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The Moderating Role of Family Commitments on Financial Attitude of Family Business Toward Debt

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ABSTRACT

Family business has been an interesting topic to discuss because of its uniqueness. The family business is owned, managed, controlled, and operated by the family members. Accordingly, the personal experience of each family member, as the top-level decision maker, affects the business most, including financial attitude toward debt. The financial decisions made by the family business are different because, in the family business, the decision-making is often based on nonfinancial factors. Then, it is crucial to know what factors are affecting and how they affect the financial attitude toward debt in the family business. This research investigates financial knowledge, positive experience with creditors, economic goal orientation, and perceived financial literacy toward financial attitude toward debt, with family commitment to the business as the moderator. To find out the result, this study takes quantitative data from 97 owners of the family business in Surabaya, Indonesia, using SEM-PLS to analyze the data. As a result, not all independent variables affect the financial attitude toward debt, positive experience with creditors does not significantly affect the financial attitude toward debt. Family commitment to the business also weakens the effect of positive experiences with creditors, economic goal orientation, and perceived financial literacy toward financial attitude toward debt.

Keywords: *Financial Knowledge, Positive Experience with Creditors, Economic Goal Orientation, Family Commitment, Financial Attitude toward Debt.*

1. Introduction

Indonesia's business growth is closely related to the role of family business. In 2014, PwC conducted research and revealed that more than ninety-five percent of Indonesia's businesses are family businesses, as reported by Supriadi (2014). A business where the family members are intensively involved in the business starting from the decision-making, shareholding, controlling, etc. is defined as a Family Business (Prasetya & Mustamu, 2014). Since the family members are involved in end-to-end business processes, then the family members become the key people behind the business which significantly influences the business. In family business, the decision-making is much influenced by the family members, both directly and indirectly, including the financial factor.

One of the key management challenges for the business is financial decisions. Despite all the advantages of family business, a family business is unique. As the people who are highly involved in the business and become the top-level decision-makers in the business, the personal experience of the family members highly influences the business. Prior research from Feltham, et. al (2005), showed that financial decisions in a family business are quite different, because the consideration taken is from the non-financial consideration, for example, personal experience and the need for family control. The decision-making of a family business is strongly influenced by the owner's characteristics, such as individual attitudes (Carter & Auken, 2004). Accordingly, it influences the financial attitude toward debt of family business.

In this purpose of study, the researcher emphasizes the financial attitudes of family businesses toward debt. Several previous studies have shown that family businesses prefer internal family funds (Romano, et al, 2000) and carry less debt than nonfamily businesses (Michiels & Molly, 2017). The issue of family businesses tending to have less debt is important to solve, and thus analyzing the financial attitudes of family businesses toward debt gives new insights for a family business as to whether financial knowledge, positive experience with creditors, economic orientation, and perceived financial literacy, as moderated by financial commitment to the business, affect the financial attitude of family business toward debt.

Financial knowledge

The understanding of top-level decision-makers regarding financial knowledge is crucial to the business. Financial knowledge encompasses the source of financing, the management of cash flow, cash management, finance contracts, etc. (Koropp et al., 2013). When discussing cashflow management, it shows the analysis of the financial condition of the business, either the cashflow is already adequate cashflow or still inadequate. At the point where the cash flow is inadequate, then additional external cash inflow such as debt is needed. Even though debt is generally accepted as the solution and seen as a profitable external source of financing, when it comes to the family business, it is different. Family businesses often see debt as burdensome and perceive that external debt leads to negativity (McConaughy et al., 2001). When the family members – the top-level decision-makers in the family business – do not have adequate financial knowledge, they will not choose the source of financing that they are not aware of. Then top-level decision-makers must understand the financial knowledge. As a result, the researchers developed our first hypothesis that financial knowledge has a positive effect on financial attitude toward debt.

