Strategic Alliances’ Creation: Rationality vs Emotions

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Abstract Emotions have been put aside in economics and business theory for a long time. Among other economic and business settings, international strategic alliances show to be particularly emotional: they often bring together people from different or even conflicting social, political and cultural backgrounds; they change existing inter-organizational routines, might cause changes in organizational positions, and force people to dismiss their habits. This paper looks into the role of emotions in inter-organizational and cross-border cooperation through strategic alliances. We emphasize the multilevel nature of emotions and propose a theoretical conceptual framework for understanding the emotional dynamics of strategic alliances. Theoretical propositions are based on the exploratory pilot research on strategic alliance dyads within the context of three ex-Yugoslav countries (Croatia, Serbia and Slovenia).

1. Introduction

Inter-firm networks and strategic collaborations or partnerships between companies and organizations of different kinds have become an imperative in the contemporary global business environment. Among different kinds of inter-firm network arrangements, strategic alliances have become one of the highly attractive and often used ways through which companies reassure their market survival and are able to achieve competitive advantage. Strategic alliances are typically contract-driven, voluntary, formal agreements of cooperation between firms for the purpose of improving partners’ ability to achieve strategic goals, through the sharing of resources (e.g. intellectual property, people, capital, organizational capabilities, and physical assets) (Inkpen and Ramaswamy, 2006, Inkpen and Tsang, 2005, Child, 2003; Ariño et al., 2001; Gulati, 1998). They are more informal and loosely-tied relationships than mergers or acquisitions which assume “planned collaboration among two or multiple firms for conducting business activity together for purpose of mutual benefit that cannot be achieved separately”.

Motivation for alliance creation, as well as benefits and potential dangers of alliance creation are widely researched (Lorange and Roos, 1993; Glaister and Buckley, 1996; Tsang, 1998), and mostly driven by rational decision-making. Still, some very important behavioral variables also influence decision-making in the alliance context. While those variables have been under researched in theory (Parkhe, 2005) and unmanaged in practice, emotions are among the least investigated constructs.
Driven by principles of rationality and objective economic logic, management theory has devoted insufficient attention to the roles of emotions in managerial decision making. Recent research emphasize the role of emotions in management, arguing that emotions are in fact a form of information, which follow underlying logical pattern and universalities, and that, in order to be effective, managerial decisions must incorporate emotions (Caruso and Salovey, 2004). The role of emotions in the process of managing strategic alliances is not explained and researched well enough. While alliances are without doubts highly emotional events for all those involved (Kusstatscher and Cooper, 2005), Kumar (2007) notices that authors have not explicitly addressed the issue of emotional dynamics and how these dynamics may shape alliance functioning. Business practice suggests that emotions can strongly influence decision about whether to create an alliance, or not. Strong positive emotions can be a source of motivation for an alliance creation, while strong negative emotions can explain motivational inhibition. On the other side, among many possible causes for the success or failure of a strategic alliance, emotions are those of few that can have both positive and negative effects.

Several reasons make investigation about influence of emotions on strategic alliance creation, dynamics, and ending difficult. First, emotions are very hard to be captured and measured, as people are often not willing to speak about the emotions they experience on job. Second, emotions are not necessarily felt in a similar way throughout an organization. Third, emotions within and between organizations can be shaped by culturally- or politically-driven emotions in the social environment.

The aim of the paper is to look into the role of emotions and rationality in international strategic alliances creation. We investigate the role of emotions as a cause, or as an effect of inter-organizational bounding, while rationality represents its economic logic. Our intention is to generate more knowledge about how and why emotions influence strategic alliance creation. In order to gain better understanding of their influence on the process of alliance creation, and furthermore on the alliance dynamics, we apply an exploratory pilot research in three former Yugoslav republics – Croatia, Serbia and Slovenia.

2. Theoretical Framework

2.1. Strategic Alliances

Cooperation through Strategic Alliances Inter-firm networks and strategic collaborations or partnerships between companies and organizations of different kinds have become an imperative in the contemporary global business environment. Among different kinds of inter-firm network arrangements, strategic alliances have become one of the highly attractive and often used ways through
which companies reassure their market survival and are able to achieve competitive advantage.

