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The Effect of Social Capital and Absorptive Capacity through Knowledge Management on Finance Company Performance in Indonesia

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Abstract

The objective of this research is to present a model that describes the general effect of social capital and absorptive capacity on knowledge management and its implications on company performance.The model proposed in this research is tested by structural equation model. This research processed data from 258 respondents of employees of finance companies in Indonesia that meet certain requirements of 27 samples of the company.This research found that social capital has a positive and significant effect on absorptive capacity and knowledge management. Absorptive capacity has a positive and significant impact on knowledge management and company performance. Knowledge management also has a positive and significant effect on company performance. Social capital and absorptive capacity together have a positive and significant influence on knowledge management. Furthermore social capital, absorptive capacity and knowledge management together have a positive and significant impact on company performance. Absorptive capacity mediates the relationship between social capital and knowledge management. Knowledge management fully mediates the relationship between social capital and absorptive capacity on company performance. Social capital indirectly affects the company performance through knowledge management or absorptive capacity.This research model only limits the factors that affect company performance to three main variables namely social capital, absorptive capacity and knowledge management. Future research is suggested to try with additional other variables such as monetary incentives and/or corporate culture.The practical implication of this research is to improve knowledge management, it is necessary to improve social capital and absorptive capacity together. Furthermore company performance can be improved if social capital, absorptive capacity and knowledge management also improved simultaneously.The model proposed in this research improves the understanding of academics and practitioners about the construct of knowledge management. The mediation function of knowledge management is something new from this research compared to previous researches. This research also provides an additional contradictory list of previous researches on the relationship between social capital and company performance.

Keywords: social capital, absorptive capacity, knowledge management, company performance

1. Introduction

Social capital is a concept that deals with how social organization affects economic activity (Kianto & Waajakoski, 2010). In this case more and more professionals are sharing their knowledge voluntarily in cyberspace (Yu et al., 2010) because the internet has become a cheap medium that allows millions of people around the world to exchange information and knowledge (Chang & Chuang, 2011). Knowledge arising from social capital is sometimes useful and sometimes useless for organizational progress. Each organization can have different levels of capability in utilizing knowledge for commercial purposes. Different capacities of utilizing knowledge for commercial purposes are influenced by the collective absorptive capacity of the members of each organization (Zhao & Anand, 2009). Absorptive capacity is a determining factor of internal company resources in relation to innovation performance and sustainable competitive advantage in the era of knowledge economy (Chen et al, 2009b). The establishment of an internal network that reaches different parts of the organization systematically can enhance the collective ability to utilize external knowledge (Tortoriello, 2015). In this case the overall level of absorptive capacity that a company can achieve in a relationship determines the overall opportunity for learning from partners (Schildt et al., 2012).Today many companies are increasingly drawn to organizational knowledge that reflects them entering an era of knowledge economy where companies need to understand the dynamics of knowledge better (Roussel & Deltour, 2012). Knowledge that arises in dealing with other companies is an addition to the company's resources. A growing belief has emerged that managing knowledge effectively can improve performance (Wang et al., 2009). Academics and practitioners often emphasize the importance of knowledge as an organizational resource and the important consequences for managing that knowledge (Hooff & Huysman, 2009).Knowledge is the company's most valuable intangible asset because it involves routine and creative ways of doing work (Zin Aris, 2013). Competing companies based on knowledge are faced with a dilemma because organizational assets are held in the minds of individuals (Chen et al., 2009a). Knowledge assets are based on the experience and expertise of individuals working in the company so the company must provide the right structure to form knowledge into competence (Monavvarian & Amini, 2009). Therefore financial institutions should recognize the importance of systematic knowledge management (Chatzoglou & Vraimaki, 2009).. Risks managed by a financial services company based on portfolio data owned. The management of this portfolio data is made based on the accumulation of past information that forms a certain knowledge. It can therefore be said that risk management in financial services firms is actually knowledge management because effective knowledge management in financial services firms is key in managing risk (Marshall et al., 1996). Knowledge management of consumers also has a positive impact both on the speed and quality of innovation including the operational and financial performance of banking companies (Taherpavar et al., 2014). Thus managers should focus on knowledge management by considering knowledge management as an ability that can help companies maximize value creation for consumers (Landroguez& Ruiz, 2016). The link between human resource management and knowledge management can also be seen from the strategic practice of human resources. The strategic practice of human resources affects the capacity of knowledge management. Furthermore, knowledge management capacity also influences the performance of innovation side. So it can be said that knowledge management capacity mediates the strategic practice of human resources with innovation performance (Chen & Huang, 2009). The interactive learning process is not the only issue in knowledge management. There is another issue that is also important that concerns the culture of knowledge sharing. In this case the employee must evolve from the information user to the user and the knowledge giver (Carmona-Lavado et al., 2010). The employee turnover rate at the finance company refers to a survey conducted by the human resources consultant company Mercer is the highest compared to other industries as can be seen in the following table:

Table 1. Voluntary Employee Turnover Rate

Industry	2015	2016H1
All Industries	9,1%	4,0%
Financial Services	12,5%	6,3%
Life Sciences	12,1%	5,5%
Consumer Goods	9,5%	4,2%
High Tech	7,8%	-
Chemical	6,8%	3,0%
Automotive	6,7%	2,9%
Mining Services	4,9%	1,3%
Mining	3,8%	2,2%

