p-ISSN: 2477-3328
e-ISSN: 2615-1588

Variables for Determining Manager Attitudes in Debt Funding: Study on SME in Sleman Yogyakarta

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Abstract

Purpose: This study aims to examine the effect of variable economic orientation variables, experience with debt suppliers (creditors), financial knowledge, and the need for controls to explain the financial attitude of debt financing with family commitment as a moderating variable and company age as a control variable.

Methodology: The method of data collection is done by survey, by sending a questionnaire. Respondents in this study consisted of 100 owners or managers of small and medium enterprises in the Sleman Regency of Yogyakarta. The analytical tool used in moderated regression.

Results: Test results show that positive experience with creditors has a positive and significant influence on attitudes related to debt use. While the orientation of economic objectives, financial knowledge and the need for control cannot explain the effect on attitudes related to debt. This research also proves that the moderating variable of family commitment weakens the positive effect of experience with creditors on the positive attitude of managers in debt financing.

Application / Originality / Value: This study includes the need for control variables in a model that links economic orientation, financial knowledge, and financial experience with managers' attitudes in debt financing for family businesses that have not been considered in previous studies.

INTRODUCTION

Financial decision making related to funding (capital) is a major management challenge for both public and non-public companies because appropriate and adequate financial capital is essential for company growth and survival (Mahérault, 2004; Van Auken, 2001)the first aim of this research was to prove that the equity route of some small and medium enterprises (SMEs. Mistakes in making this decision will be bad for the company. When a company fails to meet its obligations (paying interest and principal) the company will face bankruptcy risk.

For non-public companies, especially small and medium-sized companies, decision-making, especially related to financing will be influenced by the attitude and behavior of the owner-manager, this is because almost all ownership is under the control of the family (Van Auken, 2001). Ajzen (1991)1985, 1987 mentions attitude as the main factor that will explain behavior in the decision making process in the future. For family companies, financial decisions, especially funding will be influenced by the characteristics of the owner who is also the manager (Feltham et al., 2005). The characteristics referred to are individual attitudes, economic motivation and non-economic motivation (Chrisman, et al. (2004); Carter & Auken (2007)).

In terms of financial decision making, family-owned companies are very likely to follow financial logic driven by economic motives, for example, company growth and noneconomic motives, for example, emotional socio-value(Chrisman, et al., 2004). According to (Mahérault, 2004)the first aim of this research was to prove that the equity route of some small and medium enterprises (SMEs, a manager and owner who has a tendency to achieve high economic goals and tends to increase profits by always developing a business or business will prioritize the use of external

financial resources. On the other hand, a manager and owner who tends to low economic goals (prioritizing the emotional value of the business) will tend to ignore the potential for developing a business or business that is financed by funds from outside the company.In addition, a manager and owner who is usually the hallmark of a family company, in the decision-making process is often based on direct personal experience(Gudmundson, et al., 2001)

Financial knowledge discusses knowledge about matters such as sources of funds, capital markets, cash flow management, cash management, and others. Also includes expertise on types of external funds such as debt, credit terms, where this knowledge will reduce the dependence of family firms on sources of funds from within the company (Romano, et al., 2001). Family firms usually use internal funds more often because of concerns that external funds will eliminate the owner's control role in the company and loss of independence in decision making (Berger & Udell, (2001); Harvey & Evans,(1995). Family businesses don't like debt financing because they avoid the risk of losing control. The risk of losing control will increase with increasing debt. This is due to the higher probability of bankruptcy due to increased debt (Mishra & Mcconaughy, 1999).

Family commitment in the form of loyalty and pride in business or family business is a factor that influences business and is also related to financial performance to be achieved (Klein, et al., 2005). According to Zahra et al.(2008), commitment relates to company identification, which is a form of psychological involvement. This personal identification is not always uniform in all companies but is subject to a specific company context, so it has a moderate influence on the formation of individual financial choices (Koropp, et al. 2013). The results of Koroppet al.(2013) shows that family commitment moderates the relationship between the orientation of economic goals, positive experience with creditors, and financial knowledge of financial attitudes of managers.

