

# Value Congruence and its Impact on Causal Ambiguity

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## Abstract

In this paper we explore the impact of value congruence on managerial perceptions of causal ambiguity within firms. Specifically we argue that high level of value congruence is a moderator of causal ambiguity and that its role is paradoxical. We suggest that on one hand, a high level of value congruence can be beneficial to firms as it can act help protect firms from competitive imitation, and, on the other hand, it can be negative as it may prevent the maintenance, development or replication of valuable resources.

## Introduction

Causal ambiguity is defined as the uncertainty that “stems from a basic ambiguity concerning the nature of the causal connections between actions and results” (Lippman and Rumelt, 1982, p. 418). In other words, the factors responsible for firm performance may be difficult to identify because of causal ambiguity. It is central to the resource-based view of the firm argument because it can act as an isolating mechanism protecting critical resources from imitation (Lippman and Rumelt, 1982). However, it can also prevent a firm from learning from its own experience and from improving its performance over time (Szulanski, 1996). This can happen because its presence may mean that the firm’s managers do not fully understand their own firm’s sources of advantage (Barney, 1991). This implies that the net effect on the sustainability of competitive advantage in the presence of causal ambiguity is unclear (Reed & DeFillippi, 1990; McEvily, Das and McCabe, 2000) and hence that causal ambiguity represents a “mixed blessing” for strategic management scholars (Lado, Boyd, Wright and Kroll, 2006, p. 121) and undoubtedly for managers who need to both protect their valuable resources from competitive imitation and nurture them to exploit them or replicate them within their firm.

While there is a range of studies on causal ambiguity (e.g. Ambrosini and Bowman, 2005; Blyler and Coff, 2003; King, 2007; King and Zeithaml, 2001; Mosakowski, 1997; Powell, Lovallo and Caringal, 2006; Simonin, 1999; Szulanski, Cappetta and Jensen, 2004) nobody has yet to our knowledge examined the impact of value congruence on causal ambiguity. Amongst all types of fit, value congruence appears a natural candidate creating causal ambiguity given its own elusiveness (Rynes & Gerhart, 1990) and its hypothesised, but largely unproven, impact on organisational performance (Edwards & Shipp, 2007; Gerhart, 2007; Kristof-Brown, Zimmerman & Johnson, 2005; Schneider, 1987). In this short paper, we specifically follow King’s (2007) call for research into causal ambiguity and its impact on firm resources and firm performance. In particular, our purpose is to envisage the likely

impact of value congruence on the presence of causal ambiguity and as a corollary on the sustainability of competitive advantage.

### **Causal Ambiguity and Competitive Advantage Vulnerability**

As mentioned in the introduction, causal ambiguity relates to ambiguity between resources and performance and it exists where a decision maker has an incomplete understanding of the causes of his/her firm's success. Reed and DeFillippi (1990) and Simonin (1999) proposed that resources' tacitness and complexity were antecedents to causal ambiguity. Tacitness refers to implicit resources, i.e. knowledge and know-how that is difficult to express and that is context specific, and, complexity results from having a large number of interrelated factors. These two antecedents concern the obscurity of the inner workings of the resources.

Ambrosini and Bowman (2010), based on Lippman and Rumelt (1982) and Powell *et al.* (2006), added a separate group of antecedents: 'managerial variables'. These include managers' ignorance of the existence of a resource because of the size of the firms or its scope of activities, and erroneous beliefs about the impact of a resource; these beliefs may be formed through prior experiences or be due to functional bias. In this paper, we concentrate on managers' perceptions of causal ambiguity as being able to strategise effectively requires that managers understand the firm's causal system and how value is created within the firm. Just as described earlier, these perceptions of causal ambiguity may come from the resources (which include employees and environmental characteristics) or from managerial variables.

### **Tacitness as an Antecedent of Causal Ambiguity**

As mentioned in the introduction, the vulnerability of the firm's competitive advantage can be rooted in managers' perceptions of causal ambiguity. If valuable resources (in the broadest sense, e.g. patents, know-how, value creating activities performed by employed individuals and groups within the firm) are causally ambiguous, their value is misunderstood and hence they may be vulnerable to inappropriate changes by managers. These activities could be outsourced, altered to 'improve' them, or even be eliminated.

The risk of elimination is likely to be greatest when the link between a valuable resource and performance is tacit. For instance, a resource could be changed by a newly recruited manager who lacks understanding of the firm's ways of doing things. If a recently recruited executive is expected to implement rapid and significant change, causally ambiguous activities may be the first to be eliminated, because they are not seen to have an impact on performance. A manager who has more experience of the organisation may not fully appreciate the role the resource has, but may understand that it has some sort of significance.

If causal ambiguity is due to tacitness (Nonaka, 1991), then these valuable resources, if left alone, are likely to be a source of sustainable competitive advantage (Barney, 1991; Reed and DeFillippi, 1990). Quite simply, if managers do not understand the reasons for their firm's competitive advantage, it can only be imitated by chance. There is still however the possibility that the effect or impact of these activities may be achieved by other firms through other means i.e. substitution (McEvily *et al.*, 2000).