Source: Mercer Indonesia, 2016

The table above shows that in 2015 the rate of employee voluntary turnover in the financial services industry reached 12.5%. The latest data in the first half of 2016 reached 6.3% which annualized to 12.6%. This figure is the highest compared with other industries and also to the total industry.This high number causes a person's tacit knowledge to be lost from the company as the employee leaves the company if the finance company does not run the knowledge management. Going employees will reduce the precious human capital of the abandoned company. Human capital becomes extremely valuable for the unique rare abilities possessed by individuals especially for high skill levels (Coff&Kryscynski, 2011). Social capital as previously described may lead to a stream of new knowledge into the company. The new flow of knowledge from external entry into the organization will also be directly related to absorptive capacity (Kostopoulos et al., 2011). In this case the absorptive capacity is related to the exploration of external knowledge (Lichtenthaler&Lichtenthaler, 2009). Firms with better absorptive capacity have the potential to have access to the knowledge of other companies that will enhance the company's competitive advantage (Chuang et al., 2016). In addition, this study also limits the company's performance variable to the performance of finance companies in Indonesia.Based on the previous description then in this study can formulated the problem as follows: (1). Is there any effect of social capital on knowledge management of finance companies in Indonesia?; (2). Is there any effect of absorptive capacity on the knowledge management of finance companies in Indonesia?; (3). Is there any effect of social capital on absorptive capacity of finance companies in Indonesia?; (4). Is there any effect of social capital and absorptive capacity jointly to knowledge management of finance companies in Indonesia?; (5). Is there any effect of social capital on the performance of finance companies in Indonesia?; (6). Is there any effect of absorptive capacity on the performance of finance companies in Indonesia?; (7). Is there any effect of knowledge management on the performance of finance companies in Indonesia?; (8). Is there any effect of social capital, absorptive capacity and knowledge management simultaneously on the performance of finance companies in Indonesia?

2. Literature Review

2.1 Competitive Advantage Theory

This study refers to the theory of competitive advantage of strategic management. Strategic management began to develop as a discipline itself in the era of the 1980s. Strategic management arises to answer the company's need for competitive advantage in order to produce better corporate performance. There are two main streams in strategic management of the competitiveness of firms that refer to two different approaches (Dustin et al., 2014).Dustin et al. (2014) further explains both approaches as follows: (1). The first approach sees the competitive advantage of the structural approach; (2). The second approach sees the competitive advantage of a resource-based view (RBV) approach. This study refers to the second approach of competitive advantage that is based on RBV. The research model based on RBV is basically mostly inspired by Penrose's thought (Wernerfelt, 1984).

2.2 Knowledge Management

KBV derived from RBV focuses on the value of intangible assets and states that knowledge is vital to a company's long-term success (Kiessling et al., 2009). KBV is the theoretical foundation that emerges in management studies where to achieve superior and sustainable performance, companies must have the capability in new knowledge development processes that generate significant and meaningful impacts on their markets (Bogner & Bansal, 2007).The KBV approach views the company as an institution that integrates the specialized knowledge of individuals within the company to produce goods and services through coordination by the management of the company (Grant, 1996). Asimilar view is also expressed by Kogut & Zander (1996) which states that the company is an organization representing social knowledge about coordination and learning. The purpose of company managers based on KBV is to maintain above-normal earnings by continuously acquiring new knowledge or solutions that form a unique combination of existing knowledge (Nickerson & Zenger, 2004).Continuous excellence requires more than just the ownership of a tough asset (knowledge) but also requires unique and difficult to replicate dynamic capabilities (Teece, 2007). Augier & Teece (2009) defines dynamic capabilities as the ability to sense, exploit new opportunities, reconfigure and protect knowledge assets, competencies and complementary assets in order to achieve sustainable competitive advantage. The process of protecting knowledge assets includes knowledge management which includes learning elements, knowledge transfer, expert integration, expert achievement and intellectual property protection (Teece, 2007). In an economy where the only certainty is uncertainty, the source of lasting competitive advantage is knowledge (Nonaka, 2007). Knowledge as one of the company's resources can be a source of competitive advantage when the company has certain characteristics. Continuous competitive advantage can be obtained when a company has resources with the following characteristics (Barney, 1991): (1). Valuable, resources are valuable if they enable the company to implement strategies that can improve effectiveness and efficiency; (2). Rare, resources are called scarce if the number of companies that own those resources is less than the number of companies required to create perfect competition within an industry; (3). Inimitable, valuable and scarce resources can only be a source of sustained competitive advantage if companies that do not have these resources can not get them whichmeans that resources are difficult to replicate; (4). Not subtitutable, resources that are hard to replace are resources that do not have an equivalent substitute.There are many definitions of knowledge management put forward by experts. The proposed definition is mostly vague and has a double understanding because the word knowledge gives different meanings to different people as well as many different kinds of knowledge that need to be managed differently (Hlupic et al., 2002). Nevertheless, there will be some definitions of knowledge management according to different scholars with a view to understanding the dimensions of knowledge management.A fairly simple definition of knowledge management is an activity related to strategies and tactics for managing human-centered assets such as competence, expertise, education, learning experiences and the like (Brooking, 1997). Some other experts put forward the view of the importance of information technology in knowledge management. Successful knowledge management projects are closely linked to the use of information and communication technology (Andreeva & Kianto, 2012). Hlupic et al. (2002) mentions this as an emphasis on the aspect of information technology (hard issue).. This definition is interesting because it does not mention information technology explicitly but rather emphasizes the worker's knowledge capacity to interpret and add to the notion of information (Hlupic et al., 2002).Gurteen (1998) provides a comprehensive definition of knowledge management (DeTienne& Jackson, 2001). Knowledge management is a growing set of organizational design and operational principles, processes, organizational structures, applications and technologies that help knowledgeworkers enhance their creativity and ability to deliver business value dramatically (Gurteen, 1998). In the definition according to Gurteen it appears that there is a wider scope of knowledge management dimension that includes organization, human resources and technology.