This study aims to develop research conducted by Koropp et al.(2013), which uses economic goal orientation variables, experience with debt suppliers (creditors) and financial management knowledge, to explain financial attitudes (in this case funding debt), with family commitment as a moderating variable. This study adds a family control variable to explain attitudes in debt financing, with the consideration that small and medium companies whose ownership is mostly family-owned tend to retain their ownership and avoid others interfering in management, so it is suspected this variable is thought to influence the attitudes of managers to debt funding.

SMEs play an important role in the economy, according to CIPS researcher Pingkan Audrine Kosijungan, SMEs accounted for 60.34% of GDP in 2017. In addition, according to BI statistical data in 2105, SMEs were able to survive in conditions of economic fluctuations. During the 1998 and 2008 economic crises, the MSMEs that were able to survive reached 96%. However, there are two big problems that are inhibiting the growth of SMEs, namely the problem of marketing and capital. From the aspect of capital, especially those from banks, the growth of SME loans has not been very encouraging. Data from Bank Indonesia (2019), credit growth disbursed, still shows fluctuating growth, in 2014 credit growth reached 17%, but in 2015 it became 7.4%, in 2016 8%, in 2017 9.3% and in 2018 it fell to 8.7 %. This fluctuating credit growth shows that there are still problems with the source of capital derived from debt. Problems can originate from the lenders and can also originate from internal debtors, in this case SMEs

By knowing internal factors related to the attitude of decision makers in SMEs related to funding with debt, it is expected that especially the credit providers can find out the determinants that cause the company Little has a positive attitude towards creditors and finally decides to go into debt.

p-ISSN: 2477-3328
e-ISSN: 2615-1588

HYPOTHESIS DEVELOPMENT

Financial theories that are used in explaining how companies decide to use debt, do not discuss the ins and outs of debt financing decision making, which addresses managerial perspectives, especially for small and medium-sized companies. Koropp et al. (2013) have examined what variables can influence the manager's perspective with regard to debt financing for family companies. They examine the effect of financial knowledge, experience with creditors, and orientation of economic objectives to the attitude of the owner-manager regarding debt financing with family commitment as a moderating variable. Their results show that financial knowledge, experience with creditors influences owner-manager attitudes regarding debt financing, and family commitment moderates this relationship.

This research is a development of research conducted by Koropp et al. (2013) by adding the need for control variables as independent variables. Matthew et.al (1994) states that autonomy is a basic human need. Where humans want independence and creativity that will be found in situations of entrepreneurship and independent work. The need for autonomy has the same meaning as the need for control in the business being run. So that managerial decisions related to the use of debt will be closely related to the risk of losing control in the business being run. Therefore the variable need for control is very relevant to be used to explain the attitude of the manager-owner of small and medium businesses related to debt financing, given that small and medium businesses are usually managed independently by the owner and manager

Economic-purpose orientation

Research Romano et al.(2001) show that the economic goals of the owner of a family company are positively related to debt acquisition. Thus, a higher level of economic orientation positively influences the owner-managers financial attitude towards debt. The owner's manager of the family company may exhibit a high economic goal orientation regarding business-related dimensions and at the same time show a high social (noneconomic) social orientation in terms of family dimensions. From this description, the hypothesis proposed is:

Hypothesis 1: orientation of economic goals has a positive effect on manager's attitude in debt financing.

Experience with creditors

According to Gudmundson et al. (2001), usually, family businesses rarely use secondary data collection techniques and processes and prioritize collecting data from direct personal experience when making decisions. Owners and managers of family companies that have beneficial experience in using debt financing can be less careful about increasing corporate debt (Michaelas, et al. 1998). Therefore, a positive experience with a debt supplier can influence the attitude of the owner-manager of the family company to use debt.From this description, the hypothesis proposed is:

Hypothesis 2**:** experience with creditors has a positive effect on on manager's attitude in debtfinancing.

Financial knowledge

Financial knowledge about available financial sources, capital markets, financial contracts, cash flow management, cash management, supported by expertise in various debt products, credit requirements will reduce the company's dependence on internal funds. Michaelas et al. (1998) research shows that the owner-managers decision to use debt is influenced by their knowledge of sources of funding. An owner who has extensive knowledge is more likely to use debt financing.

