they provide CEOs (McDonald, Khanna, & Westphal, 2008; McDonald & Westphal, 2003). Just as CEOs with the need for affiliation are driven to build or strengthen relationships outside of the firm via alliances (i.e., cultivate new relationships), they will also be driven to build or strengthen their social ties with board members (i.e., maintain extant relationships), resulting in increased advice-seeking (McClelland & Boyatzis, 1982; Westphal, 1999). Prior research has found that CEOs are more likely to seek and rely on the advice from board members if they have notable expertise, the firm is performing poorly, or they have important social ties with the CEO (Carpenter & Westphal, 2001; Westphal, & Graebner, 2008b). Alliances are uniquely suited to trigger this fear given that they make the firm and CEO vulnerable to rejection and opportunism (Das & Teng, 1999; Dyer et al., 2003; Park & Ungson, 2001). In other words, as CEOs increase in their need for affiliation, the anxiety associated with their fear of rejection will increase as they seek out new alliances, resulting in increased advice-seeking.

Furthermore, though board members may offer advice to the CEO, it is possible that advice-seeking may result in the CEO encountering different recommendations or strategic designs than they harbor. Board members have different external pressures than CEOs (Fama, 1980; Fama & Jensen, 1983) and may even be seen as outsiders with whom the CEO shares an antagonistic relationship than inhibits future alliances (Gulati & Westphal, 1999). CEOs and board members may also differ in their internal motives. As such, it is unlikely that board members will consistently agree with the strategic direction of the firm or specifically the pursuit of a new alliance. As such they will be more inclined to heed the advice of others. As their board members provide their divergent opinions from affiliative strategies, CEOs will be more likely to pursue strategies inconsistent with their need for affiliation to be accommodating of their board. Therefore, concerning alliance activity, as a CEOs' need for affiliation increases, their advice-seeking may also increase thereby exposing them to alternative opinions and strategic perspectives from advice networks ultimately resulting in a positive relationship that plateaus and turns negative as the CEO defers to the advice of others.

*Hypothesis 1: There will be a positive non-linear relationship between the need for affiliation and alliance activity such that the positive relationship will decrease at an increasing rate and will become negative.*

As mentioned above, CEOs engage in higher levels of advice seeking when they are under-performing (Westphal, 1999). Heyden et al. argued that these CEOs seek advice in hopes to uncover an "underexploited strengths or firm-specific constraints that may have been overlooked" (2013:780). Hence, these CEOs are looking to make a change in the current direction. However, even if they are looking for affirmation, as argued by McDonald and Westphal (2003), they are less likely to find someone who supports an alliance strategy during poor performance — given the risks associated with alliances (Das & Teng, 1999).

When coupled with a high need for affiliation—as compared to a low need for affiliation, CEOs are more likely to experience a curbing of their desires for alliances when they are under-performing. During poor performance, CEOs—particularly those that are high in need for affiliation—will seek out and heed their advisors. Not only will these CEOs with affiliative tendencies therefore be more likely to seek advice due to their interpersonal motives, but they will also be more likely to heed their advice due to their desires for harmony (Chun & Choi, 2014). Low need for affiliation CEOs, however, are unlikely to heed such calls as the desire for interpersonal harmony is not as strong a motivator for them. This advice seeking under conditions of under-performance will therefore likely chasten their internal inclination towards alliance activity, particularly for CEOs high in a need for affiliation. As such the non-linear relationship between affiliation and alliance activity will weaken when the firm is under-performing. Hence, we posit the following:

> *Hypothesis 2: Firm performance will moderate the non-linear relationship between the need for affiliation and alliance activity such that the curve will flatten when the firm is performing poorly.*

As described above, as a CEO increases in their need for affiliation it becomes increasingly unlikely that their board will have a similar affiliation drive and will consequently advise fewer alliances resulting in an inversed U-shaped relationship between alliance formation and the need for affiliation. However, females tend to score higher on the need for affiliation (Drescher & Schultheiss, 2016; Hays, 2013) meaning a board with a high female representation is more likely to advise the CEO to seek out cooperative strategies, such as alliances, because women are more likely to score higher on the need for affiliation. Moreover, CEOs may feel more embolden to pursue alliance strategies when there is a coalition of directors who support those strategies. The impact of CEO need for affiliation on alliance activity would therefore grow stronger for a board with high female representation. Hence, the direction of the non-linear relationship between affiliation and alliance activity may flip, such that alliance activity increases at an increasing rate as female board representation increases.

> *Hypothesis 3: Female board representation will moderate the non-linear relationship between the need for affiliation and alliance activity such that the alliance activity will increase at an increasing rate as the need for affiliation increases among firms with a high representation of female directors on the board.*

## METHODS

The sample was collected from quarterly earning calls of S&P 500 firms from 2008-2016, collected from the website *SeekingAlpha* (Shi, Zhang, & Hoskisson, 2018). The conference call transcripts have a consistent structure; call participants are typically identified by name, position, and company at the beginning of the transcript — allowing us to focus solely on the CEO's words. We collected from the Securities Data Corporation (SDC), COMPUSTAT,

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Risk Metric, and EXECUCOMP. After merging the data there were 3,203 firm years, with 1,114 CEOs, and 1,844 alliances.

To capture *alliance* activity, our dependent variable, we calculated the total number of new alliances announced in the focal and subsequent year reported by the SDC database, as done in prior research (Sanders, 2001).

