

THE EFFECT LOCUS OF CONTROL AND NEED FOR ACHIEVEMENT TOWARDS ENTREPRENEURIAL PERFORMANCE

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Abstract

Entrepreneurs are the key generator of economic growth. In this research, the characteristics of the entrepreneurs are being evaluated. Particularly, the locus of control and the need for achievement are being examined to find out their impact towards the entrepreneurial performance of the entrepreneurs. 50 young entrepreneurs are being selected as the research samples using random sampling. The result shows that both the locus of control and need for achievement have a significant effect towards their entrepreneurial performance. The benefit of this research is to provide entrepreneurs with a different perception of what actually contributes to the characteristics of them. The research is conducted within entrepreneurs so that we really know if it really affects them or not. And more importantly, we use sample of entrepreneurs who owns a business solely, as such their effect will be more influenced towards their business instead of multiple leadership or long organizational structure.

Keywords: *Entrepreneurs, Locus of Control, Need for Achievement, Entrepreneurial Performance*

Introduction

The world economy is currently sitting at an unstable stage where most of the countries in the world are facing an economic downturn in the past few years, although some are slowly recovering and improving. In Indonesia, the rich get richer, the poor get poorer, and there is an uneven spread of wealth between the upper class and the lower class. Economic decline has resulted in the increasing number companies going bankrupt and thus increasing number of

unemployment. More workers are being laid off due to the downturn of businesses; companies could not afford the overhead cost of human resource to breakeven with their revenue, so many workers are being laid off. Moreover, Indonesian companies highly depend on human resource, so the economic crisis affects significantly to the unemployment in Indonesia (Musdafillah, 2015). According to Audretsch *etal.*(2001), one of the ways to decrease unemployment in a country is to create more entrepreneurs so that there will be more jobs

available and thus less unemployment in the country.

In recent years, the economy of Indonesia has been at a decreasing rate of growth, but according to Global Entrepreneurship Monitor (2016), the rate of unemployment in Indonesia is decreasing every year since 2011 until 2014. Small medium enterprise (SME) in Indonesia is the reason of decreasing unemployment. SME creates jobs and plays a crucial role in reducing unemployment rate. Based on COMCEC Coordination Office (2017), SMEs in Indonesia has created 75% of employment in 2011 and in 2012, SMEs has successfully created 70% of jobs. In addition, Indonesian SMEs have contributed to more than 90% of GDP, and between 2003 and 2006 both small and medium-scale businesses contributed more than 50% to GDP growth (Tambunan, 2008).

To summarize what was written as the background, the researcher would like to find out whether people with locus of control and the need for achievement perform better in their entrepreneurial performance. Do People who have those traits have better motivation or not? Do they have more passion than others who do not possess those traits? The research questions in this research are do individuals with internal locus of control affect their entrepreneurial performance and do individuals with the need for achievement affect their entrepreneurial performance. The research purposes of this research are to find out whether those who possess characteristics of locus of control and the need for achievement can affect their entrepreneurial intention.

The benefits of this research are to ease other researchers who are planning to do the same research, to open the society's mind and

not to limit the characteristics that an entrepreneur has to have. The benefit to entrepreneurs is to figure out whether they have these qualities to be one, the drive and passion to succeed and the dependence on themselves. This research would contribute to the deeper findings and actual results of entrepreneur's characteristics, knowing that most people do not know of these characteristics or rather underestimate it. By doing this research, it hopes to strengthen and add other core values of an entrepreneur.

Literature Review

Hansemark conducted an experiment to determine the effects of an entrepreneurship program towards the need for achievement and locus of control of reinforcement in 1998 (Hansemark, 1998). They wanted to find out whether the characteristics of people would change if they were put into an entrepreneurship program, specifically would they possess the qualities of need for achievement and locus of control after this program. This is a quantitative research, which uses two control groups and two experimental groups. All variables were kept the same, such as age, educational level and their field of study. The experimental groups were put into an entrepreneurship program for 7 months. *Need for Achievement* was measured with Thematic Apperception Test consisting of six pictures. *Locus of Control* was measured with Rotter's Internal-External test. The experimental group took the test before and after the entrepreneurship program and their result was recorded and analyzed.

