

# **Top Management Team Social Capital, Tacit Knowledge and the Internationalization of the Multinational Corporation**

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## **Abstract**

This paper examines the role of social capital in generating and sharing tacit knowledge in a firm's drive to globalize effectively. It hypothesizes that top managers develop social capital within their top management team and beyond the corporation itself. These managers then leverage the social capital to acquire tacit knowledge of the corporation's activities and markets. When the tacit knowledge is shared through networks of social relationships, the top management team arrives at informed strategic decisions and globalizes more effectively. These hypotheses are tested using data from 39 top management teams of multinational corporations.

Tacit knowledge is knowledge which cannot be articulated, and which is deeply embedded in the knower's cumulative perceptions and experiences (Polanyi, 1966). Tacit knowledge about the business environment, industry patterns, and company abilities is a resource that can provide an inimitable competitive advantage for firms (Kogut & Zander, 1996), and research has identified tacit knowledge as a critical resource in the firm (Barney, 1991; Nonaka 1994; Zack 1999).

Tacit knowledge is particularly important in multinational firms. Multinationals operate in many contexts that vary widely in many ways. Because tacit knowledge is context-dependent, managers with experience in different parts of an international organization have vastly different stocks of tacit knowledge. A steady stream of research has examined how successful multinational firms harness that knowledge (Athanassiou & Nigh, 1999, 2000).

It is clear that social networks – networks of interpersonal relationships – are critical for the transfer of tacit knowledge. By definition, tacit knowledge cannot be transferred directly from one person to another. Transfer of tacit knowledge happens when one person transfers explicit knowledge to another in the same context in which such explicit knowledge was made tacit to the first person. By working with the same knowledge in the same context, the other can gradually internalize both the articulate knowledge and its contextual framing on his or her own (Polanyi, 1966: 61). In multinational firms, then, social networks provide the vehicle for the indirect transfer of tacit knowledge, and the social networks of the top management team are especially important for their impact on the firm.

These social networks are repositories of the top management team's social capital: the set of assets contained in relationships among people (Lin, 2001). Nahapiet and Ghoshal (1998) developed a framework demonstrating how social capital sets up the conditions for the transfer of tacit and explicit knowledge and the generation of new intellectual capital. Although making a pivotal contribution, their framework has been criticized for confounding antecedents and consequences of social capital with social capital itself (Lin, 2001).

In this paper, we articulate antecedents of social capital more carefully and link these antecedents to the consequences of tacit knowledge transfer and effective internationalization through the mechanism of social capital. The model we develop is confirmed in a sample of *xx* top management teams. The paper contributes to research and theory on social capital, social networks, and international management, and provides recommendations for effective globalization.

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