This means that on the one hand a resource that is tacit and causally ambiguous is likely to be a source of sustainable advantage, but the lack of

understanding of the link with performance means that it is a risky situation as performance may only be sustained by luck. It is also risky as it also suggests that if this valuable resource is an activity involving a range of people who perform tacitly, but who do not know that what they do to impact on performance, those people may change their ways of operating. It also means that managers may not be able to replicate this resource and exploit it further. Hence, tacit causal ambiguity is a double-edged sword in the way it relates to creating competitive advantage.

### **Value Congruence and Tacit-Driven Causal Ambiguity**

Tacit activities, i.e. the ways of doing things that are not readily talked about, are an important cause for causal ambiguity (Barney, 1991). We argue that higher levels of value congruence promote the status quo (Schneider, 1987) as there is a greater understanding and agreement about the importance of the firm's resources and also higher incentives to keep things as they are. Moreover, organizational environments exhibiting higher levels of value congruence are likely to be places where people make decisions more intuitively based on assumptions that people know what is important and what is not. Such environments are also likely to exhibit closer bonds between people which is important because tacit knowledge can be acquired through personal relationships and over time (Badaracco, 1991) through apprentice-like relationships or through socialisation (Nonaka and Takeuchi, 1995) without any need for codification of the knowledge.

Higher levels of value congruence are likely to be associated with higher levels of comfort and informality that makes communication easier. Moreover, people in high value congruence environments should be better at reading each others' interpersonal behaviour. This is important because tacit knowledge relies on direct interaction between people. This sharing is most likely to happen between people who have shared mental models, have congruent values and similar culture. This suggests that where there are high levels of value congruence, tacit knowledge is likely to be transferred more easily. The improved communications and closer relationships in high congruence environments are exactly the conditions that commentators have argued facilitate the transfer of tacit knowledge. It also suggests that in an organisation displaying high levels of value congruence, tacit knowledge will remain tacit and hence that causal ambiguity will remain within the firm. The valuable resources will not be codified or systematized.

Hence we propose that levels of fit moderate the presence of causal ambiguity and that:

1. High levels of value congruence will promote the sustainability of tacit resources and the associated causal ambiguity and hence will enhance the sustainability of competitive advantage by preventing competitive imitation
2. High levels of value congruence will promote the sustainability of tacit resources, but because of the associated causal ambiguity there will be increased risk of inadvertent destruction of valuable resources and the exploitation of the valuable resource may be prevented.

### **Managerial Variables as Antecedents of Causal Ambiguity**

Here the resource is not tacit, but managers are not aware of the link between the activity and firm performance. As suggested earlier, this may be due to other factors

(termed here 'managerial variables'). For instance it may be due to the size of the firms and complexity of its operations. An illustration of these is what happened in the 1990s when many firms downsized and many business process reengineering projects took place and when by these actions layers of middle managers were made redundant because their value was not recognised.

The managerial climate and predominant leadership style in some firms may increase this type of causal ambiguity. Where there are limited communications, poor relationships across organisational levels, particularly in a 'barren' organisational context (Szulanski, 1996) or where agency tensions are heightened (Lee and O'Neill, 2003) people engaged in valuable activities may not normally or comfortably engage in dialogue with managers and hence managers may eliminate valuable resources because of causal ambiguity. This is less likely to happen if managers seek to develop a culture that encourages interaction and the sharing of knowledge between organisational members, and hence reduces causal ambiguity.

Losing advantage through managerial action is not the only danger facing a firm. It may also lose its advantage through competitive imitation. An activity that is not characteristically ambiguous could be codified and people moving to another firm might be in a position to explain what they used to do. Their new employers may be able to recognize the value of the activity and ask the newcomers to introduce these activities.

### **Value Congruence and Causal Ambiguity Caused by Managerial Variables**

As we just mentioned, causal ambiguity caused by reasons other than tacitness is most likely to occur in organisations in which decision making is centralised; information does not permeate through the organisational levels and, generally speaking, collective learning does not occur throughout the firm (Leonard-Barton, 1992). This problem would be exacerbated if those involved in the valuable activities are not inclined to collaborate with the managers because of a lack of motivation or because of the 'organisational distance' in the firm (Simonin, 1999).

In order to maintain, develop and transfer these valuable resources people within the firm need to be able to share their experience, to have exchanges with other organisational members. Socialisation, interaction and co-operation are all key enablers of tacit knowledge transfer and value congruence is known to be related to these processes. In other words to rejoin our previous discussion on value congruence, high levels of value congruence are helpful preconditions. It would encourage inter-level dialogue, and would foster collaboration. If there is collaboration between managers and those performing the valuable activities, causal ambiguity is likely to decrease and managers are unlikely to destroy these valuable resources. This suggests that in order to reduce causal ambiguity caused by variables other than tacitness, high levels of value congruence across all levels of organisations are essential.

### **Conclusion**

In the above we have argued that value congruence can be a moderator of causal ambiguity and that it was important to understand how it can impact on the sustainability of competitive advantage in firms. We also argued that high levels of value congruence was a "mixed blessing" as it can be argued that it both isolates firms from competitive imitation and prevents the maintenance, development or replication of valuable resources.

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