Stanworth (1990) explains that there are 3 different approaches that could be used to

answer the question; a social psychological, a psychoanalytical, and the trait approach. The social psychological approach states that people's choices are based on the environment and surroundings and those entrepreneurial role models have a significant impact on individuals towards entrepreneurship. After 7 months of the entrepreneurship program, the control groups showed no change whereas the experimental group showed a significant increase in achievement and locus of control. This means that an entrepreneurship program could alter the need for achievement and locus of control of an individual.

Musdalifah (2015) did another research in 2015, where its purpose was to look at the influence between variables of locus of control and need for achievement to entrepreneurial intention through learning outcomes with the scope of the test, a student. The samples of this research are the students from the Faculty of Economics of State University of Makassar, who had enrolled in entrepreneurship course in the academic year 2011/2012, and it accumulated to 278 students. The independent variable of this research is the locus of control and need for achievement and the dependent variable is the entrepreneurial intention.

After the research was done, the result showed that there is a direct and indirect influence between locus of control on entrepreneurial intention through learning outcomes. It showed that locus of control in students makes their entrepreneurial intention stronger, and it directly affects their need for achievement to strive in reaching their goals and targets. The variation in locus of control and need for achievement could explain 63% of the variation in entrepreneurial intention, which is

more than half. Therefore, in conclusion, to increase the entrepreneurial intention of students, it is advisable that students understand the importance of growing and optimizing the characteristics of students who possess locus of control and need for achievement to have a mindset of job creators rather than job seekers.

Another research was done by Brockhaus in 1975 (1975) with purpose to examine locus of control as the predictors of entrepreneurial intention in a graduate business school. The primary purpose of this investigation was to supplement the limited research previously reported. Students' self-perceived intentions of starting a business were used as the criteria. Three Rotter I-E locus of control scale scores (total score and ideological and personal control sub scores) were used as predictors. In addition, changes in I-E scores were examined as a function of the course on entrepreneurship in which twenty (20) MBA students were enrolled. Using the students' self-perceived entrepreneurial intention, high and low groups were obtained. All three I-E scores were significantly different at the .05 level for the two groups. No statistically significant changes in I-E scores were found as a function of the course. Students were asked to complete the Rotter I-E locus of control Scale during the first session of entrepreneurship in the Summer of 1974. They were told that participation was voluntarily and that they would be asked to fill out the same instrument at the end of the course. They were also told that at the end of the courses individual results would be explained to them upon request. The second administration of the I-E Scale occurred on the last day of class. The students were also asked at that time to indicate their intention of starting a business. The result of the

research was concluded that locus of control might be the predictor of entrepreneurial intention.

Next, was a research done by Boone *et al* (1996) on CEO locus of control on the organizational outcome. The purpose was to find out whether the CEO locus of control has an impact on the organizational performance that it manages. The researcher did this research because people nowadays look blindly on CEO based on their outer characteristics, meaning their strategy for the organization, and ignore completely on their personality wise. The research used I-E Rotter Scale to measure the Locus of control of the subjects, where they were given a set of questionnaire to answer and some open-ended question. For the measure of the performance, the research used the profitability of the organization, the increase of revenue, assets, and decrease of liability as the primary measures of performance, and all of it were combined to conclude the overall performance of the organization. The controlled variable was the size of the firms, which is SME (small medium enterprise) to make the research valid and reliable, while the dependent variable was the performance of the organization and the independent variable is the locus of control of the CEO. The result of the research showed that the better I-E scores of the CEO might contribute to the better performance of the organization.

Entrepreneurial Performance

According to Van Vuuren (1997:3) entrepreneurial performance is the achieving of set entrepreneurial goals. In addition, Ladzani & Van Vuuren (2002:156) argue that entrepreneurial performance utilizes the available opportunities to grow the business

idea. However, entrepreneurial performance can be measured subjectively and objectively; absolute performance is used to measure objective values using quantitative data while subjective values uses qualitative data by asking perceptive views about performance. Performance here can be measure by financial and non-financial performance in an organization, which quantify what has been achieved as well as predict the future (Alhyari *et al.* 2013). The figure 1 shows the correlation between entrepreneurial knowledge, capacity and capital towards performance. According to the figure, there are four determinants of entrepreneurial performance; return on investment, market share, profitability and sales growth.