2.3 Social Capital

The concept of social capital has grown in popularity over a wide range of social sciences and other related fields (Adler & Kwon, 2002). The concept of social capital continues to evolve over time as expressed by many experts and researchers including in the field of management.The concept of social capital in management is much related to the network of relationships that are formed over time among individuals (Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998; Adler & Kwon, 2002). The definition of Fukuyama emphasizes the internal bonding aspects of social capital (Adler & Kwon, 2002).Nahapiet & Ghoshal provide a definition of social capital that combines external and internal ties (Adler & Kwon, 2002). Social capital is the sum of the potential and actual resources inherent, available and emerging from the network of relationships owned by individuals or social units (Nahapiet & Ghoshal, 1998). The definition provides a neutral understanding of the internal / external dimensions because internal or external sense depends on the point of view of the relationship and the unit of analysis (Adler & Kwon, 2002).Social capital refers to resources derived from social relations (Payne et al., 2011). The benefits of a relationship can also be as important or more important in a business to business relationship (b to b) as compared to relationships among individuals (Kelly & Scott, 2011). The benefits of the relationship formed in business to business (b to b) through the element of trust will produce the following (Kelly & Scott, 2011): (1). Satisfaction; (2). Absence of conflict; (3). Instrumental commitment; (4). Affective commitment; (5). Normative commitment. The concept of social capital has several dimensions. The dimensions of social capital that are widely used in research are those proposed by Nahapiet&Ghoshal. Social capital has the following dimensions(Nahapiet&Ghoshal, 1998): (1). Structural dimension; (2). Cognitive dimension; (3). Relational dimension. The structural dimension refers to the overall pattern of relationships among principals consisting of (Nahapiet&Ghoshal, 1998): (a). Network ties; (b). Network configuration; (c). Appropriable organization. The cognitive dimension refers to resources that provide representation, interpretation and sharing systems consisting of (Nahapiet&Ghoshal, 1998): (a). Shared codes and language; (b). Shared narratives. Relational dimension refers to assets created and developed through relationships consisting of (Nahapiet&Ghoshal, 1998): (a). Trust; (b). Norms; (c). Obligations; (d). Identification.

2.4 Absorptive Capacity

The concept of absorptive capacity has resonated in various organizational theories since the first time this theory emerged (Volberda et al, 2010). The absorptive capacity constructs can be divided into two components: internal and external absorptive capacity (Lewin et al, 2011).Absorptive capacity depends on previous knowledge and knowledge sources (Todorova & Durisin, 2007). Companies need to identify the most promising source of external knowledge and harmonize their corresponding absorptive capacity (Grimpe & Sofka, 2009). Absorptive capacity refers to a firm's ability to recognize, assimilate and apply new values of external knowledge for commercial purposes (Flatten et al, 2011). This definition implies that certain conditions for successful absorption of knowledge are the structures and mechanisms of enterprises created to make knowledge circulate beyond internal and external boundaries (Aribi & Dupouet, 2015). From this definition it can be seen that the absorptive capacity has the following dimensions: (1). Knowledge recognition (2). Knowledge assimilation (3). Knowledge application. Cohen & Levinthal (1994) suggested that absorptive capacity has certain functions and characteristics. The function of absorption capacity is as follows: (1). Absorptive capacity allows companies to understand and utilize new advances in a particular area of knowledge; (2). Absorptive capacity enables companies to better evaluate the meaning of current technological developments and more accurately predict the types of technological advances in the future as well as applications for commercial purposes.Accumulation of knowledge is a critical characteristic of absorptive capacity which has the following components: (1). The way a company or individual learns are specifically formed based on what has been learned before; (2). The formation of knowledge accumulation will be more efficient in the coming periods.Gold et al. (2001) provides another term of absorptive capacity as process capability. This redefinition does not change the content of the existing absorptive capacity dimensions as follows: (1). Knowledge acquisition; (2). Knowledge assimilation; (3). Knowledge transformation; (4). Knowledge exploitation. These four dimensions can be divided into potential absorptive capacity and realized absorptive capacity. Potential absorptive capacity includes the first two dimensions of acquisition and assimilation of knowledge. The realized absorptive capacity includes the last two dimensions of transformation and exploitation of knowledge. (Zahra & George, 2002).

2.5 Company Performance

Performance is the end result of activities that include the actual results of strategic management processes (Agha et al., 2012). Performance is one of the most important constructs in management research (Richard et al., 2009). The relationship between strategic resources and firm performance can be difficult to measure because of the diversity of performance measures and the lack of a definite definition of performance constructs (Crook et al., 2008).Mitchell et al. (1997) proposed the concept of corporate performance based on the point of view of stakeholders' satisfaction. They show that investors, customers, employees, community and government are the stakeholders that the company must manage. The proposed concept is the development of Freeman's thinking on stakeholder theory that offers a number of signals of answers to questions about stakeholder identification (Mitchell et al., 1997).Good financial performance is a way to satisfy investors (Chakravarthy, 1986) and can be measured from profitability, growth rates and market value (Venkatraman & Ramanujam, 1986; Cho & Pucik, 2005). Furthermore Cho & Pucik (2005) also states that profitability and growth have a mediating effect on market value. From this explanation it can be seen that company performance from financial dimension has three indicator that is profitability, growth rate and market value.Other stakeholders want a company that can perform well from the operational side (Venkatraman & Ramanujam, 1986). Customers want companies that can provide goods and services that meet their expectations (Fornell et al., 1996). In this case the customer needs to get satisfaction from goods and services produced by the company. Therefore, customer satisfaction is one of the important indicators of the company's operational performance dimension.Satisfied customers need to be served by satisfied employees as well. Employee satisfaction will result in satisfied customers as well (Jeon & Choi, 2012). Employee satisfaction in generating customer satisfaction can be predicted from employee turnover level. This is evidenced by the test of various employee turnover indicators indicating that certain indicators are as effective as assessing employee satisfaction in predicting customer satisfaction (Hurley & Estelami, 2007). Thus the level of employee satisfaction is one important indicator of the operational dimensions of corporate performance.Good social and environmental performance can satisfy the community (Chakravarthy, 1986) and government (Waddock & Graves, 1997). The satisfaction of these stakeholders can be fostered through initiatives such as the practice of saving the environment, improving product safety, employing minority groups and building social projects (Johnson & Greening, 1999). Based on this explanation, social performance and environmental performance are also important indicators of the

