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Determinants of Debt Financing Behavior in Indonesian Family Firms: The Moderating Role of Family Tribe's Social Capital

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Abstract

This study aims to analyze the influence of Free Cash Flow (FCF), Operating Leverage (OL), and Market-to-Book Value (MBV) on debt financing behavior in 53 family firms listed on the Main Board of the Indonesia Stock Exchange for the 2021-2025 period. Additionally, this study examines the moderating role of Family Tribe's Social Capital in these relationships. Using the Fixed Effects Model (FEM) panel data regression method via Stata 17 on 265 firm-year observations, the results indicate that FCF has a significant negative effect on debt financing behavior, while OL has a significant positive impact on corporate financing decisions. However, MBV shows a positive but insignificant effect on debt policy. Moderation analysis demonstrates that family tribal social capital significantly mitigates the influence of FCF and OL on debt policy, whereas no moderating effect was found in the relationship between MBV and debt policy. These findings confirm that sociological factors, specifically tribal identity, function as crucial informal governance instruments influencing strategic financial decisions in family firms within emerging markets.

Keywords: Debt Financing Behavior, Free Cash Flow, Operating Leverage, Family Tribe's Social Capital, Family Firms

INTRODUCTION

The dynamic evolution of global industries has intensified business environment complexities, necessitating adaptive financing strategies for family firms. In Indonesia, family businesses play a pivotal role in the economic landscape yet face unique challenges in balancing capital requirements with the desire to maintain emotional control. Empirical phenomena among family firms on the Main Board of the Indonesia Stock Exchange (IDX) for the 2021–2025 period reveal an intriguing anomaly in financing behavior: the Debt to Asset Ratio (DAR) exhibited a downward trend from 0.421 in 2021 to 0.357 in 2024, indicating a shift toward more conservative financing patterns post-pandemic to prevent creditor intervention that might threaten the sovereignty and continuity of the family legacy. This phenomenon is vividly reflected in industrial giants such as PT Gudang Garam Tbk, controlled by the Wonowidjojo family, and entities under the Salim Group, such as PT Indofood CBP Tbk. Although these entities possess massive operational capacities, the dominance of kinship governance drives them to maintain a highly conservative capital structure. They rely on optimizing internal cash flows rather than aggressively taking on market debt amidst macroeconomic fluctuations. Theoretically, this dynamic is elucidated through the integration of Agency Theory, Socioemotional Wealth (SEW), and Stewardship Theory. Debt is perceived as a disciplinary mechanism within Agency Theory (Jensen & Meckling, 1976), whereas SEW emphasizes the avoidance of risks that threaten emotional control (Donaldson & Davis, 1991), and stewardship behavior manifests in cautious financing decisions to preserve the family legacy (Gómez-Mejía et al., 2007).

Inconsistencies in prior research findings regarding the determinants of debt policy serve as a crucial foundation for this study. Regarding cash flows, Dalwadi, (2023) and Karas & Reznakova, (2020) assert that Free Cash Flow (FCF) is a primary indicator of financial risk, aligning with Sun & Ding (2020) regarding the negative

impact of FCF on debt policy. However, research by Utami et al., (2026) provides a distinct perspective within the Indonesian corporate context, where governance and market perceptions often create operational realities that diverge from standard financial theories. Similar debates occur concerning Operating Leverage (OL); while Fukui, (2025) and Kahl et al., (2019) argue that high fixed-cost burdens trigger conservative policies, Chen et al., (2018) view it as a driver for debt to secure tax shield benefits. This condition is further complicated by the ambiguity of Market-to-Book Value (MBV); Karpavičius & Yu, (2019) identified a negative influence in high-growth firms, whereas Jao et al., (2023) and Rizkyana et al., (2025) noted a positive impact in domestic markets.

To bridge this theoretical gap, this study introduces Family Tribe's Social Capital (FtribesSC) as a moderating variable. Aligned with the arguments of Utami et al., (2026)regarding the vital moderating role of governance in influencing performance and strategic decisions, this study extends that concept into the sociological dimension. FtribesSC is positioned as an informal governance instrument based on relational networks and trust within the family circle. As a manifestation of stewardship behavior, FtribesSC is believed to mitigate agency problems and alter how firms respond to FCF fluctuations, operational risks, and growth opportunities (Baatwah et al., 2021; Glowka et al., 2021; Lwango, 2025; Moufdi & Mansouri, 2021). By focusing the analysis on the IDX Main Board, this research aims to examine whether the strength of tribal social capital can provide stability and intellectual honesty in financing decision-making amidst market uncertainty.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The Intersection of Capital Structure Theories and Tribal Social Capital