Relationship between Internal Locus of Control and Entrepreneurial Performance

Previous researches on the impact of chief executive officer (CEO) locus of control are mainly based on simple and partial mappings of bivariate associations between CEO locus of control and organizational outcomes. Previous researches relating CEO locus of control to organizational performance are relatively scarce. However, the findings of these studies consistently show that firms led by internal CEO's perform better than firms headed by external CEO's do. For one, Miller and Toulouse (1986a, b; in both articles the results are based on the same heterogeneous sample of small firms) collect five different performance indices. Their data suggest that the CEO's internal control expectancies are associated with successful firm performance, especially in firms operating in a dynamic environment. In dynamic environments, there is more need for the CEO to

interpret the environment; and thus more opportunity for him to enact conditions that reflect psychological as much as objective circumstances' (Miller and Toulouse, 1986a, p. 1393). This finding support the the social learning theory of Rotter, which states that generalized expectancies are more important to explain behavior in uncertain ambiguous situations (Rotter, 1975)

Hypothesis 1: The more Locus of control in an individual, the better their entrepreneurial performance will be.

Relationship between Need for Achievement and Entrepreneurial Performance

Much of the early work on achievement motivation was conducted at the macrolevel of analysis. McClelland (1961) hypothesized that countries with a higher mean level of nAch would show more entrepreneurial activity and economic growth than those countries with alower mean level of nAch. He found a statistically significant relationship between a country's average level of nAch (as measured by children's stories) and the subsequent economic growth of that country. He also found evidence for the relationship between nAch and entrepreneurial activity based on historical records of earlier societies.

Hypothesis 2: The more the need for achievement in an individual, the better their entrepreneurial performance will be.

Research Method

Sample and Data Collection Method

The population in this research is the small medium enterprise young entrepreneurs aged 18-40 years old in Surabaya. The enterprise should

only consist of one owner. It has also been described as a representative taste of a group (Berinstein, 2003). In this research, the sample is going to be determined using the formula from Hair *et.al.* (2016), which is 40 people because the largest number of structural paths is four. The sampling method used in this research is random sampling.

The data collection method in this research uses questionnaire as its primary method, which includes all the indicators for all the variables in the research. We give out 50 questionnaires to young entrepreneurs, which are done by random sampling, as the population is unknown. The questionnaire was given out to the nearest respondent to the researcher. The questionnaire consists of 13 items; five of which are indicators of need for achievement, four of which are indicators of locus of control and four of which are indicators of entrepreneurial performance. Indicators of locus of control include the believe that effort is necessary to accomplish what you want, the believe that hard work equals to success, the believe that failure in life is caused by not working hard, and accomplishment and hard work go hand in hand. Indicators of need for achievement include moderate risk propensity, undertaking innovative and engaging task, internal locus of control and responsibility for own decisions, and need for precise goal setting. Indicators of entrepreneurial performance include return on investment, profitability, market share and sales growth.

Data Analysis Method

Data analysis method in this research uses Structural Equation Modeling (SEM) technique with the *SmartPLS* application. SEM is a multivariate analysis method in social studies

(Ratmono & Solihin, 2013). Partial Least Square (PLS) is a structural equation analysis (SEM) based variants that can simultaneously perform model testing as well as structural model testing (Hair *et al.*, 2016). This method is used because the variables in this research are latent. There are two types of analysis in PLS; outer model analysis and inner model analysis. The analysis that should be done first is the outer model analysis (Ghozali, 2011). In the Outer Model Analysis, there are the validity and reliability test. Validity test shows how well the results obtained from the use of an appropriate measurement theories that are used to define a construct. The strong correlation between the constructs and the question and a weak relationship with the other variable is one way to test the construct validity. For the validity test, there are the convergent validity and the discriminant validity. The convergent validity consists of two parameter that is the loading factor and the Average Variance Extracted (AVE). For the loading factor, the value should be above 0.6 or 0.7 and for AVE the value should be above 0.5. The discriminant validity also consists of two parameter, which is the cross loading value and the correlation of latent construct and square root of AVE. The rule of thumb on cross loading should be above 0.7 and the square root of AVE should be bigger than correlation of latent construct.