While strategic alliances are inter-firm collaborations, not all inter-firm collaborations are strategic alliances. Yashino and Rangan (1995) suggest that there are three conditions which must be met in order to recognize a partnership as a strategic alliance: (1) a common decision between two or more companies to enter partnership in order to accomplish the desired goals, and still maintain their independence after creating an alliance; (2) the partners share the benefits which come as a result of creating an alliance, as well as the control over the responsibilities related to the functioning of an alliance, which might be considered to be both the most important characteristic of alliances and the most difficult task to complete; (3) the partners constantly contribute to the accomplishment of one or more strategic goals.

By entering into a strategic alliance with other companies a firm does not lose its strategic independence, it is only exposed to some extent to the practices and resources of its partners. Within a strategic alliance only some of the participants' business activities are involved; in every other respect firms remain not only separate, but also usually competitors (Dicken, 2007).

The businesses’ decision to compete by forming alliances rather than pursuing other alternatives such as acquisition, merger, or internal development constitutes a strategic choice, and the goal of this choice is seeking competitive advantages through cooperation with other firms, including competitors. So to qualify as a strategic alliance rather than just inter-organizational cooperation, the relationship must be for the purpose of achieving a sustainable competitive advantage (Varadarajan and Jayachandran, 1999).

Nowadays, companies are more and more deemphasizing autonomy in favor of alliances through cooperation, coordination and corroboration of their competitive efforts. Indeed, these strategic alliances are changing the competitive imperatives of the business environment (Pett and Dibrel, 2001). In the last three decades the number of strategic alliances has constantly been on the increase. Dyer et al. (2001) state that the top 500 global business firms, have approximately about 60 strategic alliances each. Such dynamics illustrates a kind of enthusiasm of the business world about the possibilities that alliances can open: forming strategic alliances proves to be the right answer to the challenges of doing business in the complex and dynamic environment. However, alliances also report high failure rates and inability to achieve predefined goals which signals that they should be studied more in-depth from various perspectives.

Motivational Factors for Alliance Creation Organizations decide to enter a strategic alliance when they realize that they are not able to carry out a specific business venture on their own, for technological, market or other reasons. That is why a general strategic goal and the cornerstone of forming an alliance is to attract resources in order to create certain values for the partners in a way and to an extent which would not be attainable by their individual efforts (Inkpen, 2001). Although the creation of strategic alliance does not necessarily imply the equal distribution of benefits between both partners, each of the partners has to make
some benefits through the alliance, which are considered to be relevant (Porter and Fuller, 1986).

In the literature on strategic alliances several theories were developed, which discuss the motives for creating strategic alliances. Each of these theories treats the motives for forming alliances from a different perspective. Three theories stand out among them as the most influential and the most dominant: Porter’s (1985) theory of competitive strategy, the theory of resource dependence (Pfeffer and Salancik, 1978) and the transaction cost theory (Williamson, 1975). Each of these perspectives analyzes forming alliances in comparison with other strategic options of hierarchy and market ventures, emphasizing a specific business area: the first one emphasizes strategic market advantage, the second emphasizes the availability of the resources and the third emphasizes economic efficacy.

From the Transaction costs theory viewpoint (Coase, 1937; Williamson, 1975; Williamson and Ouchi, 1981), an important motive for creating a strategic alliance is taking an opportunity to increase the economy of scope and to reduce costs. In this case, a number of motives which have implications on costs are involved, rather than a single one. The Resource dependency theory argues that strategic alliances are formed with the aim to get access to rare and otherwise unavailable resources (Eisenhardt and Schoonhoven, 1996; Gulati, 1999). The desire to reduce costs traditionally led companies in the direction of internationalizing their business. However, the motive of getting access to knowledge and rare resources a partner possesses; that is, organizational learning through strategic alliances is becoming increasingly more important today. Finally, the Theory of competitive strategy is based on the assumption that companies decide to enter a strategic alliance with the intention to improve their competitive position in the market.

Firms have various motives and reasons to enter into strategic alliance like globalization of markets and technologies (Faulkner, 1995); sharing costs (Ohmae, 1989); economies of scale and scope; maximizing value creation (Doz and Hamel, 1998); entering new markets; market position; knowledge and skills enhancement (Varadarajan and Jayachandran, 1999); learning capabilities; developing and diffusing new technologies rapidly (Walters et al., 1994); sharing risk and defending against competitors (Ellram, 1992); etc. But not all alliance activities are motivated by rational reasons or are based on solid economic grounds; some could be results of fashion trend setting, or bandwagon behavior (Kogut, 1988, in: Xie and Johnston, 2004).