The determination of capital structure in family firms represents a complex intersection between standard financial theories and sociological dimensions. While the Pecking Order Theory emphasizes the prioritization of internal cash flows to mitigate information asymmetry, and the Trade-off Theory highlights the balancing of tax shields against financial distress, family firms are uniquely governed by the desire to preserve Socioemotional Wealth (SEW). To capture this unique governance dynamic in emerging markets, this study introduces *Family Tribe's Social Capital* as a composite variable integrating general family social capital with the specific sociological concept of tribal identity (*marga*). This tribal social capital manifests as an informal governance mechanism grounded in deep relational networks, shared moral obligations, and mutual trust within the dominant family circle (Lwango, 2025; Moufdi & Mansouri, 2021). By acting as a psychological buffer and reinforcing stewardship values, tribal social capital is posited to intervene in how firms respond to financial capacities and market risks, ultimately dictating their debt financing behavior.

The Effect of Free Cash Flow (FCF) on Debt Financing Behavior

Based on the *Pecking Order Theory*, firms prioritize internal funding over external sources. The high availability of Free Cash Flow (FCF) reduces a firm's reliance on debt. Sun & Ding, (2020) and Dalwadi, (2023) argue that abundant FCF provides managers with financial flexibility to fund operations without the burden of interest expenses. However, Utami et al., (2026b) emphasize that within the Indonesian corporate structure, the utilization of FCF is often linked to family owners' efforts to avoid stringent oversight from external creditors. Consequently, a higher level of FCF leads to a lower tendency for the firm to undertake debt.

H1: Free Cash Flow has a significant negative effect on debt financing behavior.

The Effect of Operating Leverage (OL) on Debt Financing Behavior

Operating Leverage reflects the proportion of fixed costs within a firm's cost structure. According to Kahl et al., (2019), firms with high OL face greater business risks because minor fluctuations in sales can significantly impact operating profits. From a risk management perspective, firms with high operational risk tend to limit financial burdens (debt) to avoid being trapped in financial distress. However, Chen et al., (2018) provide a contrasting view, stating that firms with substantial fixed assets which drive OL possess strong collateral to attract debt. Given that the sample consists of Main Board companies, large fixed asset ownership tends to enhance debt capacity.

H2: Operating Leverage has a significant positive effect on debt financing behavior.

The Effect of Market-to-Book Value (MBV) on Debt Financing Behavior

MBV is frequently used as a proxy for growth opportunities. Jao et al., (2023) state that firms with high growth potential require significant capital that often cannot be met through internal funding alone. Rizkyana et al., (2025) add that in domestic markets, investors perceive a high MBV as a positive signal, thereby facilitating firms' access to bank credit at more competitive costs.

H3: Market-to-Book Value has a significant positive effect on debt financing behavior.

The Moderating Role of Family Tribe's Social Capital (FtribesSC)

This study proposes FtribesSC as a sociological factor that moderates financial decisions. Strong tribal social capital reflects high levels of trust and stewardship values within the family.

a. **Moderation of FCF (H4):** FtribesSC is believed to strengthen the negative impact of FCF on debt. Solid family networks tend to be more conservative and will use internal cash flows more disciplinedly to avoid outside intervention through debt.

H4: Family Tribe's Social Capital moderates the effect of FCF on debt financing behavior.

b. **Moderation of OL (H5):** FtribesSC is capable of mitigating operational risks. When fixed costs are high, the moral and financial support from the family network (tribe) provides a risk buffer, allowing firms to remain bold in making strategic financing decisions despite increased operational risks.

H5: Family Tribe's Social Capital moderates the effect of OL on debt financing behavior.

c. **Moderation of MBV (H6):** Tribal social capital strengthens the relationship between MBV and debt. Extensive family networks facilitate access to information and capital, enabling firms to be more aggressive in capturing growth opportunities through debt financing.

H6: Family Tribe's Social Capital moderates the effect of MBV on debt financing behavior.

RESEARCH METHODS

This explanatory quantitative study analyzes 53 family firms listed on the Main Board of the Indonesia Stock Exchange for the 2021–2025 period. Using a purposive sampling method, the study yielded 265 firm-year observations. The dependent variable, Debt Financing Behavior, is measured using the Debt to Asset Ratio (DAR) as a proxy for capital structure policy. The independent variables include Free Cash Flow (FCF), Operating Leverage (OL), and Market-to-Book Value (MBV).