3. Hypotheses Development and Research Model

Bharati et al. (2015) conducted research on the influence of social capital on knowledge management practices. In this study social capital is seen from the structural, cognitive and relational dimensions. The study was conducted by taking 283 final samples of which mostly professionals in the information technology industry in the United States. The results show about a positive relationship between social capital and knowledge management practices.Monavvarian et al. (2013) also conducts research on the influence of social capital on knowledge management practices. The study was conducted by taking 273 samples from 950 population of National Iran Oil Product Distribution Co. way.Based on this explanation, the first hypothesis can be constructed as follows:

Hypothesis 1: There is an effect of social capital on knowledge management of finance companies in Indonesia.

Preece (2015) investigated the effect of absorptive capacity from new knowledge acquisition dimensions, assimilation of new knowledge, transformation of new knowledge and exploitation of new knowledge to effective knowledge management. The research was conducted quantitatively using structural equation model. The study took 549 samples of managers and employees from 35 nursing homes in Australia.The results show that absorptive capacity has an influence on knowledge management. Of the four dimensions of absorptive capacity under study there is one dimension that has no effect on effective knowledge management. An unaffected dimension is the acquisition of new knowledge. This shows that although the company successfully acquired new knowledge does not guarantee success over knowledge management practices.Based on this explanation, the second hypothesis can be constructed as follows:

Hypothesis 2: There is an effect of absorptive capacity on knowledge management of finance companies in Indonesia.

Aribi&Dupouet (2015) undertook research on the role of social and organizational capital towards firm absorptive capacity. The study was conducted in order to gain a better understanding of how companies actually combine social and organizational capital to maintain absorptive capacity (Aribi&Dupouet, 2015). Companies should prepare different combinations of social and organizational capital depending on the amount of innovation needed.The research was conducted qualitatively on 23 people from 3 companies with different industries in France. The research conducted shows that social capital is one of the variables that affect the absorptive capacity of the company. It is very viscous to look for innovation something new for the company. The results of this study strengthen the results of research Hughes et al. (2014) which shows that social capital through network intensity dimension has a positive effect on company absorptive capacity.Chuang et al. (2016) conducted a study of 358 manufacturing companies located in industrial estates in Taiwan. Research conducted using social capital variables, absorptive capacity, collective learning and company performance in terms of competitive advantage. One result shows that social capital has a positive effect on absorptive capacity.Based on this explanation, the third hypothesis can be constructed as follows:

Hypothesis 3: There is an effect of social capital on the absorptive capacity of finance companies in Indonesia.

From the previous explanation it appears that there are two exogenous variables associated with knowledge management. These variables are social capital and absorptive capacity. Thus can be built advanced hypothesis to see the effect of these variables simultaneously to knowledge management. In this case can be made the fourth hypothesis as follows:

Hypothesis 4: There is an effect of social capital and absorptive capacity collectively on the knowledge management of finance companies in Indonesia.

Felicio et al. (2014) examines the relationship between human capital, social capital and organizational performance. The study was conducted on 199 samples from the population of small and medium enterprises in Portugal with a structural equation modelling. This study found that human capital directly affect the performance of the organization. Human capital also directly affects social capital. However, social capital has no direct influence on organizational performance. The results of this study are reinforced by research conducted by Chuang et al. (2016) which states that social capital has no direct effect on performance in terms of competitive advantage.The results of research indicating that social capital has no direct effect on organizational performance is different from the results of previous research. Zhang & Fung (2006) conducted research on private companies from various industries in China. Their research shows that short-term social capital affects the company's performance. This study strengthens research conducted by Moran (2005) which shows that social capital affects performance.Acquaah (2007) also found the same thing about the effect of social capital on performance. The results of the research show that social capital affect the performance. It's just that the level of positive effect generated by social capital on performance can vary depending on the strategic orientation undertaken by each company.Based on this explanation we can build the fifth hypothesis as follows:

Hypothesis 5: There is an effect of social capital on the performance of finance companies in Indonesia.

Hughes et al. (2014) conducted research on the relationship between social capital, network-based learning, absorptive capacity and firm performance. Research is built on the concept that companies need to learn to gain new knowledge to support performance. The learning process is built into a social network. The effect of learning outcomes on company performance is sometimes mediated by the company's absorptive capacity.The study was conducted on 211 samples of the UK-based population of companies with structural equation models. The results showed that social capital through network intensity dimension has a positive effect on absorptive capacity as described in the previous description. In addition, absorptive capacity also directly affects the company's performance.Kostopoulos et al. (2011) also conducts research on the relationship between absorptive capacity and firm performance. The study was conducted using external knowledge flow variables, absorptive capacity, firm performance from innovation and finance side. The study was conducted on 461 manufacturing and service companies in Greece. One of the research results shows that absorptive capacity has an effect on company performance from innovation side and also indirectly affect to financial performance.The results of Hughes et al. (2014) and Kostopoulos et al. (2011) is also strengthened by the results of Chuang et al. (2016) research. The research was conducted by using social capital variable, absorptive capacity, collective learning and company performance in terms of competitive advantage. One of the research results is the absorptive capacity effect on company performance in terms of competitive advantage.Based on this explanation, the sixth hypothesis can be constructed as follows:

Hypothesis 6: There is an effect of absorptive capacity on the performance of finance companies in Indonesia.