From this description, the proposed hypothesis is:

Hypothesis 3: financial knowledge has a positive effect on manager's attitude in debt financing.

Need for control

For family businesses, meeting the needs of the family both now and in the future is a top priority. So that family control in the business running is one important component in the business(Dreux, 1990). In line with Berger and Udell (1998) it states that problems related to risk control and avoidance can affect the company's capital structure decisions. Owner-managers who have the desire to maintain their control within the company can use equity growth(Hutchinson, 1995).

In China and many other developing countries, a weak institutional environment heightens agency problems and causes greater distrust between owner-managers and external capital providers (Young, et al., 2008). Research conducted by Pukthuanthong & Walker (2007), shows that small and medium-sized companies (China) do not want to seek funding from external companies, which results from their distrust of parties outside the family and social networks.

Research in the West on small and medium-sized businesses relating to external funding shows a number of owner-managers are more likely to use company internal funds due to concerns about losing control of the company and the limited ability of owners to make independent decisions as a result of dependence on external funds (Berger& Udell, (1998); Harvey& Evans, (1995)). So, in general, it can be concluded that the need to control the company by the owner (manager) will negatively affect his financial attitude regarding funding with debt. From this description the proposed hypothesis is:

Hypothesis 4: need for control has a negative effect on manager's attitude in debt financing.

Family commitment

One part of family culture is family commitment. family commitment is one of the important factors that can affect business, and can also affect company performance (Klein, et al., 2005). High family commitment can affect the positive attitude of each family member towards the company. This can cause a tendency to increase interest and participation of family members in the business being run. Also, there will be an increase in social interactions between family members and owner-managers that will influence company decisions.

According to Koropp, et.al (2013), because personal characteristics affect the formation of commitment and are not always uniform in all family companies, personal characteristics have a moderate influence on the formation of individual financial choices. Koropp, et.al (2013), proves that family commitment moderates the influence of financial knowledge, positive experiences with creditors, and economic orientation towards managers' attitudes related to debt.When family commitment is high, the manager-owner attitude to want to use debt caused by the orientation of the pursuit of economic value will be reduced, because at this time the orientation to pursue socio-emotional value or maintain control in the company is more prominent. From this description, the hypothesis put forward is:

Hypothesis 5: High family commitment to business weakens the positive influence of economic goal orientation on manager's attitude in debt financing.

According to Gomez-Mejia et al (2007)when family commitment is very high in a business that is run, the desire to protect the business as a source of socio-emotional wealth will be able to replace the objectives of the performance or performance of the family company. Mishra and

p-ISSN: 2477-3328
e-ISSN: 2615-1588

McConaughy (1999) mention that when family commitments are high, the owner tries to protect the family and limit outside involvement.So, when family commitment is high, then the owner-manager has a negative experience with creditors, the negative attitude of the manager-manager regarding debt will be more pronounced. On the other hand, when family commitment is high, while the owner-manager has a positive experience with creditors, the positive attitude of the owner-manager regarding debt will weaken.

Hypothesis 6**:** High family commitment reinforces the positive effect of positive experiences with creditors on manager's attitude in debt financing.

High family commitment to the family business will weaken the positive influence of owner-managers financial knowledge about his attitude in debt financing. High commitment because it can cause cognitive biases related to business decisions and concerns that can endanger family wealth, control, and ownership which will reduce rational information behavior (Gomez-Mejia, et al., 2007).From this description, the proposed hypothesis is:

Hypothesis7: High family commitment weakens the positive influence of financial knowledge on manager's attitude in debt financing.

High commitment will lead to a strong need to continue to be able to control and protect the family business, protect the interference of other parties in managing the company's finances. So that high commitment will strengthen the negative influence of the need to control the company towards managers' attitudes related to debt financing.

Hypothesis 8: High family commitment to business reinforces the negative influence of the manager's control on manager's attitude in debt financing.