The moderating variable, Family Tribe's Social Capital (FtribesSC), is measured through a composite index representing the average proportion of family members on the Board of Directors and the Board of Commissioners. This measurement aligns with Villalonga & Amit, (2006), who position board structures as proxies for the strength of internal social capital within family firms. Family relationships were identified by tracing tribe names (marga) and biographical profiles in annual reports and the Financial Services Authority (OJK) information disclosure system.

Data analysis was performed using Stata 17 via a panel data regression approach. The optimal estimation model was determined through Chow, Hausman, and Lagrange Multiplier tests to ensure parameter consistency between the Fixed Effects Model (FEM) and the Random Effects Model (REM). In accordance with the recommendations of Baron & Kenny, (1986), hypothesis testing was conducted in two stages. The first stage examines the direct effects using a baseline panel data regression model without interaction terms (Model 1). The second stage employs Moderated Regression Analysis (MRA) to capture the moderating effects (Model 2). The econometric models for this study are mathematically formulated as follows:

Model 1 (Direct Effect / Baseline Model):

$$DAR_{it} = \beta_0 + \beta_1 FCF_{it} + \beta_2 OL_{it} + \beta_3 MBV_{it} + \beta_4 FtribesSC_{it} + \epsilon_{it} \text{.....ie (1)}$$

Model 2 (Moderated Regression Analysis):

$$DAR_{it} = \beta_0 + \beta_1 FCF_{it} + \beta_2 OL_{it} + \beta_3 MBV_{it} + \beta_4 FtribesSC_{it} + \beta_5 (FCF_{it} \times FtribesSC_{it}) + \beta_6 (OL_{it} \times FtribesSC_{it}) + \beta_7 (MBV_{it} \times FtribesSC_{it}) + \epsilon_{it} \text{.....ie (2)}$$

Where DAR_{it} represents debt financing behavior; β_0 is the constant; $\beta_1 - \beta_7$ represent the regression coefficients; $FCF, OL, and\ MBV$ act as the independent variables; $FtribesSC$ is the moderating variable; and ϵ_{it} represents the error term for firm i in year t. To ensure the estimators satisfy the Best Linear Unbiased Estimator (BLUE) criteria, this study applies Robust Standard Errors to mitigate potential issues of heteroscedasticity and autocorrelation within the model.

RESULTS AND DISCUSSION

Descriptive Statistics and Correlation Analysis

Table 1 presents the statistical profile based on 265 firm-year observations. The dependent variable, Debt Financing Behavior (DAR), has a mean of 0.386, indicating that the family firms in the sample finance approximately 38.6% of their assets through debt. The primary independent variables exhibit significant distributional variations: FCF (mean 0.370), Operating Leverage (mean 0.608), and MBV (mean 0.772). Sociologically, Family Tribe's Social Capital (FtribesSC) recorded an average score of 0.390, with a range from 0 to 0.9, reflecting diverse intensities of family involvement within the board structure.

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
DAR	265	0.3865	0.1885	0.0601	1.4103
FCF	265	0.3703	0.1548	-0.2527	0.5185
Olev	265	0.6081	0.3746	-0.0245	1.3196
MBV	265	0.7724	0.3754	0.0748	1.2689
FtribesSC	265	0.3906	0.1968	0.0000	0.9000
FirmSize_C	265	21.1710	5.1405	14.3818	31.9800
ROA_C	265	0.1485	0.2873	0.0032	3.8881

Source: Secondary data processed via Stata 17, strongly balanced panel (N=265)

The correlation matrix in Table 2 shows that DAR is negatively correlated with FCF (-0.372) and MBV (-0.207), and weakly correlated with Olev (-0.115). This is initially consistent with the premise that internal cash and growth opportunities reduce debt reliance. FtribesSC shows a very low positive correlation with DAR (0.030), indicating that family social capital likely operates through an interaction (moderation) mechanism rather than a direct influence. All correlation coefficients between independent variables are below 0.80, suggesting no initial indication of serious multicollinearity issues.

Table 2. Correlation Test

Variabel	DAR	FCF	Olev	MBV	Ftribe~C	FirmSi~C	ROA_C
DAR	1.0000						
FCF	-0.3722	1.0000					
Olev	-0.1153	0.1223	1.0000				
MBV	-0.2075	0.3215	-0.0605	1.0000			
FtribesSC	0.0300	-0.0312	-0.0660	-0.0960	1.0000		
FirmSize_C	0.0183	-0.0603	-0.0197	0.0027	0.2809	1.0000	
ROA_C	0.0364	0.0816	-0.2400	0.1353	0.0129	-0.0810	1.0000

Source: Secondary data processed via Stata 17, strongly balanced panel (N=265)

Model Assumptions and Diagnostics

The multicollinearity test results via Variance Inflation Factor (VIF) in Table 3 ensure the reliability of the regression model. The Mean VIF is 1.117, and no individual variable exceeds the conservative threshold of 10.00. This indicates that the model is declared free from serious multicollinearity, ensuring that the estimators remain efficient and unbiased.