Particularly important aspects of international strategic alliances are the cultural issues. The development of inter-firm relationships is very much conditioned by the cultural context in which it takes place (Palmer, 2000). By cultural context mostly we think on its organizational and national level. While organizational or corporate culture directly shapes the behavior of employees, the influence of national culture is more indirect in nature, but still exists. Such a conclusion can be made because the organization is a reflection of the national culture (Clarke, 1979). The national culture has been suggested to be a determinant of an organization’s behavior and economic growth (Grosse and Trevino, 1996; Franke et al., 1991; Grosse and Goldberg, 1991; Kogut and Singh,
Various recent studies have examined and confirmed the impact of national and corporate cultural differences in international strategic alliances (e.g., Meschi and Riccio, 2008; Steensma et al., 2000; Barkema and Vermeulen, 1997, in: Das and Kumar, 2010).

In their comment on the theories about creating strategic alliances, Grant and Baden-Fuller (2004) state that strategic alliances are complex phenomenon in which more than one reason for creation is involved, so that individual theories for creating strategic alliances have no potential to involve all the different types of alliances.

From the motives listed above it is evident that companies can have a numerous benefits from entering into strategic alliances. However, there are a number of potential dangers which can result from their creation and they should be noted as well.

Pro and Cons for an Alliance Formation

Strategic alliances represent a form of inter-firm linking which is more obligatory in nature and implies longer cooperation in comparison with the short-term contract based arrangements. This is why it is commonly stated that for companies strategic partnerships are less risky forms of investment. At the same time, partnerships are less obligatory and allow for a higher level of interdependence in comparison with mergers and acquisitions, which also makes them a suitable form of inter-organizational cooperation. Taking into account the above mentioned motives for creating alliances, some of the most commonly stated positive effects of entering a partnership are the opportunity to enter a market which would be unavailable otherwise, the share of risks in case of projects which involve a high level of risk (Beamish, 1994), the share of costs, especially in case of financing capital investments (Hennart, 1991; Kogut, 1988), the availability of rare resources (Inkpen and Beamish, 1997) and the increase in learning potentials (Inkpen and Ramaswamy, 2006; Yashino and Rangan, 1995).

However, a number of ventures that failed and the negative experiences that certain companies had with strategic alliances opened the issue of negative effects which alliances can potentially have on companies. Firstly, alliances are frequently faced with the problem of coordinating the partner’s diverging interests. Secondly, alliances have the potential to create competitors. This can be particularly applied to the situation when companies start developing a new and unexplored technology or a market together, and then gradually, in the process of achieving their goals, they start competing with each other. Thirdly, alliances can create an adverse bargaining position when one partner captures a disproportionate share of value with an alliance. Fourthly, it is commonly stated that through alliances companies are exposed to higher possibility of their being subject to industrial espionage and misuse caused by an opportunistic behavior of the partner.
2.2. Emotions in Organizational Research

**Definition and Types of Emotions** General management literature has shown increasing interest in emotions and their role in various organizational issues (e.g., Fineman, 2006; Kusstatscher and Cooper, 2005; Frost, 2003; Ashkanasy et al., 2002; Fineman, 2000, 2003; Gabriel, 1999; Mann, 1999). A trend towards higher awareness of emotions has been apparent for a few years in various scholarly disciplines like psychology, sociology, communication studies, anthropology, biology, neurobiology and neurophysiology, philosophy, ethnology, management, organizational behavior, and marketing. This multiplicity of perspectives on emotions attests to the complexity and ubiquity of the phenomenon (Kusstatscher and Cooper, 2005).

Emotions are defined as mental states of (action) readiness that arises from cognitive appraisals of events, social interactions or thoughts. It has a phenomenological tone, is accompanied by physiological processes and it is often expressed physically (Bagozzi et al., 1999). They have a physiological, an expressive and an individual experience component (Öhman, 1986, in: Kusstatscher and Cooper, 2005) and represent socio-cultural patterns of experience and behavior (Gergen, 1999, in: Kiefer and Müller, 2003).