In addition to the test of validity, PLS also uses reliability testing to measure the internal consistency of measurement tools. Reliability indicates the accuracy, consistency and accuracy of a measuring instrument in measuring. Reliability test in the PLS uses the composite reliability and the Cronbach alpha. The composite reliability indicates the degree that

indicates a common latent, so it can show the block indicator that measures the internal consistency of indicators forming the construct. Rule of thumb is >0.7 . Cronbach alpha is the second reliability test where the value should be above 0.7 on all variables. The third one is the outer loading significance test where the t-statistic value should be above 1.96.

In the inner model analysis, there are three indicators to prove it. The first one is the R^2 value and it has to be positive. The second is the estimate for the path coefficient and t-statistic value through bootstrapping and the value of t-statistic should be above 1.96. The third is the Q^2 value where it has to be > 0

Descriptive Results

According to Table 1, it can be concluded that most young entrepreneurs who own small-medium enterprise are of age 25-30, that is 28 people (56%), whereas the least number of entrepreneurs are of aged 31-35 which is just 6%. Based on the gender characteristic, it can be concluded that most of the entrepreneurs in this research are male, that is 31 people (62%). Looking at the number of employees, it can be concluded that most of the young entrepreneurs has employees less than 50 people, which is 42 people (84%). Other profile description includes the age of the business, it can be concluded that most of the young entrepreneurs have just started their business no longer than 5 years, which is 26 people (52%).

According to Table 2, it is known that the average perception of the respondent on the variable locus of control is 3.38. Highest perception of the respondent on the locus of control is when being asked whether hard work is necessary to achieve what they wants, which

shows an average of 3.50 on X1.1. Lowest perception on the locus of control is related to the believe that failure is largely affected by not working hard, which shows an average of 3.26 on the questionnaire item X1.3. Standard deviation shows the variance of results. The standard deviation is the lowest at question X1.4 with 0.646, this shows that the correlation of hard work towards achievement is more homogenous, and this can be compared with other perception on other questions.

Table 3 shows that overall perception of the respondents on the variable Need for Achievement is 3.36. The highest perception on need for achievement is that they motivate themselves in order to finish the task better than before, which has an average of 3.52. The lowest perception on need for achievement is the will to achieve better results compared to others, which has an average of 3.26 on question X2.5. The lowest standard deviation is 0.633 on question X2.5, this shows that the will to achieve better than others is more homogenous compared to other questions.

Table 4 shows that the overall perception of the respondent on the variable entrepreneurial performance is 3.41. The highest perception on entrepreneurial performance is that there is positive return on investment from their business, which can be shown by average of 3.46 on question Y1.2. Lowest perception on entrepreneurial performance is related on the increase on the revenue each year, which is 3.36 on question Y1.1. Knowing that the lowest standard deviation is 0.646 on question Y1.2, this shows that there is return on investment in their business, which is most homogenous compared to other question on the variable entrepreneurial performance

Partial Least Square

To test the research hypothesis, the Partial Least Square analysis is being used with Smart PLS 2.0 program. Structural model on the relationship for variable-to-variable research is being shown in Figure 1.

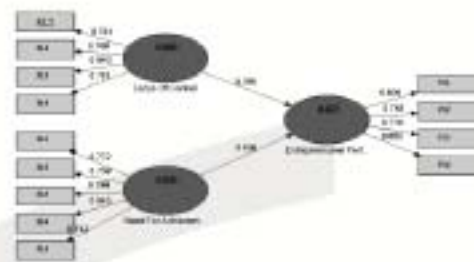


Figure 1: PLS Structural Model

Based on Table 2, it is known that outer loading value of each indicator on the three research variables are more than 0.5. This shows that each of the indicators in this research is enough to be considered convergent validity. The convergent validity is strengthened by the AVE value, which states that it should be above 0.5. The discriminant validity is measured by the cross loading value. An indicator is considered passing the discriminant validity test can be proven if the cross loading value of the indicator towards its variable is the highest compared to other variable. Based on the cross loading value, it is concluded that each indicator that made up each variable in this research (bold value) is considered discriminant validity because the outer loading value is the highest for their variable and not for the other variables. As such, all indicators in every variable in this research has been considered discriminant validity.