Positive experience with creditors

Previous personal experiences with creditors tend to shape the person's attitude toward debt. If previously a person had a negative and bad experience with creditors, for instance, the contract of credit offered was against high collateral and not worth the credit facilities obtained, also the credit offered on a very high interest rate, then a person's experience with creditors is unpleasant. In the future, the person is likely to have a negative attitude toward debt financing. The person tends to decide to delay the raising of additional external debt (Koropp et al., 2013). Opposite to that, they are likely to welcome the new growth opportunities of issuing new debt financing for the business. According to Gudmundson, et al. (2001), previous personal experience of the decision maker with creditors is likely to determine the future financial decisions that will be made by them. Therefore, in making a financial decision, the personal experience of the decision maker with creditors is likely to determine their financial attitude toward debt.

Economic Goal Orientation

Every business has its level of economic goal orientation. In this case, the economic goal orientation of the family business is driven and depends on the family member’s economic goal orientation. In a family business where the business is fully intervened by the family members, the economic goal orientation becomes the framework matrix for the business decision-making. This suggests that people's financial attitudes toward debt are dynamic and different factors can form that, such as changes in the economic environment and personal life events (Squires & Ho, 2022). The positive effect of financial attitude toward debt is obtained when the economic goal orientation is high. Otherwise, the lower levels of economic goal orientation likely negatively affect the financial attitude toward debt. Meanwhile, several research indicates when the family business makes the decision, they pursue and consider the economic goals (Chrisman, Chua, and Lits, 2004).

Perceived Financial Literacy

Financial literacy is viewed as a crucial skill for life that can grow a person's financial well-being. People with higher financial literacy have better debt behavior compared with people with lower financial literacy (Bahovec et al., 2015). A person possessing greater financial knowledge is likely to make more informed financial decisions (S, P. & Nair, 2018; Gupta, 2023). In addition, the studies by Agarwalla et al. (2015) found that education level and income level affect perceived financial literacy. Those with higher levels of education and higher levels of income have higher perceived financial literacy. Knowledge of financial instruments, savings and loans, and insurance are some factors that can be used to assess the level of perceived financial literacy in the business (Chen & Volpe, 1998).

According to the above literature review, the authors have developed the hypotheses as follows:
H1: Financial Knowledge has a positive effect on Financial Attitude Toward Debt
H2: Positive Experience with creditors has a positive effect on Financial Attitude Toward Debt
H3: Economic Goal Orientation has a positive effect on Financial Attitude Toward Debt
H4: Perceived Financial Literacy has a positive effect on Financial Attitude Toward Debt
H5: Family Commitment moderates the effect of Financial Knowledge on Financial Attitude Toward Debt
H6: Family Commitment moderates the effect of Positive Experience with Creditors on Financial Attitude Toward Debt
H7: Family Commitment moderates the effect of Economic Goal Orientation on Financial Attitude Toward Debt
H8: Family Commitment moderates the effect of Perceived Financial Literacy on Financial Attitude Toward Debt.

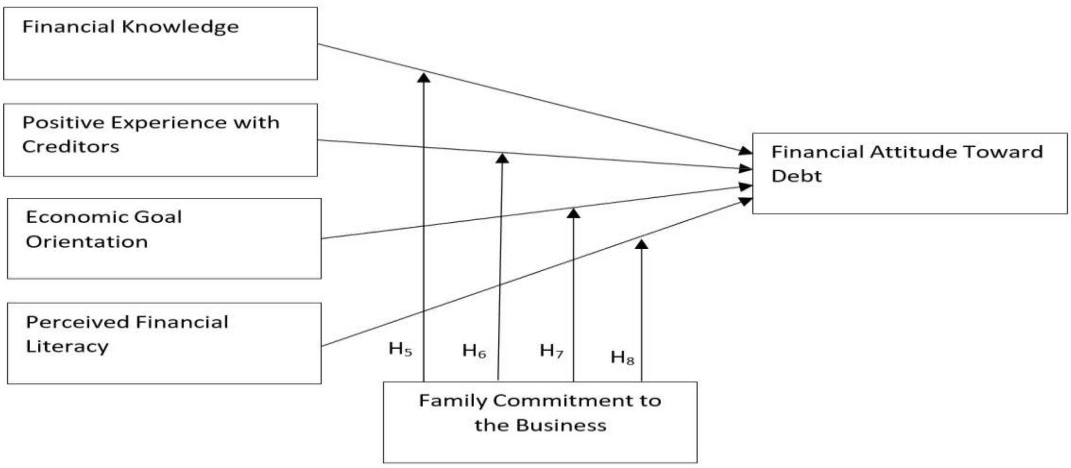

Figure 1. The research framework.