The study was conducted on 234 companies from three countries namely Finland, Russia and China using structural equation model. The results of this study also reinforce the theory that argues about the importance of knowledge management to the success of the company's performance.Andreeva&Kianto (2012) research shows the relationship between knowledge management and company performance. In this case, knowledge management is seen from the dimension of information & communication technology and human resource management. Furthermore, company performance is measured from the financial and competitive advantage dimensions.Kiessling et al. (2009) conducted a study of the relationship between knowledge management and company performance. The study was conducted on 131 multinational subsidiaries in Croatia. The results showed that knowledge management has an effect on company performance from product improvement, employee improvement and company innovation.Marques & Simon (2006) conducted a study of the relationship between knowledge management and firm performance. The study was conducted on the biotechnology and telecommunications industry in Spain which includes a final sample of 222 companies. The results show that there is a strong and positive relationship between knowledge management and company performance.Tanriverdi (2005) also conducts a study of the relationship between knowledge management and company performance. The study was conducted on 250 companies engaged in 50 manufacturing and service industries. The results showed that knowledge management has an effect on the company performance.Darroch (2005) found somewhat different in the relationship between knowledge management and firm performance. The study was conducted on 443 companies in New Zealand from various industries. The results showed that only one of the three dimensions of knowledge management (responsiveness to knowledge) that gives effect to company performance.The studies that found a positive relationship between knowledge management and firm performance were also consistent with the results of research conducted by Hoffman et al. (2005). Based on this explanation we can build the seventh hypothesis as follows:

Hypothesis 7: There is an effect of knowledge management on the performance of finance companies in Indonesia.

From the previous explanation it can be seen that there are three exogenous variables related to company performance. These variables are social capital, absorptive capacity and knowledge management. Thus can be built advanced hypothesis to see the effect of these variables simultaneously on company performance. In this case the eighth hypothesis can be made as follows:

Hypothesis 8: There is an effect of social capital, absorptive capacity and knowledge management simultaneously on the performance of finance companies in Indonesia.

Based on the development of the hypothesis that has been described previously, it can be made research model as the following picture:

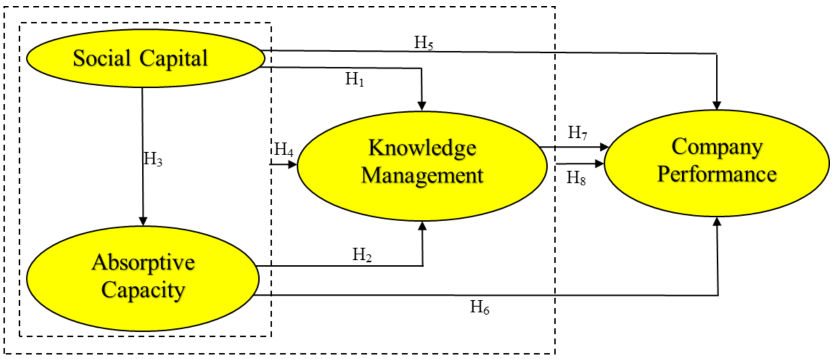

Figure 3. Research Model

4. Research Design

Based on data from IDX currently there are 15 finance companies that have issued public shares and 12 finance companies that have issued MTN/bond/sukuk. Thus there are a total of 27 finance companies that have been listed on the Indonesia Stock Exchange (IDX). On average, each finance company listed on IDX has 120 offices in the form of branches and representatives offices spread throughout Indonesia. (Indonesia Stock Exchange, n.d.).Individuals who are eligible to be selected as the respondent shall meet the following criteria: (1). The current position in the finance company where respondent work is minimum as a manager; (2). Working experience in the finance industry minimum of five years; (3). The service year at the current company is a minimum of one year; (4). Minimum education is graduate degree or equivalent. The criteria are made with the assumption that the respondent already has sufficient and relevant knowledgeto the finance industry in Indonesia. It is also assumed that the respondent has recognize enough about the object of research so that data relating to the object of research can be obtained through the respondent. Furthermore, to get a more accurate picture of the object of research, the researcher also conducted depth interviews on five respondents who have a position as President Director or CEO selected at random (stratified random sampling).Researcher conducted a preliminary test by distributing questionnaires to 36 managers of finance companies located in Jakarta. There were 31 questionnaires returned and qualified for further processing. The results of the preliminary tests show that all the items contained in the questionnaire are qualified (valid and reliable) to be used in the study.The researcher then spread 539 questionnaires to the employees with the minimum position of managers in the head office and branch of the finance company that became the sample. The return questionnaire was 271 or 50.28% of the questionnaires distributed. There were 18 questionnaires, equivalent to 6.64% of the questionnaires that were returned not further processed for data processing due to incomplete filling or unqualified respondent profiles. Thus there are as many as 253 questionnaires that are eligible for processing and added 5 questionnaires obtained together with the process of depth interview so that there are a total of 258 questionnaires processed in this study.

5. Results

The evaluation of this structural model includes the t-count values of the coefficients or parameters. This value is a predetermined value used as a benchmark to test the research hypothesis.The summary of the results of the research hypothesis testing can be seen in the table as follows:

Table 3. Hypothesis Testing Results

Hypotheses	Description	Estimation	t-value	Conclusion
H1	Social Capital affects Knowledge Management	0.15	3.38	Supported
H2	Absorptive Capacity affects Knowledge Management	0.16	3.21	Supported
H3	Social Capital affects Absorptive Capacity	0.87	6.85	Supported
		F_{count}	**R square**	
H4	Social Capital dan Absorptive Capacity together affect Knowledge Management	928.244	0.84	Supported
		Estimasi	**t-value**	
H5	Social Capital affects Company Performance	-0.023	-0.13	Not Supported
H6	Absorptive Capacity affects Company Performance	0.36	2.23	Supported
H7	Knowledge Management affects Company Performance	1.73	2.73	Supported
		F_{count}	**R square**	
H8	Social Capital, Absorptive Capacity and Knowledge Management together affect Company Performance.	391.131	0.76	Supported