Oatley and Johnson-Laird proposed that all emotions are made up of five basic ones, the nearest terms for which would be happiness, sadness, anger, fear and disgust (Howard, 1993). Smith (1989) explained five very similar major emotional states: fear, jealousy, contempt, anger and disgust. Furthermore, Higgins (2000) distinguished four types of emotions: (1) cheerfulness-related emotions like “happy,” “elated,” and “joyful”; (2) quiescence-related emotions like “calm,” “relaxed,” “serene”; (3) agitation related emotions like “tense,” “restless,” and “nervous”; and (4) dejection related emotions like “sad,” “gloomy,” and “disappointed.” (Kumar, 2004). Finally, Lazarus and Cohen-Charash (2001) listed anger, anxiety, guilt and shame, envy and jealousy, hope, happiness/joy, pride, compassion, and love as instances of discrete emotions that are found in workplace settings (Ashkanasy, 2003a).

While in the literature mostly negative affects (e.g., anxiety, fear, anger, distrust, frustration, resignation, disappointment, indifference, apathy, uncertainty, etc.) are mentioned (Appelbaum et al., 2000; Dixon and Marks, 1999; Marks and Mirvis, 1986) and studied (Fugate et al., 2002; Kiefer, 2002; Empson, 2001), it was surprising to find that a whole range of positive emotions (e.g., positive attitude, feelings of certainty, safety, pride, joy, satisfaction, trust, confidence, hope, enthusiasm, euphoria, etc.) exists as well. Negative experiences are more heavily weighted and longer lasting in subjective judgment processes than positive experiences (Kusstatscher and Cooper, 2005).

**Characteristics of Emotions** What makes emotion a unique and challenging variable in organizational behavior is its’ dynamic nature. Unlike many of the variables that have traditionally been studied in organizational behavior, such as personality, attitudes, and beliefs, emotions and affective states change rapidly
from day to day, and even from moment to moment (Ashkanasy, 2003a). Kusstatscher and Cooper (2005) argued that emotions are both individual and a collective phenomenon hence pointing to their multilevel nature. People within the same department or team are exposed to similar realities and to a similar information system. They therefore tend to experience events in a similar way and experience similar emotions. However this is not necessarily true for the whole company because employees in different departments might be in a different situation. In another words, the pattern of emotional dynamics can be and mostly is different at various organizational levels and units.

Emotionalizing organizations has given fresh insight into many key issues and processes, such as decision making, leadership, conflict, organizational change, social/gender differences, aesthetics, learning, resistance, harassment and bullying (Fineman, 2006). Emotions affect decision-making. Vice versa, decision-making arouses emotions in those involved (Howard, 1993). Emotions, although they are short-term, can be more or less intensive. Intense emotions, both positive and negative, distract people from the focal task (Amabile et al., 2005) because they absorb available cognitive resources (Frijda, 1986) as people become preoccupied by and try to deal with them (Weiss and Cropanzano, 1996, in: Liu and Maitlis, 2009). Even more, according to Liu and Maitlis (2009) emotions play a critical part in the strategizing process (Brundin and Melin, 2006) as well as in the context of strategic change implementation (Huy, 2002). They confirmed that strategizing can be a highly emotional process, involving a variety of different emotions, both positive and negative. In general, the discussion of strategic issues involved more intense emotions and more diverse emotional dynamics. Issues that are strategic, have a direct impact, and require an immediate decision trigger more emotion than other issues. Either strategic or not, emotions have vital social and individual functions for organizational change processes in general.

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Emotions in organizations are intrinsically a multi-level phenomenon. For instance, Kusstatscher and Cooper (2005) argued that emotions are both individual and a collective phenomenon. People within the same department or team are exposed to similar realities and to a similar information and value system. They therefore tend to experience events in a similar way and experience similar emotions. However this is not necessarily true for the whole company because employees in different departments might be in a different situation. In another words, the pattern of emotional dynamics can be and mostly is different at various organizational levels and units. So, it is very important to conceptualize emotions
at a proper level of analysis and to take into consideration possible cross-level effects.

3. **Explorative Investigation: Strategic Alliances between Croatia, Serbia and Slovenia – the Role of Emotions (Pilot Research)**

In order to gain better understanding of their influence on the process of alliance creation, and furthermore on the alliance dynamics, we apply an exploratory qualitative research in three former Yugoslav republics – Croatia, Serbia and Slovenia. Research settings alike is particularly interesting for studying the interplay between rationality and emotions for at least two important reasons.