2. Method

This research implemented a quantitative-associative methodology. A quantitative study was research with numerical data and statistical analysis, and an associative study was conducted because it ascertained the relationship between two or more variables (Sugiyono, 2017). This research analyzes the relationship of financial knowledge, positive experience with creditors, economic goal orientation, perceived financial literacy, family commitment to the business, and financial attitude toward debt.

A bundle of statements spread to the target respondents to acquire the answers needed for research is called a questionnaire (Sekaran & Bougie, 2020). As this research is analyzing the Financial Attitudes and Family Commitment in Family Business, the questionnaire was distributed to the family business owners who were targeted as the respondents. This research applied a closed questionnaire using the Likert scale with a score of 1 to 5 in sequence. Respondents must follow the score requirements as follows: 1 for strongly disagree, 2 for disagree, 3 for neutral, 4 for agree, and 5 for strongly agree.

Family business owners in the city of Surabaya, Indonesia were the target population for this research. The city of Surabaya was selected because this city was known as one of the best cities for businesses in Indonesia.

However, the population size of family businesses in Surabaya was unknown, and thus the researchers obtained 97 respondents as the sample size. Roscoe, as cited by Bougie and Sekaran (2020), stated that a sample size larger than 30 and less than 500 is appropriate for the research.

The data was collected from primary and secondary data. Primary data is data directly collected from the main source or no intermediary in there (Widyanto, Lau, & Kartika, 2013). The primary data in this research was in the form of a questionnaire which was directly distributed and filled out by the respondents. Meanwhile, secondary data is the data obtained from the intermediary (Widyanto, Lau, & Kartika, 2013). The form of secondary data can be data taken from books, journals, previous research, or information collected by other people.

For the data analysis, after all the data from the respondents were collected, the data collected in this research was then analyzed by using Partial Least Square-Structural Equation Model (PLS-SEM). A technique in statistics to test and estimate the causal relationships by using the statistical data with causal assumptions called Structural Equation Modeling (Sandjojo, 2011) PLS-SEM is a model of measurement showing how the latent variables to be measured are described by the observed variables (Ghozali & Latan, 2015).

In terms of analyzing the significance level of the hypothesis, the researcher applied the Path Coefficient. Path Coefficient can show the t-value and p-value of the construct (Hair, Risher, Sarstedt, & Ringle, 2019). When the p-value shows a coefficient less than 5% (0.05) and has a t-value greater than 1.96, the hypothesis was concluded as significant (Garson, 2016).

3. Results and Discussion

The results of the hypotheses testing are divided into two outputs, the direct effect and the moderating effect.

Direct effect

The results of the direct effect are depicted as follows:

Hypothesis	Path	t statistics	p-value	Result
H1	FK -> FA	2.771	0.006	Significant
H2	EXC -> FA	0.619	0.536	Not Significant
H3	EGO -> FA	4.522	0.006	Significant
H4	PF -> FA	2.131	0.034	Significant

Financial knowledge has a significant influence on financial attitude toward debt because it has a p-value of 0.006 below the alpha of 0.05, and a t-value of 2.771 above 1.96, it can be concluded that the first hypothesis (H1) is accepted. The results of this study indicate that the knowledge possessed by business owners regarding finance can positively influence the attitude of business owners toward debt used for working capital. The better the knowledge about finance, the more positive the attitude towards debt. If seen at the descriptive profile of the respondents, 70% of the respondents have an undergraduate education background so understanding financial management was easier. This result is in line with research conducted by Koropp et al. (2013) which shows that financial knowledge has a significant effect on financial attitude toward debt.