Table 3. Variance Inflation Factor (VIF)

Var	VIF	1/VIF
MBV	1.153	.867
FCF	1.153	.868
FtribesSC	1.104	.905
FirmSize C	1.101	.908
Olev	1.097	.912
ROA C	1.094	.914
Mean VIF	**1.117**	.

Source: Secondary data processed via Stata 17, strongly balanced panel (N=265)

Regression Analysis and Discussion

The optimal estimation model was determined using the Hausman test ($p < 0.05$), which established the Fixed Effects Model (FEM) as the most appropriate method for this study. The regression results in Table 4 indicate that the model is statistically fit, with a *Prob > F* value of 0.000. The *Within R-squared* value of 0.2136 suggests that 21.36% of the variation in Debt Financing Behavior (DAR) can be explained by the independent and moderating variables included in the model.

Table 4. Panel Data Regression Results: Debt Financing Behavior

Variabel	(DAR) OLS	(DAR) FE	(DAR) RE
FCF	-.548***	-.471*	-.543**
	(.192)	(.253)	(.233)
Olev	.049	.176**	.166*
	(.098)	(.081)	(.094)
MBV	-.004	.112	.072
	(.072)	(.07)	(.07)
FtribesSC	.082	-.076	-.09
	(.158)	(.213)	(.194)
FCFFtribesSC	.416	1.181**	1.147**
	(.473)	(.528)	(.501)
OlevFtribesSC	-.228	-.332*	-.346
	(.246)	(.188)	(.227)
MBVFtribesSC	-.147	-.121	-.097
	(.172)	(.211)	(.217)
FirmSize_C	0	-.041	0
	(.002)	(.078)	(.005)
ROA_C	.041	.082	.08
	(.105)	(.081)	(.09)
_cons	.552***	1.192	.396***
	(.086)	(1.64)	(.135)
Observations	265	265	265
Adjusted R^2	.1752	.2136	.0000

Robust standard errors are in parentheses
**** p<.01, ** p<.05, * p<.1*

Hypothesis Discussion

The results show that Free Cash Flow (FCF) has a significant negative effect on debt financing behavior (H1 accepted), and Operating Leverage (OL) exerts a significant positive influence (H2 accepted). However, Market-to-Book Value (MBV) does not significantly affect debt policy (H3 rejected). These findings partially confirm the Pecking Order Theory, suggesting that abundant internal cash reduces the necessity for external debt. Specifically, the significance of FCF aligns with the study by Utami et al. (2026b), which notes that Indonesian family firms tend to be highly conservative in liquidity management post-pandemic to mitigate agency risks.

The Moderated Regression Analysis (MRA) reveals compelling findings regarding the role of sociological factors. Family Tribe's Social Capital (FtribesSC) is proven to significantly moderate the influence of both FCF and OL on debt policy by exerting a weakening effect (H4 and H5 accepted). Tribal social capital functions as an informal governance instrument that reinforces stewardship values. Under conditions of high operational risk (high OL), support from the family network provides a psychological and financial buffer, enabling firms to remain conservative in making strategic financing decisions. However, FtribesSC does not moderate the relationship between MBV and debt policy (H6 rejected).

Direct Determinants of Debt Policy (H1, H2, and H3)

The empirical results indicate that Free Cash Flow (FCF) has a significant negative effect on debt policy (Coefficient: -0.471; $p < 0.10$), thus H1 is accepted. This finding confirms the Pecking Order Theory and aligns with Sun & Ding, (2020). Interestingly, it provides a compelling contradiction to the study by Utami et al., (2026a), which previously found no significant effect of FCF within the SME context. This suggests that for family firms on the Main Board, cash efficiency is paramount to maintaining family sovereignty from creditor intervention, consistent with the principles of Socioemotional Wealth (SEW).

Operating Leverage (OL) exhibits a significant positive effect (Coefficient: 0.176; $p < 0.05$), leading to the acceptance of H2. This supports the perspective of Rizkyana et al., (2025) that high fixed operational costs encourage companies to utilize debt as a strategic maneuver to secure tax shield benefits while pursuing business scale expansion.