The traditional methodology in measuring McClelland's needs, were not practical since they would require direct access to the population and/or would be too costly to use given the size of the sample (House et al., 1991; Smith, 1992). For this reason, we developed an approach that leverages machine learning techniques and samples of our data that were scored by individuals trained on the Winter scoring manual, as done by other scholars (Pang & Ring, 2020). The machine learning approach allows us to use the scored sample to train a machine learning model that reproduces the human-scoring technique in an automated fashion. Specifically, two independent coders scored 1,064 spoken parts based on Winter's Score manual (Winter, 1994). The algorithm was trained and evaluated based on this set of trained data.

The machine learning algorithm was able to accurately score the speaker's individual needs. The accuracy between hand-coded scores and the machine learning scores was 0.927 for the *need for affiliation*. The remaining transcripts were coded using the machine learning algorithm, which produced a continuous measure. We calculated the average affiliation score during the CEO's tenure to create a time-invariant score for each need to reflect the trait-like nature of McClelland's needs (Covington, 2000; McClelland & Boyatzis, 1982).

For our moderating variable, performance, we used *relative ROA* in the focal quarter (Gulati, 1995a; Gulati & Gargiulo, 1999). We calculated *female representation* by dividing the total number of female board members by the total number of board members.

Multiple control variables were included that have been shown to impact alliance activity. First, we controlled for the other two needs highlighted by McClelland, namely the *need for power* and *achievement,* using the same machine learning method outlined above. Next, we controlled for *firm size, slack*, *acquisition history* and *alliance history* and *market share*. *CEO duality* (Finkelstein & Hambrick, 1990), *natural logarithm of the CEO's compensation*, *board size, average board membership, female board representation*, and *board independence* were additional controls. Finally, we controlled for the total number of *industry alliances* and indicators for *year* and *industry*.

We used a random-effects negative binomial model because the independent variable is time-invariant. We used a negative binomial analysis over a Poisson regression because the dependent variable was over-dispersed with zeros ($\chi$=425.0, $p$<0.000).

## RESULTS

The results support affiliated motivated CEOs are more likely to pursue alliances than CEOs who are low in this trait ($\beta$= 0.874, $p$=0.040). As expected, this relationship is also curvilinear indicating that the positive relationship between the need for affiliation and alliance activity decreases at an increasing rate ($\beta$= -0.479, $p$=0.010). The results further suggest that the relationship plateaus at one standard deviation above the mean for affiliation and is negative at two standard deviations above the mean.

The results show that the non-linear relationship between affiliation and alliance activity weakens when the firm is performing poorly ($\beta$= -.045, $p$=0.007). The marginal effects suggest that there is a non-significant relationship between affiliation and alliance activity when the firm

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is under performing. Hence, these results suggest that when firms are underperforming the effect of the need for affiliation on alliance activity diminishes. The non-linear relationship between affiliation and alliance activity is flipped by female board representation ($\beta$= 1.978, $p$=0.024). Specifically, the results show that when female board representation is two standard deviations above the mean, the positive relationship between affiliation and alliance activity increases at an increasing rate. Hence the results provide support for all our hypotheses.

## DISCUSSION

In this paper, we theorized and found support that a CEO's need for affiliation will influence a firm's alliance activity. Grounded in McClelland's (1985) needs theory, we argued that need for affiliation would have a curvilinear linear effect on alliance activity. Namely, we expected and found support that an inverted-U shaped relationship between the CEOs need for affiliation and their firm's alliance activity would emerge.

Our work suggests that alliances may provide an avenue to establish or maintain relationships for affiliation-motivated CEOs (McClelland & Boyatzis, 1982). Alliances may serve to satisfy the CEO's need for affiliation by virtue of the social connections provided by the alliance. However, after a certain point there is a limit to how many alliances a firm can pursue (Das & Teng, 2001; Ocasio, 1997) and ultimately the relationship becomes negative as the CEO yields to the advice of others. As such, we found that the relationship between the need for affiliation and alliance activity is nonlinear- initially being positive but at high levels of affiliation the relationship plateaus and becomes negative.

Our analysis also showed that when the firm is under-performing, which is commonly when CEOs seek advice from others, the nonlinear relationship between affiliation and alliance activity flattens out. This result suggest that affiliative motivated CEOs are more likely to give into the advice of others to maintain harmony. However, our results also suggest that boards with a high female ratio the nonlinear relationship between affiliation and alliance activity will flip. This is because female tend to score higher on the need for affiliation and consequently female directors are more likely to recommend cooperative strategies.

Importantly, we extend the alliance literature by incorporating important exogenous micro-level variables. The alliance literature has largely ignored the psychological traits of the key decision makers who are forming the alliance (Lumineau & Oliveira, 2018). However, as demonstrated above, the psychological attributes of these decision makers matter and have a meaningful impact on alliance activity. Incorporating psychological characteristics, such as motivation, is necessary to obtain a more complete picture of the antecedents of alliance activity.

The CEO, and more specifically their internal motivations, play a critical role in the strategic decisions of a firm. We show that CEOs' need for affiliation is positively related to their alliance activity, but that this relationship is non-linear. That at high levels of affiliation the CEO engages in fewer alliances as they follow the advice from others, particularly when they are performing poorly. This study provides notable contributions to the alliance, upper echelons, and motivation literatures. Moreover, this study suggests that we cannot afford to overlook important attributes of the CEOs - their motivation needs driving alliance activity.

## REFERENCES AVAILABLE FROM THE AUTHORS