Due to the importance of attitudes in shaping behavior, this study emphasizes aspects that affect the owner-manager attitude such as: manager's financial knowledge, past experience of debt suppliers (creditors), orientation of economic goals, and the need for family control that influences financial attitude of the owner / manager of the company in debt financing with family commitments as moderating variables. The theoretical framework of thought based on the description is shown in Figure 1.

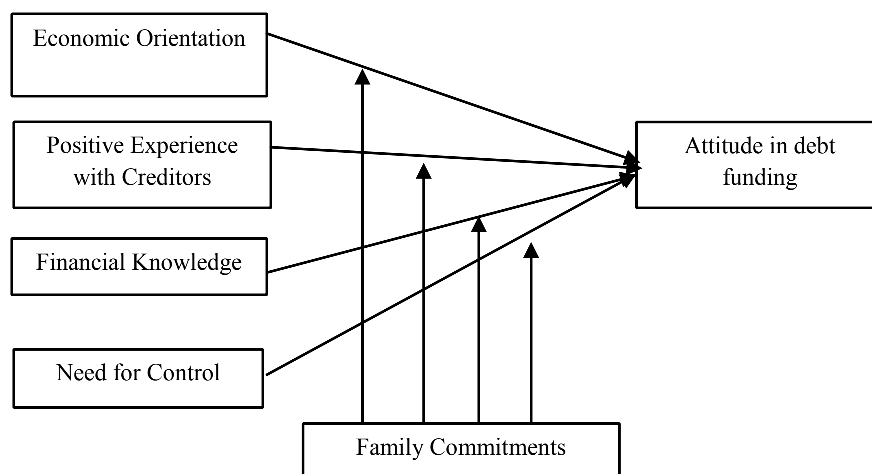

Figure 1. Relationship Model of Economic Orientation, Positive Experience with Creditor, Financial Knowledge, Need for Control, and Attitude Regarding Debt, Moderated by Family Commitments

RESEARCH METHODS

The population in this study were all small and medium businesses in the Sleman Regency of Yogyakarta. Sampling was done using a method *nonrandom sampling*, namely *convenience sampling*. This method was chosen because sometimes the owner/manager of the company who was asked to fill out the questionnaire was not willing to be a respondent. The number of respondents who were collected was as many as 100 respondents.

Research variables

The dependent variable in this study is the attitude of managers in funding decisions. Attitude is a person's belief in making decisions about certain outcomes. Attitudes will develop over time through repetition of an object, which can be a positive attitude and a negative attitude. Following Ajzen (1991)1985, 1987 individual attitudes are assessed by perceptual items that are generally associated with things that are liked or disliked, good-bad, dangerous-useful, pleasant-unpleasant. In this study, the manager-owner attitude towards debt is measured using four evaluative words which are good, useful, useful, and wise.

The independent variable used consists of four variables, namely the orientation of economic goals, positive experience with creditors, financial experience, and the need for control. Owner-managers are said to have a high economic goal orientation if they have the drive to increase profit growth. Conversely owner-managers who have a low economic orientation tend to ignore the growth opportunities that require funds outside the company's internal funds. To explain the economic goal orientation variable 3 indicators are used, namely: maximizing the value of the company's owner, minimizing capital costs, and maximizing business profits(Button, et al., 1996).

A person's experience will be very important related to decisions that are less structured and complex.

Previous personal experience related to funding and behavior from creditors can influence beliefs about the behavior of creditors in the future. So that a positive experience with creditors will be able to influence the positive attitude of the owner-manager towards debt, and vice versa. Indicators used to explain positive experiences with creditors are positive experiences with banks in the past, and positive experiences with other creditors in the past.

Financial knowledge is a multifacet construct that includes knowledge of available financial sources, functioning of the capital market, financial contracts, cash flow management practices, cash management systems, and so on. Financial knowledge will be able to increase when expertise also increases about variations in the types of debt that are profitable for the company, or appropriate credit terms, so as to reduce the company's dependence on internal capital. For the variable financial knowledge, indicators are used: company investment financing options, investment financing options for a particular company, and choice of financing sources for new plant acquisitions.