6. Discussion

6.1 The Effect of Social Capital on Knowledge Management

The results showed that Social Capital has positive and significant influence on Knowledge Management. This means the higher/positive the Social Capital then the higher/positive Knowledge Management. The findings in this study are in line with previous research results from Bharati et al. (2015), Monavvarian et al. (2013), Manning (2010) and Hoffman et al. (2005).The findings are in line with previous research because finance companies are trying to form relationships, gather resources and create capital that can increase knowledge from internal and external sources. The trust of partners will improve knowledge of market conditions, products, customers and competitors. Trust formed from partners can only be formed through a process of building relationships. This relationship capital is related to the nature of the relationships that occur between organizations (Bharati et al., 2015).The direct effect of Social Capital on Knowledge Management is 21.16%. This figure is derived from the calculation of the coefficient value path (standard solution) Social Capital to Knowledge Management of 0.46 squared and then multiplied by 100 percent so obtained $0.46 \times 0.46 \times 100\% = 21.16\%$. This shows that 21.16% of Knowledge Management of finance companies in Indonesia can be explained by Social Capital.Indirect Social Capital effect on Knowledge Management through AbsorptiveCapacity is 43.5%. This figure is derived from the multiplication of the coefficient value of path (standard solution) of Social Capital to the Absorptive Capacity of 0.87 with the path coefficient value (standard solution) Absorptive Capacity to Knowledge Management of 0.50 and then multiplied 100 percent to obtain $0.87 \times 0.50 \times 100\% = 43.5\%$. This indicates that 43.5% of Knowledge Management of finance companies in Indonesia can be explained by Social Capital through mediation of Absorptive Capacity.

6.2 The Effect of Absorptive Capacity on Knowledge Management

The results showed that the Absorptive Capacity had a positive and significant effect on Knowledge Management. This means the higher/positive Absorptive Capacity the higher/positive Knowledge Management. All new knowledge as far as possible is set forth in the form of written procedures and policies and accommodated in the management information system. This is consistent with Preece (2015) which states that knowledge can be managed with appropriate systems and processes.The direct influence of the Absorptive Capacity on Knowledge Management is 25%. This figure is obtained from the calculation of path coefficient value (standard solution) Absorptive Capacityto Knowledge Management of 0.5 squared and then multiplied by 100 percent to obtain 0.5 × 0,5 × 100% = 25%. This shows that 25% of Knowledge Management of finance companies in Indonesia can be explained by the Absorptive Capacity.

6.3 The Effect of Social Capital on Absorptive Capacity

The results showed that Social Capital has positive and significant effect on AbsorptiveCapacity. This means the higher/positive the Social Capital the higher/Positive Absorptive Capacity. The findings in this study are in line with previous research results from Chuang et al. (2016), Aribi & Dupouet (2015) and Hughes et al. (2014).The findings are in line with previous research because finance company actively interacts with partners in carrying out their daily business activities. This is consistent with Chuang et al. (2016) suggesting that companies should strengthen relationships within the business network to facilitate knowledge exchange.The direct effect of Social Capital on Absorptive Capacity is 75.69%. This figure is derived from the calculation of the coefficient value of path (standard solution) Social Capital to Absorptive Capacity of 0.87 squared and then multiplied by 100 percent to obtain 0.87 × 0.87 × 100% = 75.69%. This shows that 75.69% of Absorptive Capacityof finance companies in Indonesia can be explained by Social Capital.

6.4 The Effect of Social Capital and Absorptive Capacity Together on Knowledge Management

The results show that Social Capital and Absorptive Capacity together have positive and significant influence on Knowledge Management. This means the higher/positive Social Capital and Absorptive Capacity the higher/positive Knowledge Management.The effect of Social Capital and Absorptive Capacity jointly on Knowledge Management shown by the R squared value of 84%. It also means that Knowledge Management is influenced by factors other than Social Capital and Absorptive Capacity of 16%. Absorptive Capacity partially has a more dominant influence on Knowledge Management of finance companies in Indonesia. This is reflected in the higher path coefficient of Absorptive Capacity to Knowledge Management (0.50) than Social Capital to Knowledge Management (0.46).