First, economies in transition (in this case Serbia and Croatia, as Slovenia, according to the World Bank report has finished transition process) represent such a unique social, political and cultural context, that they should be given special attention within alliance research. However, international strategic alliances in transition countries represent a fertile field with great research potentials, but insufficient research outcomes so far. Significant work in this field is offered by Lyles and colleagues, who investigated various aspects of inter-firm linkages (joint ventures, alliances, mergers and acquisitions) in Hungary (Lyles, 2003; Lyles and Salk, 1996), particularly focusing on learning outcomes of strategic alliances. Strategic alliance studies in transition economies mainly covered areas like partner selection (Hitt et al., 2004), motives (Dong and Glaister, 2006; Fahy et al., 1998), market entry (Ghauri and Holstius, 1996), learning (Lane et al., 2001) and performance (Luo, 2007, in: Hyder and Abraha, 2008). However, there is a lack of research regarding the role of emotions and rationality in various stages of alliance development.

Second, though regional economic cooperation is seen as a prerogative for European integrations and integration of companies into the global market, business practice reports inadequate level of cooperation between the three countries, while academic research does not offer systematic knowledge on the causes and consequences of their economic cooperation neither addresses the active measures that can be used in order to coordinate and improve their cooperation. Political conflicts and the disintegration of Socialistic Federative Republic of Yugoslavia during 1990ies represent a source of strong emotions in the area with potentials to support and to inhibit rational business cooperation through strategic alliances among companies. Throughout the history, it has been obvious that very often companies did not cooperate because their countries at some point have been in a dispute or in a war engagement. So, it would be interesting to see in what extent unfavorable political activities that have ended more than 15 years ago are still present and do they and in what way obstruct the cooperation. On the other hand, Yugo-nostalgic emotions in particular represent important positive driving force, while cultural environment in addition supports alliance creation and function, as countries share common cultural background.
With the common historical background, as three out of six constitutive republics of Socialistic Federative Republic of Yugoslavia (further SFR Yugoslavia), they have been exposed to similar political and economical environment. Though socialistic in orientation, former SFR Yugoslavia was more liberal towards foreign direct investments in comparison to other socialistic countries. As early as in 1967, a law was introduced in SFR Yugoslavia which enabled foreigners to invest into Yugoslav economy in the form of joint ventures. At that time SFR Yugoslavia was the only socialist country allowing joint ventures with foreign partners. Though liberal for socialistic countries, the legislation was in fact restricting with regard to the share of ownership, risk and responsibility. The only form of foreign investment recognized by the law was the joint venture. Foreign partner was not allowed to have equal or major ownership, which would allow control in management so, the maximal share of foreign partner was 49%. During the years, the field of foreign investment was much more liberalized until the early 1990s, when the beginning of conflicts, political, social and economic crisis meant the breakdown of SFR Yugoslavia. Afterwards, Croatia, Serbia and Slovenia became independent countries that have developed separate paths of economic policy.

Today Slovenia is an EU country, while Croatia and Serbia are in the process of approaching the European Union. However, one of the prerogatives often stressed out is that regional integration and economic cooperation between former SFRY republics i.e. regional integrations should not be neglected, and that two countries should work on managing ways for the improvement of economic cooperation. Cooperation between the three neighboring countries is natural and logical. Regional presence and similar geo-political and business context create prerequisites for a successful collaboration. Even more, very often neighboring countries are complementary or interdependent in various resources their companies need. The latter is particularly true for Croatia, Serbia and Slovenia because Yugoslav economy was built on the principle of complementarities.

Although cooperation between Croatian, Serbian and Slovenian companies exists, it is far away from the period before 1990. The war tension and border disputes between Croatia, Serbia and Slovenia was a main factor of their economic downturn. During the military and political conflict in 1990ies, all economic ties were broken resulting in a huge losses at both sides. It took a long time before trade and business relations have been re-established. However, as time went, bounds became stronger and strategic alliances seemed to be a particularly interesting way of economic cooperation between Croatian, Serbian and Slovenian companies. Strong interpersonal ties generated from friendships, previous experience in individual or organizational cooperation (during the SFRY period) breeds trust and positively influences propensity to initiate alliance as a form of joint cooperation. These emotions have a direct influence, are inwardly-focused and more or less controllable by the organization. They might be of particular importance in the creation of strategic partnerships between Croatian, Serbian and Slovenian companies where managers have a dominant decision-making position.
Strategic linking with companies from the region is essential in order to enter on the ex-Yugoslav markets. Those markets are not only complementary in nature, but also geographically very closely related, with strong natural, economic and cultural bounding. As an example, some of the most successful companies in the region are already aware of the opportunities, and recently the interest has been shown at the institutional level as well. In last few years, particularly at the institutional and national level, a strong effort has been put to create necessary prerequisites and incentives for make such cooperation easier. Along the line, Serbian Chamber of Economy and Croatian Chamber of Economy have signed the Cooperation Agreement in December 2008, which represented the new beginning in development of better and stronger economic and trade relations between two countries. Similar cooperation agreements have been signed and in two other dyads (between Croatia and Slovenia in 1992, while Serbia and Slovenia signed it in 2001), offering infrastructure for collaboration across the borders. The following table shows some of the most important strategic alliances formed in the post-war period between Croatian, Serbian and Slovenian companies.