The research shows no evidence that positive experience with creditors has a significant effect on financial attitude toward debt as the p-value of 0.536, and the statistical t-value of 0.619, we rejected the second hypothesis (H2). It turns out that when people borrow money from a creditor or bank, it does not necessarily mean that the borrower will have a positive financial attitude towards debt even though they have had a positive experience with the creditor. The result of this study is in line with research conducted by Heru et al. (2020) which shows that positive experience with creditors has no significant effect on financial attitudes toward debt.

Economic goal orientation indicates a significant effect on financial attitude toward debt because it has a p-value of 0.006 and a t-value of 2.771, we concluded that the third hypothesis (H3) in this study is accepted. Economic goal orientation is the orientation of business owners to maximize company profits. If the business owner has a high economic goal orientation, the financial attitude toward debt will also be higher, as debt can lead to maximizing company profits and thus achieve higher profitability. This research is in line with research conducted

by Heru et al. (2020) which stated that economic goal orientation has a significant influence on financial attitudes towards debt. The higher the economic goal orientation, the financial attitude toward debt will be more positive.
Perceived financial literacy has a significant influence on financial attitude toward debt with a p-value of 0.006 and a t-value of 2.771 so it was concluded that the fourth hypothesis (H4) in this study is accepted. Financial literacy is very important in managing company finances properly. By having good financial literacy, the financial management within the company will be carried out well. Individuals who have good financial literacy will have a positive financial attitude towards debt provided by banks and used as business capital. The result confirmed the previous studies that perceived financial literacy has a significant effect on financial attitude toward debt (Koropp et al. 2013; Bahovec et al. 2015).

Moderating effect

The results showed whether family commitment to the business as the moderating variable strengthens or weakens the influence of independent variables on the dependent variable. The results of the moderating effect are depicted as the following:

Hypothesis	Path	t statistics	p-value	Result
H5	MD FK*FC -> FA	2.013	0.045	Significant
H6	MD EXC*FC -> FA	1.563	0.119	Not Significant
H7	MD EGO*FC -> FA	1.199	0.231	Not Significant
H8	MD PF*FC -> FA	0.048	0.962	Not Significant

There is evidence that family commitment to the business significantly strengthens the effect of financial knowledge on financial attitude toward debt with a p-value of 0.045 and t-value of 2.013 so it can be concluded that the fifth hypothesis (H5) is accepted. This result is in line with research conducted by Heru et al. (2020) which shows that family commitment can moderate the effect of financial knowledge on financial attitude toward debt. This means that with a high family commitment to business, the effect of financial knowledge on financial attitude toward debt will be stronger.
Nevertheless, family commitment to the business did not significantly strengthen the influence of positive experience with creditors on financial attitude toward debt. It has a p-value of 0.119 and a statistical t-value of 1.563, then it concluded that the sixth hypothesis (H6) in this study was rejected. Heru et al., (2020) also confirmed there was no evidence that family commitment to business was able to strengthen the effect of the positive experience with creditors on financial attitude toward debt.
The seventh hypothesis (H7) was also rejected as family commitment to the business was not proven to strengthen the effect of economic goal orientation on financial attitude toward debt with a p-value of 0.231 and a statistical t-value of 1.199. Heru et al. (2020) revealed that family commitment was not a moderator to the effect of economic goal orientation on financial attitudes toward debt.
Finally, a similar result with H7, the eighth hypothesis (H8) was rejected as well and family commitment to the business was not shown evidence to strengthen the influence of perceived financial literacy on financial attitude toward debt.

4. Conclusion and Implications

In conclusion, financial knowledge, economic goal orientation, and perceived financial literacy were proven to significantly affect financial attitude toward debt, whereas positive experience with creditors did not. As a moderating variable, family commitment to the business only moderates the effect of financial knowledge on financial attitude toward debt. This implies that along with the higher family commitment to the business, the business owners must improve their financial knowledge by continuing to learn and develop them.

As Indonesia is a huge country and has a lot of business around the country it is suggested that a future researcher residing outside the main Java Island can also apply this research framework with their cities' business owners as the respondents, so that we could have a comparison data from various cities in Indonesia and can enrich our findings for the knowledge development.

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