6.5 The Effect of Social Capital on Company performance

The results showed that Social Capital has negative and insignificant effect on Company Performance. This means the higher/positive Social Capital is not necessarily the higher/positive Company Performance. The findings in this study are in line with previous research results from Chuang et al. (2016) and Felicio et al. (2014). However, the findings in this study differ from the results of previous studies conducted by Acquaah (2007), Zhang & Fung (2006) and Moran (2005). The results of Chuang et al. (2016) are also similar to the results of this study in terms of the effect of Social Capital on Company Performance through Absorptive Capacity. Indirect Social Capital effect on Company Performance through Absorptive Capacity is 31,32%. This figure is obtained from the multiplication of coefficient value of the path (standard solution) of Social Capital to the Absorptive Capacity of 0.87 with the coefficient value of the path (standard solution) Absorptive Capacity to Company Performance of 0.36 and then multiplied 100 percent to obtain 0.87 × 0.36 × 100% = 31.32%. This indicates that 31.32% of the finance Company Performance in Indonesia can be explained by Social Capital through Absorptive Capacity.In this study Social Capital also indirectly affect the Company Performance through Knowledge Management. Indirect Social Capital effect on Company Performance through Knowledge Managementis 25.76%. This figure is derived from the multiplication of the coefficient value of the path (standard solution) of Social Capital to knowledge management of 0.46 with the coefficient value of the path (standard solution) of Knowledge Management to Company Performance of 0.56 and then multiplied by 100 percent to obtain 0.46 × 0.56 × 100% = 25.76%.This shows that 25.76% of the finance CompanyPerformance in Indonesia can be explained by Social Capital through Knowledge Management.According to some respondents based on the results of depth interview then there are some things that they think are very important in the indicator of Social Capital. Some of these indicators are as follows: (1). The company involves many parties in the business value chain network from the beginning of the sales process; (2). It is important for a company to engage in a business value chain network; (3). Employees have integrity to the company; (4). Employees establish good relationships with customers. The results of the average respondent's answers to these four indicators are also the highest when compared with other indicators of Social Capital but there is other factor that related with incentives that should be given to the parties in the business value chain involved in the sales process or so-called as well as acquisition costs. Chang et al. (2010) relates to this finding stated that the relationship between the company and the supplier is influenced by the creativity variable to produce a marketing program that can affect the performance of the company in terms of market, finance and overall performance.Creative marketing programs related to these incentives also relate to the benefits gained in business to business relationships (b to b) between finance companies and business partners. Trust formed from social capital must also be based on the benefits of a business relationship. Satisfaction will emerge based on the benefits gained through the element of trust (Kelly &Scott, 2011).Furthermore, another concern of the respondents in the interview process is that concerning the integrity of employees. Integrity is one of the important elements in a relationship. This is consistent with Gong et al. (2015) which states that relational has a perspective that integrity helps companies to develop and foster healthy relationships with customers, suppliers and other stakeholders. The results of in-depth interviews concluded that a strong corporate culture is needed in order to produce employees with high integrity. This is consistent with the explanation of Monga (2016) which states that building cultures, policies and supporting practices is necessary for successful implementation of integrity.The previous description raises other factors that need to be of concern in the relationship between Social Capital and Company Performance. These other factors are thought to be significant enough to refer to research conducted by Jiang & Jin (2010), Chang et al. (2010), Kelly & Scott (2011), Gong et al. (2015) and Monga (2016) as described in the preceding paragraphs. In this case further research is needed to prove the truth of the allegation.

6.6 The Effect of Absorptive Capacity on Company Performance

The results showed thatAbsorptive Capacity has a positive and significant effect on Company Performance. This means the higher/positive Absorptive Capacity then the higher/Positive Company Performance. The findings in this study are in line with previous research results from Chuang et al. (2016), Hughes et al. (2014) and Kostopoulos et al. (2011).The findings are in line with previous research because finance companies are continuously improving working procedures in accordance with the acquisition of new knowledge in the conduct of daily business activities to form routines. The ability to mitigate risks better than competitors will provide competitive advantage for finance companies in order to produce better performance. This is consistent with Chuang et al. (2016) stating that the Absorptive Capacity has a positive influence on competitive advantages.The direct effect of Absorptive Capacity on Company Performance is 12.96%. This figure is obtained from the calculation of the coefficient value of the path (standard solution) of 0.36 squared and then multiplied by 100 percent so that obtained $0.36 \times 0.36 \times 100\% = 12.96\%$. This indicates that 12.96% of the finance Company Performance in Indonesia can be explained by the Absorptive Capacity.The indirect effect of Absorptive Capacity on Company Performance through Knowledge Managementis 28%. This figure is obtained from the multiplication of the path coefficient value (standard solution) Absorptive Capacity to Knowledge Management of 0.50 with the value of path coefficient (standard solution) Knowledge Management to Company Performance of 0.56 and then multiplied 100 percent to obtain $0.50 \times 0.56 \times 100\% = 28\%$. This indicates that 28% of the finance CompanyPerformance in Indonesia can be explained by the Absorptive Capacity through Knowledge Management.

6.7 The Effect of Knowledge Management on CompanyPerformance

The result of this research shows that Knowledge Management has positive and significant influence on Company Performance. This means the higher/positive Knowledge Management is the higher/positive Company Performance. The findings in this study are in line with previous research results from Andreeva & Kianto (2012), Kiessling et al. (2009), Marques & Simon (2006), Tanriverdi (2005) and Darroch (2005). According to some respondents based on the results of depth interviews, it is obtained an idea of the importance of knowledge sharing among fellow employees to generate new knowledge. The process of knowledge sharing among fellow employees in addition to increase the company's knowledge in order to improve performance as well as to improve the quality of human resources. This is consistent with Marques & Simon (2006) which accentuates aspects of human resources in the development of effective Knowledge Management.The direct influence of Knowledge Management on Company Performance is 31.36%. This figure is obtained from the calculation of the coefficient value of the path (standard solution) of 0.56 squared and then multiplied by 100 percent so obtained $0{,}56 \times 0{,}56 \times 100\% = 31{,}36\%$. This indicates that 31.36% of the finance CompanyPerformancein Indonesia can be explained by Knowledge Management.

6.8 The Effect of Social Capital, Absorptive Capacity and Knowledge Management Together on Company Performance

The results show that Social Capital, Absorptive Capacity and Knowledge Management together have positive and significant effect onCompany Performance. This means the higher/positive Social Capital, Absorptive Capacity and Knowledge Management hence the higher/positive Company Performance.The contribution of Social Capital, Absorptive Capacity and Knowledge Management together on Company Performance indicated by the value of R squared is 76%. It also means that Company Performance is influenced by factors other than

Social Capital, Absorptive Capacity and Knowledge Management of 24%. Knowledge Management partially has the most dominant effect on the finance Company Performancein Indonesia. This is reflected in the highest score of path coefficient value (standard solution) Knowledge Management to Company Performance (0.56) compared to Social Capital to Company Performance (-0.023) and Absorptive Capacity to Company Performance (0.36).