Although Croatian companies first began to enter into Serbian market, in last 3 years there were some investments made in the opposite direction. The same is valid for strategic alliances between Slovenian and Serbian companies, where just recently Serbian companies started to invest their capital in Slovenia. Considering strategic partnerships between Slovenia and Croatia, it could be concluded that is a two-way in nature.

Existing social aspects, such as shared cultural background in important dimensions also support a formation of strategic alliances between Croatia, Serbia and Slovenia. As Kumar and Das (2010) argued, national cultures influence alliance development at all different developmental stages. Various recent studies examined the impact of national and corporate cultural differences in cross-border strategic alliances (e.g., Das and Kumar, 2010; Meschi and Riccio, 2008; Steensma et al., 2000; Barkema and Vermeulen, 1997) confirming that national culture is always either implicitly or explicitly a factor in international alliances. How important it will be, depends upon similarities or differences, in another words, complementarities of cultures involved in the process. The development of inter-organizational relationships is very much conditioned by the cultural context in which it takes place.

However, in the case of Croatia, Serbia and Slovenia, historical background and regional closeness lead to similarities of national cultures, which influence similarities in organizational culture of strategic partners. According to the investigation presented by Prašnikar and Cirman (2005), using Trompenaars model, countries report similar cultural pattern. Using same research data on cultural profiles of ex-Yugoslav countries, Cerović et al. (2007) found out that propensity to invest in a certain country is influenced by the degree in which investors’ and investing cultures are similar according to principal cultural values. The implication of the research would be that a high level of cultural fit between Croatia, Serbia and Slovenia enables more synchronic flow of direct investments between three countries, together with persistence in the level of investments.
Politically-driven emotions have bipolar influence on the choice of inter-firm linkages between Croatian, Serbian and Slovenian companies. In the past, during the privatization process, government agencies were strongly involved in negotiation and shaping of inter-firm linkages and arrangements. If not directly, government is still indirectly highly involved, through legislation and other mechanisms of market control, or even through political pressures, in strategic alliances formation. A great example is a case of Slovenian retail company Mercator, where Slovenian government strongly influence the decision of selling the company being considered as “the national pride and treasure” to Croatian company Agrokor.

Furthermore, in case of public or state-owned companies, politically-driven emotions represent a strong source of favoring “strategic alliance” label in business transactions in comparison to mergers and acquisitions. On the other side, when private initiative is case, politically-driven emotions lead to a preference of stronger ownership control as a way to reduce the risk, and favoring of mergers and acquisitions in comparison to alliances and joint ventures.

Scholars note that alliances evolve in a sequential manner over time (e.g., Das and Teng, 2002; Kumar and Nti, 1998; Ring and Van de Ven, 1994). Although there is a consensus about understanding strategic alliances as multi-staged processes, there is no agreement regarding their particular evolutionary steps. The most broadly recognized stages of developing strategic alliances have been suggested by Das and Teng (2000): (1) the stage of creation (formation); (2) the stage of functioning (operations) and (3) the stage of an alliance outcome (ending). The formation stage is essentially the negotiating phase of the alliance, that is, when the alliance partners initiate discussions to explore the feasibility of forming such an alliance. The operation stage is when the partners begin the process of making the alliance operational while the outcome or ending phase invites the alliance partners assessing how the alliance has progressed (Kumar, 2007). It is expected that in various developmental stages emotions will differ related to network maturity (Aleksić Mirić, 2011).