The need for control is a need for autonomy in running a business. The use of debt in entrepreneurial business, especially for small and medium-sized companies will cause the fear of losing freedom (loss of control) in making decisions in doing business.Variables need for company control are measured using indicators: Shareholders' permission from non-families, ownership opportunities (shares) for non-families, and the benefits of external funding sources for the company.

This study also uses moderation variables, namely family commitment. Family commitment is measured using four items that describe commitment to family, loyalty to family business, and pride in business. Managers are asked to indicate their level of agreement (1 = strongly disagree to 5 = strongly agree). The four items will then be averaged. In this study also included a control variable

p-ISSN: 2477-3328
e-ISSN: 2615-1588

that is the age of the company. The age of the company is calculated from the natural logarithm since the year the company was founded (López-gracia, et al., 2007).

Empirical model

to test the effect of orientation on economic goals, experience with creditors, financial knowledge and the need for control of the attitude of managers in debt financing will use the following regression equation:

1. The main equation (without moderation)

$$\textit{Attitude} = \alpha_0 + \alpha_1 \text{EconomicOrientation} + \alpha_{2Fi}\ \text{FinancialExperience} + \alpha_3\ \text{FinancialKnowledge} + \alpha_4 \text{Need for Control} + \alpha_5 \text{Family Communication} + \text{Size} + \varepsilon \quad (1)$$

2. The moderation equation

$$\textit{Attitude} = \gamma_0 + \gamma_1\ \text{EconomicOrientation} + \gamma_2\ \text{FinancialExperience} +_3\ \text{FinancialKnowledge} + \gamma_4\ \text{NeedforControl} + \gamma_5 \text{FamilyCommitment} + \gamma_6 \text{EconomicOrientation} * \text{FamilyCommitment} + \gamma_7 \text{FinancialExperience} * \text{FamilyCommitment} + \gamma_8 \text{FinancialKnowledge} * \text{Family Commitment} + \gamma_9 \text{NeedforControl} * \text{FamilyCommitment} + \text{Size} + \varepsilon \quad (2)$$

RESULTS

Results testing using multiple regression analysis is shown in Table 1. Model 1 shows the results of testing the main variables with variables age control of the company. While the model 2 presents the test results by inserting variable family commitments as a moderating variable.

The results of testing model 1 shows that the regression coefficient of economic orientation variables is 0.179 (sign = 0.307), financial knowledge regression coefficient of 0.111 (sign = 0.596), and the coefficient of need for control of 0.143 (sign = 0.538) has a significance level> 0.05 which means that the economic orientation variable, financial knowledge, and the need for control have no effect on the decision making attitude regarding debt. While the regression coefficient of the experience variable with the creditor showed a result of 0.636 with a significance level of 0,000 (significant at α = 0.05). This shows that the variable of experience with creditors has a positive and significant influence on the attitude of decision making related to debt. For the family commitment variable, the test results show that the regression coefficient of the family commitment variable is -0.332 with a significance level of 0.094 (significant at α = 0.10). This shows that the family commitment variable has a negative and significant influence on managers' attitudes related to debt decisions. So it can be concluded that hypothesis 2 is supported, while hypotheses 1,3, and 4 are not supported.

In testing model 2, the test results show that the economic orientation variable regression coefficient is 0.483 (sign = 0.607), the financial knowledge regression coefficient is 0.837 (sign = 0.576), the need for control coefficient is 0.687 (sign = 0.599), and the variable regression coefficient family commitment of 2.205 (sign = 0.153), has a significance level> 0.05 which means that the economic orientation variable, financial knowledge, the need for control and family commitment do not affect the decision-making attitude related to debt. To test the influence of the family commitment variable as a moderating variable shows that the regression coefficient of economic orientation variables*family commitment of -0.087 (sign = 0.704), regression coefficient of financial knowledge*family commitment of - 0.139 (sign = 0.676), and the regression coefficient of the need for control*family commitment of - 0.154 (sign = 0.614) with a significance> 0.05. This means that the family commitment variable is not able to moderate the influence of economic orientation,

financial knowledge, and the need for control over debt-related decision making attitudes. While the influence of moderating variables on the relationship of experience variables with creditors on debt attitudes shows a regression coefficient of - 0.320 with a significance level of 0.078 (significant at $\alpha = 0.10$). This shows that the variable commitment of the family can moderate the relationship of experience with creditors towards debt-related attitudes. So it can be concluded that hypothesis 6 is supported.

