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Intrafirm causal ambiguity in an international context

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A B S T R A C T

This paper examined the incidence of intrafirm causal ambiguity in the management's perception concerning the critical drivers of their firms' performance. Building on insights from the resource-based view we developed and tested hypotheses that examine (1) linkage ambiguity as a discrepancy between perceived and measured resource–performance linkages, (2) characteristic ambiguity for resources and capabilities with a high degree of complexity and tacitness, and (3) the negative association between linkage ambiguity and performance. The observations based on the explicit perceptions of 356 surveyed managers were contrasted with the empirical findings of the resource/performance relationship derived by structural equation modelling from the same data sample. The findings validate the presence of linkage ambiguity particularly in the case of resources and capabilities with higher degree of characteristic ambiguity. The findings also provide empirical evidence in support of the advocacy for a negative relationship between intrafirm causal ambiguity and performance. The paper discusses the potential reasons for the disparities between empirical findings and management's perceptions of the key determinants of export success and makes recommendations for future research.

1. Introduction

It is generally accepted that a competitive advantage drives a firm's performance and success both locally and internationally. Over 40 years of research has identified an array of firm-specific and environment-specific factors and behaviours and explored their association with export performance (Aaby & Slater, 1989; Chetty & Hamilton, 1993; Leonidou, Katsikeas, & Piercy, 1998; Leonidou, Katsikeas, & Samiee, 2002; Zou & Stan, 1998). Various models have been advanced to assess empirically the sign and direction of the relationship between these factors and firm outcomes. However, they have yielded inconsistent results with the empirical findings indicating a range of directions in different contexts (industry, time, geography, perspective, etc.). Consequently, there is an ongoing debate as to which factors are the most important,

An examination of the relevant literature indicates two potential causes of this research discord. It may be argued that the plethora of inconsistent research findings is a result of the inconsistencies in conceptualization and operationalization of performance measures employed in empirical studies with diverse theoretical groundings. Alternatively, it may be argued that this variance is due to the ambiguity among managers as to which factors really drive their firms' performance and success. Considering that managers are often the main source of research data, the potential ambiguity in their perception is bound to affect the objectivity of the data and consequently the findings based on that data.

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This phenomenon is known as causal ambiguity. Causal ambiguity is the condition of uncertainty under which the causal connections between organizational factors and behaviours and firm performance are unclear to the decision makers at both the focal firm and its rivals (King & Zeithaml, 2001; Lippman & Rumelt, 1982). The uncertainty that could be attributed to a number of factors in the firm's internal or external environment, affects the manager's perception and understanding of the critical factors responsible for superior performance of the firm.

Given that a clear understanding of the key drivers of the firm's competitive advantage are critical for the sustainability of the firm's performance, causal ambiguity has been treated as an important construct in the strategic management research particularly pertinent to the resource-based view (RBV) of the firm. The RBV argues that firm performance is a function of the managers' ability successfully to leverage the resources and capabilities that a firm owns or controls that are valuable, rare, inimitable, and lack substitutes (Barney, 1991). Causal ambiguity is considered to be fundamental to the inimitability property of the firm-specific advantage-generating resources and capabilities. The presence of causal ambiguity among managers in the focal firm over the link between firm-specific resources and sustained competitive advantage is seen as a significant barrier protecting the firm's competitive advantage from imitation by its competitors. Competitors are unable to imitate the focal firm's competitive resources/capabilities not only because they themselves do not understand the causal relationships (causal ambiguity among competitors) but also because this knowledge is ambiguous within the focal firm itself (causal ambiguity among managers) and hence difficult to transfer. However, the causal ambiguity among the managers at the focal firm may also impede the recognition and development of valuable resources within the firm, limiting managers' ability to leverage resources for competitive advantage (Reed & DeFillippi, 1990). This creates the so called causal ambiguity paradox where the 'ambiguity as to what factors are responsible for superior (or inferior) performance acts as a powerful block on both imitation and factor mobility' (Lippman & Rumelt, 1982, p. 420).

Evidently, causal ambiguity among managers generates strategically significant consequences (King, 2007) with direct implications on the sustainability of the firm's competitive advantage and consequently its long-term performance. Hence, the majority of the research examining this phenomenon focuses predominantly on investigating the effect that casual ambiguity has on the firm's performance, making a general assumption that causal ambiguity among managers is ubiquitous. However, there is very little empirical evidence that actually validates the existence of intrafirm causal ambiguity among managers concerning the relationship between the firm's inputs and performance.

The purpose of this paper is to examine and validate the incidence of causal ambiguity in the management's perception of the linkages between firm-specific resources and capabilities and the firm's export performance. Building on insights from the RBV perspective (Barney, 1986, 1991; Peteraf, 1993; Wernerfelt, 1984) we examine the following. Firstly, we investigate the ambiguity among managers concerning the causal linkages between firm-specific resources and capabilities (competences) and firm performance. We ask the managers for their explicit views on the impact that a set of firm-specific resources and capabilities have on the firm's performance. We then compare these findings with the empirical evidence of significant resource–performance relationships derived from the same set of data. A finding of a significant discrepancy between the managers' perceptions and empirical observations about significant resource–performance relationships indicates linkage ambiguity. Secondly, we consider the nature of the resources and capabilities where causal ambiguity is identified. A finding of a significantly greater discrepancy between perceived and measured resource–performance linkages in the case of resource factors with a high degree of complexity and tacitness implies characteristic ambiguity. Finally, we investigate a possible correlation between intrafirm linkage ambiguity and firm performance. Based on prior findings, a negative correlation is predicted indicating that a lower degree of intrafirm causal ambiguity will result in better performance outcomes.

The next section presents an overview of causal ambiguity as it relates to the RBV and performance literature, and develops the hypotheses of the study. Section 3 includes details of the sample selection, data collection, measures used in the study, and discussion of the conceptualization and operationalization of the variables. The findings are presented in Section 4 followed by their discussion in Section 5. Conclusions and implications are in the final section.

2. Theoretical background

Lippman and Rumelt (1982) first defined the concept of causal ambiguity as "ambiguity as to what factors are responsible for superior (or inferior) performance" (1982, p. 420) or "ambiguity surrounding the linkage between action and performance" (1982, p. 421). Thus, causal ambiguity refers to the perception (or misperception) that managers and competitors may have regarding the factors that contribute to firm performance (Barney, 1991; Coff, 1997; Peteraf, 1993).

The early work on this concept focused primarily on interfirm causal ambiguity which exists when competitors are uncertain about the source of competitive advantage at the focal firm and hence are not able successfully to replicate that advantage. Therefore, interfirm causal ambiguity acts as a barrier to imitation by competitors and helps to protect a firm's source of competitive advantage (Barney, 1991; Dierickx & Cool, 1989; Lippman & Rumelt, 1982; Peteraf, 1993; Reed & DeFillippi, 1990). When causal ambiguity is present among managers within the focal firm, the phenomenon is called intrafirm causal ambiguity (King & Zeithaml, 2001). Intrafirm causal ambiguity exists when managers within the focal firm do not understand which resources or decisions have the most critical effect on their firm's performance (King, 2007; King & Zeithaml, 2001).

King and Zeithaml (2001) have further segmented interfirm and intrafirm causal ambiguity into linkage (causal) ambiguity and characteristic (competence) ambiguity. Linkage ambiguity is the managers' perceived ambiguity about what