7. Conclusion

The objective of this study is to know the general description of the effect of social capital and absorptive capacity on knowledge management and its implications on company performance by using survey method. The survey was conducted on the finance industry by processing the results of 258 respondents from 27 companies sampled. Based on hypothesis testing and previous discussion, the results of this study can be summed up in more detail as follows: (1). Social capital has a positive and significant impact on knowledge management of finance companies in Indonesia. The most dominant dimension of social capital is relational. The relational dimension is mainly reflected in the business of finance companies to foster relationships by improving the quality of the relationship between employees and customers; (2). Absorptive capacity has a positive and significant impact on knowledge management of finance companies in Indonesia. The most dominant dimension of absorptive capacity is acquisition. The acquisition dimension is mainly reflected in the business of finance companies to acquire new knowledge by encouraging employees to attend external trainings and workshops on a regular basis; (3). Social capital has a positive and significant impact on the absorptive capacity of finance companies in Indonesia; (4). Social capital and absorptive capacity together have a positive and significant impact on knowledge management of finance companies in Indonesia. Absorptive capacity has a more dominant effect on knowledge management. This suggests that positively improving the effectiveness of social capital and absorptive capacity will improve knowledge management with more dominant influence of absorptive capacity. Absorptive capacity also mediates the relationship between social capital and knowledge management; (5). Social capital has a negative and insignificant effect on finance company performance in Indonesia. In this case allegedly there are other factors that are influential enough to cause social capital has a negative and insignificant effect on company performance. Monetary incentive factors are suspected to have an effect on the relationship between finance companies and their counterparts. In addition, corporate culture factors in the internal environment of the company allegedly also affect social capital. This is reinforced by the results of research conducted by Jiang & Jin (2010), Chang et al. (2010), Kelly & Scott (2011), Gong et al. (2015) and Monga (2016); (6). Absorptive capacity has a positive and significant impact on the finance company performance in Indonesia; (7). Knowledge management has a positive and significant impact on the finance company performance in Indonesia. The more dominant dimension of knowledge management is information and communication technology. The dimension of information and communication technology is mainly reflected in the business of finance companies to improve the company's knowledge management tools that are widely accepted, monitored and updated; (8). Social capital, absorptive capacity and knowledge management together have a positive and significant impact on the finance company performancein Indonesia. Knowledge management has the most dominant effect on company performance. This suggests that positively improving the effectiveness of social capital, absorptive capacity and knowledge management will improve company performance with the most dominant knowledge management effect. Knowledge management also fully mediates the relationship between social capital and absorptive capacity with firm performance.

8. Implications

8.1 Theoretical Implications

This study contributes to existing studies on knowledge management. The mediation function of knowledge management is something new from this study compared to previous studies. The model proposed in this study improves the academic's understanding of knowledge management construct.This study also contributes to existing studies on the relationship between social capital and firm performance. This study provides an additional insight into whether social capital can directly affect the company performance or must go through other variables. The model proposed in this study adds new knowledge insight to academics about the relationship between social capital and company performance.The contribution of this study provides theoretical implications which can be explained as follows: (1). This study provides a new understanding of the relationship between the variables of knowledge management and company performance as well as other variables of social capital and absorptive capacity. This study shows thatknowledge management variable serves as a variable that fully mediates the relationship between social capital and absorptive capacity with firm performance; (2). This study also finds a new contradiction between social capital and firm performance. This study adds a new list of previous studies on the relationship between social capital and firm performance in which the results of previous studies are supportive and others do not support the direct influence of social capital on firm performance. In this study social capital can affect the company performance if through knowledge management or through absorptive capacity.

8.2 Managerial Implications

The results of this study provide managerial implications that are expected to be useful for practitioners. Practitioners or leaders of finance companies are expected to use the results of this research as the basis of policy for decision making in order to improve the performance of the company. Practitioners or leaders or managers of finance companies may seek to improve the performance of the enterprise by undertaking the following efforts: (1). Improving social capital and absorptive capacity together to improve knowledge management. Efforts to improve knowledge management are done with more emphasis on absorptive capacity due to the influence of more dominant absorptive capacity than social capital in improving knowledge management. The direct effect of social capital on knowledge management is 21.16%. The indirect effect of social capital on knowledge management through absorptive capacity is 43.5%. This suggests that improvements in social capital will be more effective when carried out in conjunction with improvements in absorptive capacity because absorptive capacity also mediates the relationship between social capital and knowledge management; (2). Improving social capital, absorptive capacity and knowledge management together with more emphasis on knowledge management because of the most dominant knowledge management influence than social capital and absorptive capacity. Social capital can influence indirectly through knowledge management with influence of 25,76%. The indirect effect of absorptive capacity through knowledge management is 28%. This suggests that improvements in social capital and absorptive capacity will be more effective when undertaken in conjunction with improved knowledge management because knowledge management also fully mediates the relationship between social capital and absorptive capacity with firm performance; (3). Increasing social capital done by giving more attention to the relational dimension because the relational dimension is the most dominant in social capital variable than other dimensions. The improvement of the relational dimension done by giving more attention to the effort to improve the quality of the relationship between employees and customers; (4). Increasing absorptive capacity by paying more attention to the acquisition dimension because the acquisition dimension is the most dominantdimension in absorptive capacity variables than other dimensions. Improvement of the acquisition dimension done by paying more attention to efforts to encourage employees to attend external training and workshops on a regular basis; (5).Improving knowledge management done by giving more attention to the dimension of information and communication technology because the dimension of information and communication technology is more dominant in the variable of knowledge management than other dimension. Improving the dimensions of information and communication technologydone by paying more attention to efforts to improve the company's knowledge management tools that are widely accepted, monitored and upgraded; (6). Improving the operational dimension because the most dominant operational dimension in the company performance variable compared to other dimensions. Improvement of operational dimension is done by giving more attention to the effort to increase employee work commitment; (7). Focusing on the relational and acquisition dimension through the help of information and communication technology so that the company's operations can run better.

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