The last analysis on the outer model is the reliability. Composite reliability evaluates the reliability value of each of the indicator on one construct variable. One variable is said to be

reliable if it is composite reliability > 0.7 . Composite reliability of the three variables are 0.872, 0.889 and 0.877, where all are above 0.7 which means they pass the reliability test. The other reliability test is the t-statistic and all indicators in all variables are above 1.96. The Cronbach's alpha test is also a reliability test, and the Cronbach value should be above 0.6. The Cronbach value of the 3 variables are 0.81, 0.80 and 0.84, means that all are above 0.6.

For the inner model analysis, the R squared of the entrepreneurial performance is 0.697 which shows that a big percentage of homogeneity on the variable Entrepreneurial Performance that can be explained by variable locus of control and need for achievement is 69.7%, and the rest of 30.7% can be explained by other variable excluding locus of control and need for achievement. In other words, it can be interpreted that the locus of control and need for achievement affect 69.7% towards entrepreneurial performance. On the PLS model goodness of fit test is known from the Q^2 . The Q^2 in this research is the same as the R^2 because the Y variable is only 1 and so the R^2 is only 1. The model has a good predictive value of 0.698, which shows the homogeneity of the research data that can be explained by the structural model is 69.7%. The second is the hypothesis test, the t-statistic on locus of control is 3.346, and the t-statistic value of need for achievement is 4.462, both of which are well above 1.96. Coefficient value estimates of the effect of locus of control towards entrepreneurial performance is 0.368. This shows that if the entrepreneur has more locus of control, the entrepreneurial performance of them will increase by 38%. Coefficient value estimates of the effect of need for achievement towards entrepreneurial

performance is 0.499. It shows that if the need for achievement of the entrepreneur is higher, the entrepreneurial performance will increase by 49.9%. Both of the hypotheses is proven to be true in this research.

Discussion

After analyzing the data outcome from the PLS method, we can conclude that both the hypothesis is indeed true. What we do not know is how far these hypotheses are true and which variable affect stronger towards the entrepreneurial performance. From the t-statistic test in Table 4, we can see that the t-value of locus of control is 3.346 whereas the t-value of need for achievement is 4.462, as such we can conclude that the need for achievement affects more significantly towards their entrepreneurial performance rather than the locus of control. Previous studies on internal locus of control and entrepreneurial success have yielded positive correlation (Rauch and Frese, 2007b). Individuals with an internal locus of control perceive themselves as active agents who can control events in their lives through skill and effort. At the same time, it is vital for entrepreneurs to believe in their own active influence as it helps to increase motivation and attain success. (Rauch & Frese, 2007a). Vliamos and Tzeremes (2012) establish locus of control as one of the key factors that affect entrepreneurial activity and subsequent business creation. They argue that entrepreneurial locus of control could indirectly affect knowledge creation and transmission by influencing entrepreneurial activity. Sehora *et al.* (2009) in their research had reported locus of control as being positively related to the success of e-commerce start-ups. Moreover, out of all the

critical success factors examined it was seen that locus of control made the greatest contribution in explaining this success. Similarly, in this research, 52% of the entrepreneurs have business aging less than 5 years, which means they are mostly start-ups, and results shows that their locus of control is very high, thus they will have successful performance in their business. In the research done by Boone *et.al* (1996), the researcher limit the size of the firms of the subjects to SME (small medium enterprise). Although in this research there are no limits to the size of the firms, statistics shows that the subjects taken have firms of similar circumstances. In this research, 84% of the subjects have 50 or fewer employees in their firms which can be categorized as SME, and half of the subjects firms have an age lesser than 5 years which means they are mostly start-up firms. To summarize, the results of the two researches show similar outcome where the higher locus of control may contribute to the better performance of the organization that it manages.