Positive individual and organizational emotions can significantly help acceleration of the development of strategic alliances between Croatia, Serbia and Slovenia. Unfortunately, politically-driven emotions show to be stronger in their negative influence on alliance creation than intrapersonal or intra-organizational positive emotions. Still, when an alliance is created interpersonal and intergroup-driven emotions become critical for the success of strategic alliances in later stages of an alliance process, and managers should handle this field with extreme care.

*Implication 1.* Pre-existing individual and organizational ties represent a source of positive emotions towards formation of strategic alliances between the three countries.
Implication 2. Social environment is a source of both positive and negative emotions for an alliance between Croatian, Serbian and Slovenian companies.

Implication 3. Despite strong tendencies towards improvement in political relations, political environment is still a source of strong emotions inhibiting alliance formation between Croatian, Serbian and Slovenian companies.

Implication 4. In the case of strategic alliances between Croatian, Serbian and Slovenian companies, politically-driven emotions are stronger than intra-organizational emotions.

4. Conceptual framework for understanding the emotional dynamics in strategic alliances

In their comment on the theories about creating strategic alliances, Grant and Baden-Fuller (2004) state that strategic alliances are complex phenomenon in which more than one reason for creation is involved, so that individual theories for creating strategic alliances have no potential to involve all the different types of alliances. Emotional reasons that influence alliance creation, and furthermore its functioning, management and life-cycle are under-researched area.

Nielsen (2010) emphasizes that strategic alliances are particularly ripe for multilevel research because alliance phenomena (e.g., formation, governance, dynamics) result from the simultaneous behaviors of multiple actors (e.g., teams or firms) interacting with multiple contexts (e.g., industries or countries). Although in existing research on strategic alliances the focal unit of interest was typically either the alliance or the firm, Ashkanasy (2003a) among the first addressed a multi-level perspective of emotions in organizations. He named five levels of emotions: (1) within-person (state affect, affective events, discrete emotions, mood, behaviors); (2) between persons (trait affectivity, affective commitment, job satisfaction, burnout, emotional intelligence); (3) interpersonal interactions (emotional labor, emotional exchange, displayed vs. felt emotion); (4) groups (affective composition, emotionally intelligent groups, emotional contagion, leader-member exchange); and (5) organization-wide (organizational policies, requirement for emotional labor, stress and well-being, emotional climate and culture). However, two additional levels can be added to the list: (6) inter-organizational emotions (trust, emotional conflict, cultural differences); and (7) national (political) emotions (cross-cultural differences, national differences, value systems, political opinions, national pride).

The explorative pilot research of the creation of strategic alliances between companies of the three ex-Yugoslavia countries helped us to developed a conceptual framework for understanding the role of emotions in one phase of alliance functioning: alliance creation. We build our conceptual framework on the following assumptions:

- Emotions play an important role in various phases of strategic alliance development, both influencing the alliance from inside and from outside.
Emotions can be so strong that they overpower the rational motivations for alliance creation.

Emotions are multi-level phenomenon.

Emotional dynamics could change significantly throughout the process of alliance development.

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**Figure 1. Conceptual framework for understanding influence of emotions in strategic alliances**

*Source: Authors*

We make a difference between emotions with first-level influence on alliance creation, and emotions with second level influence. Emotions with first level influence are defined as within-person or intrapersonal, between two persons, interpersonal, intergroup interactions, and organization-wide emotions, as well as newly recognized inter-organizational level of emotions. We define emotions with second-level influence as those derived from macro-emotional context represented by institutional, political and cultural drivers. For instance, recent political conflicts or country disintegration are a source of strong emotions with potentials to inhibit business cooperation through strategic alliances between the countries involved. Throughout the history, it has been obvious that often companies did not cooperate because their countries at some point have been in a dispute or in a war engagement. When the conflict is over, political healing might come as the first one. Then it is expected to be followed by the healing in economic relations. And truly, some economic transactions might show the trend of quick recovery. However, strategic alliances in business are not one of them. Emotional healing is the prerequisite for their creation.
While first five mentioned levels were clearly explained elsewhere (Ashkanasy and Ashton-James, 2007; Ashkanasy, 2003a; Ashkanasy, 2003b), the latter is mostly oriented toward a dialogue and mutual adjustment between strategic partners. At the inter-organizational level emotions are important both at the beginning when the deal is negotiated, as well as during the process of cooperation when two sides are dependent on each other.