Conversely, the regression results show that Market-to-Book Value (MBV) has a positive but statistically insignificant coefficient (Coefficient: 0.112; $p > 0.10$), meaning H3 is rejected. This finding indicates that market expectations regarding growth opportunities do not dictate the funding behavior of family firms in Indonesia. Capital structure decisions in these entities appear to be driven more by internal governance dynamics and cash availability rather than aggressively responding to external market valuation fluctuations.

The Moderating Role of Family Tribe's Social Capital (H4, H5, and H6)

The moderation analysis provides the original contribution of this research:

H4 Accepted: The interaction between FCF and FtribesSC ($p < 0.05$) is significantly positive. Given the negative main effect of FCF, this indicates that family social capital exerts a weakening effect on the negative impact of FCF on debt. Expanding upon the empirical evidence of Moufdi & Mansouri, (2021), a strong tribal identity acts as an informal moral assurance that mitigates managerial risk aversion, emboldening firms to leverage debt strategically despite having abundant internal cash.

H5 Accepted: The interaction between OL and FtribesSC ($p < 0.10$) is significantly negative. Since the direct effect of OL is positive, this demonstrates that social capital exerts a weakening effect and functions as a vital risk balancer. Aligning with the adaptive governance concept proposed by Lwango, (2025), when operational risks are high due to substantial fixed costs, family kinship values compel the firm to dampen external debt-taking behavior to protect the continuity of the family legacy from financial distress.

H6 Rejected: The interaction between MBV and FtribesSC is not significant ($p > 0.10$). This confirms that tribal social capital lacks the capacity to moderate the relationship between market growth opportunities and debt policy. When responding to market valuations, family firms are guided by objective numerical indicators and capital market rationality, rendering internal tribal identity considerations insignificant in this specific context.

Control Variables Analysis

Regarding the control variables, the regression results indicate that both firm size (FirmSize_C) and profitability (ROA_C) do not have a significant effect on debt financing behavior, with p-values exceeding the 0.10 threshold. This implies that within Indonesian family firms, neither the scale of total assets nor short-term profitability dictates the capital structure. Instead, financing decisions are predominantly driven by the fundamental need to preserve family control and internal liquidity, rendering standard operational metrics less influential in this specific governance context.

Model Robustness Test

To confirm the stability of the primary findings, this study conducted a robustness test using a Fixed Effects regression with Robust Standard Errors estimation. This supplementary test was performed to ensure that the generated coefficients were free from bias caused by potential violations of the homoscedasticity assumption. The robustness test results indicate that the FCF and OL variables, as well as the moderating effect of FtribesSC, consistently maintained their statistical significance levels without any change in the coefficient directions. The stability of these parameters confirms that the study's conclusions regarding the weakening effect of tribal social capital on debt financing behavior are highly robust and are not driven by outliers or model specification disturbances.

CONCLUSION AND IMPLICATIONS

This study concludes that the financing decisions of family firms on the Indonesia Stock Exchange are a complex interaction between financial rationality and the power of informal social capital. FCF is proven to have a significant negative effect on debt (H1 accepted), confirming the validity of the Pecking Order Theory. OL has a significant positive effect (H2 accepted), indicating that high operational risk is responded to by utilizing debt for tax protection benefits. However, unlike initial expectations, MBV does not show a statistically significant effect on debt policy (H3 rejected). This finding suggests that for family firms, capital structure decisions are more internally driven by cash availability and legacy protection rather than aggressively responding to external market growth signals. The moderating role of Family Tribe's Social Capital (FtribesSC) provides an original contribution: social capital exerts a significant weakening effect on the negative influence of FCF (H4 accepted) and acts as an informal risk balancer when OL increases (H5 accepted). These results corroborate the adaptive governance theory proposed by , where tribal identity functions as an informal governance instrument that mitigates managerial risk aversion. Conversely, FtribesSC does not moderate the relationship between MBV and debt (H6 rejected), confirming that when responding to growth opportunities, family firms prioritize objective market rationality over tribal considerations.

Theoretical Implications:

This research extends the financial literature by demonstrating that financing decisions are not merely mechanistic-economic but are deeply influenced by sociological factors. The integration of *Pecking Order Theory* and *Socioemotional Wealth* (SEW) opens avenues for developing more inclusive theories that incorporate sociological dimensions into corporate finance.

Practical Implications:

Investors and creditors are advised to incorporate sociological elements, such as family reputation and the strength of family networks, into their credit risk assessment frameworks. For regulators (OJK and IDX), these results encourage the enhancement of disclosure quality regarding family involvement in strategic decision-making structures to better protect minority shareholders.

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