This research supports the McClelland's theory that achievement motivation is significantly related to performance in an entrepreneurial role. In this research, the need for achievement shows a significantly high t-value of 4.462, where the indicator would lie at 1.96. It shows that the higher the need for achievement of an entrepreneur, the more likely their entrepreneurial performance to be better. McClelland (1965) states that individuals who are high in achievement motivation are more likely to engage in the instrumental activities that are necessary for success in an entrepreneurial situation that are individuals with low achievement motivation. Based on the

research by Collins *et.al* (2004), they tested the hypothesis whether there would be significant association between achievement motivation and entrepreneurial performance. Results of the research showed that achievement motivation would be significantly related to performance. Similar results are concluded in this research that there are significant relationship between need for achievement and entrepreneurial performance. In this research, 84% of the respondents are under 30 years old, which means that they are relatively young. Next, is based on the study of Treadway *et.al* (2005), which studied the correlation of political skills and behavior within organization, including age and need for achievement. They used a sample of 193 working adults with at least 5 years working experience, and the result was that age was negatively related to the need for achievement, which means that older individuals have lower levels of need for achievement than younger individuals have. Same goes in this research, since we can conclude that age was one factor related to need for achievement, where younger people have more need for achievement than older people have.

Conclusion and Suggestion

Conclusion

In conclusion, this research has fulfilled the objectives and purpose of its findings. The first hypothesis that states that the higher the locus of control of an individual will lead to a better entrepreneurial performance of them has been proven to be true in regards to the findings in chapter 4. The second hypothesis, which states that the higher the need for achievement in an individual will effect positively towards their entrepreneurial performance is also proven true.

Limitation and Suggestion

Whilst proving both of the hypothesis to be true, there are some things that can be changed or improved in the next research. The first limitation includes the presence of bias in this research. The researcher through random sampling chose the subjects in this research, and as such, not everybody has an equal chance of being selected as the subjects. There might be under coverage bias where only certain groups of people are selected and other groups are not represented properly in the research. Advise for future researchers are to gather the population and use random sampling to be a fair test. The second limitation is that the variable in this research is limited to only two characteristics of an entrepreneur are being studied, and not applying to the other characteristics which may affect the outcome of entrepreneurial performance. Advise for future researchers who are going to research on this topic is that to include more variables in the research in order to strengthen the hypothesis even more, since there might be many other variables that can affect entrepreneurial performance of an individual, so to acknowledge other variables that might affect entrepreneurial performance will make the research a fairer one.

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Table 1: Characteristics Respondents

Respondent Profile		Frequency	Percentage
Age	<25 Y.O	14	28
	25-30 Y.O	28	56
	31-35 Y.O	3	6
	>35 Y.O	5	10
Gender	Male	31	62
	Female	19	38
Number of Employees	< 50 People	42	84
	50-100 People	7	14
	> 200 People	1	2
Age of Business	<5 Years	26	52
	5-10 years	18	36
	11-15 Years	5	10
	>15 Years	1	2

Table 2: Outer Loading Value

Variable	Indicator	<i>Outer Loading</i>
<i>Locus Of Control</i>	X1.1	0.784
	X1.2	0.768
	X1.3	0.840
	X1.4	0.781
<i>Need For Achievement</i>	X2.1	0.772
	X2.2	0.759
	X2.3	0.799
	X2.4	0.845
	X2.5	0.742
<i>Entrepreneurial Performance</i>	Y1.1	0.806
	Y1.2	0.763
	Y1.3	0.779
	Y1.4	0.853

Source: Processed Data, 2017

Table 3: Cross Loading Value

Indicator	<i>Entrepreneurial Performance</i>	<i>Locus Of Control</i>	<i>Need For Achievement</i>
X1.1	0.570	0.784	0.636
X1.2	0.547	0.768	0.709
X1.3	0.711	0.840	0.687
X1.4	0.627	0.781	0.520
X2.1	0.626	0.567	0.772
X2.2	0.529	0.525	0.759
X2.3	0.705	0.659	0.799
X2.4	0.708	0.718	0.845
X2.5	0.547	0.655	0.742
Y1.1	0.806	0.565	0.560
Y1.2	0.763	0.632	0.626
Y1.3	0.779	0.622	0.689
Y1.4	0.853	0.667	0.683

Source: Processed Data 2017

Table 4: R-square Value

Variable	R-Square
<i>Entrepreneurial Performance</i>	0.697

Source: Processed Data 2017

Table 5: Coefficient estimates and T-statistic Value

Hypothesis	Coefficient	T-Statistics
H1 <i>Locus Of Control</i> → <i>Entrepreneurial Performance</i>	0.380	3.346
H2 <i>Need For Achievement</i> → <i>Entrepreneurial Performance</i>	0.499	4.462

Source: Processed Data 2017