5. Conclusion – An Introduction for the Future Research of Ours

Rationality for the further field research

While rationality and economic motives have dominantly led existing managerial decision-making, emotions have been put aside in economics and business theory for a long time. Meanwhile, they continued to exist and influence economics and everyday business practice. Among other economic and business settings, international strategic alliances show to be particularly emotional: they often bring together people from different or even conflicting social, political and cultural backgrounds; they change existing inter-organizational routines, might cause changes in organizational positions, and force people to dismiss their habits. The area of the influence of emotions on functioning of strategic alliances is under researched. As Kumar notices:

“...The study of emotions in explaining alliance functioning is in a stage of infancy and poses a number of methodological challenges but such work represent a very fertile area for examining how emotions operate in an inter organizational context. Not only will this help us to advance our understanding of alliance functioning, but it is also likely to shed light on how the complexity of the situational context shapes the emergence and the consequences of different types of emotions.”

In order to get a better understanding on the influence of emotions on strategic alliances’ creation we run a pilot research in the three ex-Yugoslavia countries. This pilot research enabled us to generate a conceptual framework for understanding the influence of emotions in strategic alliances, recognizing the multi-level structure of the both constructs involved: alliances and emotions. Better understanding of the role of emotions will lead to development of better practices and eventually will boost strategic partnerships between companies. It would help to understand better very complex decision-making process, not only in the context of strategic alliances, but also the influence emotions have in business generally. Adding an understanding of emotional strains to rational thinking, we will be able to get a clearer picture of potential and existing threats and opportunities for forming strategic alliances between Croatian, Serbian and Slovenian companies.
Research Methodology

In the following phases of the research project we have decided to apply a thorough case study analysis on the alliances between Croatian, Serbian and Slovenian companies (dyads and triads). Empirical part will try to generate more knowledge about the role of emotions in the alliance context. A qualitative case study design has been found appropriate in this work considering the complex nature of the research (Yin, 1994). Overall, strategic alliance studies have been relying heavily on case studies (Mowery et al., 1996). A case study is an appropriate research method when the subject is complicated and involves inter-organizational relationships. Investigation of cross-cultural relationships and impact of institutional factors, rooted in formal and informal characteristics, on these relationships have contributed to the complexity of the research issues (Hyder and Abraha, 2008). Furthermore, as emotions are multilevel in their nature, we intend to design our research as to meet the requirements of multilevel approach to theory and research (Kozlowski, Klein, 2000, 2000a).

Research Questions, Implications from the Pilot Research and Research Propositions for the future research of ours

Our research is driven by the intention to search for answers on questions (1) do emotions influence strategic alliances’ creation, (2) can emotional influence overpower rational and (3) do all emotions have equal influence in the creation phase of strategic alliance? If not, what emotions of what level are the most influential in the creation phase? However, both alliances and emotions are complex research settings, these research questions cannot be answered easily and in one research loop. Series of investigation need to be undertaken as to inform, explain and ground proposition about investigated relations. Literature review pointed to the existing research gap, and the need for exploratory field research. Our pilot research helped implied certain relationship, built a potential model of understanding relations, and develop propositions for further filed research (Tab1):

Proposition 1. Intra-emotional context of pre-existing individual and organizational ties represent a source of positive emotions towards formation of strategic alliances between the three countries.
Proposition 2. Macro-emotional context of alliance creation generated by social environment is a source of both positive and negative emotions for an alliance between Slovenian, Serbian and Croatian companies.
Proposition 3. Macro-emotional context generated by political environment is a source of strong emotions inhibiting alliance formation between Slovenian, Serbian and Croatian companies.
Proposition 4. Macro-emotional context overpowers micro-emotional context of alliance creation in case of the tree countries.
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<th>Research Questions</th>
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<tr>
<td>1. Do emotions influence strategic alliances’ creation?</td>
<td>Implication 1. Pre-existing individual and organizational ties represent a source of positive emotions towards formation of strategic alliances between the three countries. Implication 2. Social environment is a source of both positive and negative emotions for an alliance between Croatian, Serbian and Slovenian companies. Implication 3. Despite strong tendencies towards improvement in political relations, political environment is still a source of strong emotions inhibiting alliance formation between Croatian, Serbian and Slovenian companies. Implication 4. In the case of strategic alliances between Croatian, Serbian and Slovenian companies, politically-driven emotions are stronger than intra-organizational emotions.</td>
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References