Table 1. Result of Moderating Regression

Variable	Model 1	Model 2
(1)	(2)	(3)
Constanta	0.447	-9.822
	(0.676)	(0.123)
Economic Orientation	0.179	0.483
	(0.307)	(0.607)
Financial Experience	0.636	1,944
	(0.00)***	(0.013)**
Financial Knowledge	0.111	0.837
	(0.596)	(0.576)
Need for Control	0.143	0.687
	(0.538)	(0.599)
Family Commitments	-0.329	2.205
	(0.094)*	(0.153)
Economic Orientation*Family Commitment	-	-0.087
		(0.704)
Financial Experience*Family Commitment	-	-0.320
		(0.078) **
Financial Knowledge*Family Commitment	-	-0.139
		(0.676)
Need for Control*Family Commitment	-	-0.154
		(0.614)
Age	0,009	0.007
	(0,686)	(0.765)

DISCUSSION

The results of regression testing show that positive experience with creditors has a positive effect on the owner-manager brush related to debt financing. This positive influence shows that a person who has a pleasant experience with a creditor will meet the needs of funds by increasing debt when the source of internal funds is not able to meet the needs of funds. In this case, the experience with the creditor owned will be used by the business owner to improve debt-related decision making. Business owners will be more careful in choosing creditors based on the experience they have, and creditors who provide good experience will tend to be the choice when the company needs

p-ISSN: 2477-3328
e-ISSN: 2615-1588

additional funds. This experience is something important for business owners to improve their skills and knowledge, which in turn will improve funding decision-making (Wiener, et al., 2005). According to Lyions et al.(2007), financial experience will influence someone in making credit decisions. Whereas Borden et al. (2008), and Robb & Sharpe (2009), prove that the more a person's financial experience will be associated with high debt. High financial experience will reduce the fear of using credit, which leads to high use of debt. These findings are in line with Koropp, et.al (2013) findings, that positive experiences with creditors have a positive effect on the attitude of decision makers regarding debt financing.

Regarding the influence of moderating variables, the results of the study indicate that family commitments mediate the influence of experience with creditors with debt-related attitudes. This shows that the existence of family commitment will weaken the influence of positive experiences with creditors on debt-related attitudes. According to Braunstein, et al. (2002), increasing financial knowledge and financial experience does not always guarantee changes in attitudes related to debt decision making. Changes in attitude related to the decision to take debt, certainly influenced by other variables in this case influenced by family commitment. Family commitment to the business being undertaken, will encourage the owner-manager to protect the business, and try to limit outsiders so that the business can survive and can be passed on to the next generation. High family commitment, followed by positive experience with creditors will weaken the manager's positive attitude regarding the use of debt. Or in other words, lenders are not considered to be obstacles to the control of family and wealth. These findings are in line with Koropp, et.al (2013) findings, that the relationship of positive experiences with creditors with the attitude of decision makers regarding debt funding is moderated by family commitments.

CONCLUSION

Positive experience with creditors is a pretty important determinant of attitudes related to debt use decisions. Previous experience related to the selection of external funding sources and the attitudes or behavior of fund or loan providers, tends to determine beliefs about the attitudes and behavior of loan providers in the future, which in turn will shape the attitude of the owner or manager in choosing the provider of funds Owners or managers who have previous unpleasant experience in obtaining debt will be more careful in making decisions to add debt. Therefore, direct personal experience experienced by the owner or manager of the provider of funds is more likely to influence attitudes in decision making regarding the use of debt.

Besides, high family commitment will strengthen the influence of positive experiences with creditors on debt-related attitudes. In this case, high family commitment will make business owners have strong support in using the source of funds from debt with various risks that may occur. If high family commitment coincides with a negative experience with a creditor that happened before, then a negative attitude towards debt is likely to become more apparent. Conversely, if family commitment is low because financial considerations are more dominant, then negative experiences with creditors will not greatly affect attitudes towards debt.

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