

Internal vs. External Locus of Control: A Study of MSME Performance in Singaraja

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Abstract: MSMEs in Indonesia, including those in Singaraja, play an important role in the local economy, but often face challenges in improving their business performance. One of the psychological factors that can affect MSME performance is locus of control, which is divided into internal and external. This study aims to analyze the influence of internal and external locus of control on MSME business performance in Singaraja with a quantitative approach using multiple linear regression analysis. Data were collected from 62 MSMEs in Singaraja through a questionnaire measuring internal locus of control, external locus of control, and business performance. The results of the analysis show that internal locus of control has a positive and significant effect on MSME business performance (regression coefficient = 0.354, p-value = 0.003), while external locus of control does not show a significant effect on business performance (regression coefficient = -0.056, p-value = 0.467). This study concludes that MSME owners with internal locus of control are more proactive in managing their businesses, which leads to better business performance. The practical implication of this research is the need for a program that develops internal locus of control for MSME owners to improve their business performance.

Keywords: Internal Locus of Control, External Locus of Control, Business Performance, MSME, Singaraja.

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Introduction

The development of the micro, small and medium enterprise (MSME) sector in Indonesia has a very important role in the economy, especially in creating jobs and reducing poverty (Windusancono, 2021). Data from the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia shows that the MSME sector contributes more than 60% to the national Gross Domestic Product (GDP) and almost 97% to total employment in Indonesia (Munthe et al., 2023). However, the challenges faced by MSMEs in Indonesia, especially those in areas such as Singaraja, Bali, remain very large. One of the main challenges faced is the ability to survive and thrive in an increasingly competitive business environment (Ananda et al., 2023). In this context, psychological factors that influence the business decisions of MSME owners can play an important role in determining the success and performance of their businesses. Locus of control, which refers to an individual's belief about the extent to which they can control events that occur in their lives, is one of the psychological factors that can affect business performance (Herlambang et al., 2024). Locus of control is divided into two types, namely internal and external. Internal locus of control refers to the belief that individuals can influence the outcomes of their lives through their own efforts and actions. In contrast, external locus of control refers to the belief that life outcomes are influenced by factors beyond an individual's control, such as luck or other external events. In the context of MSMEs, internal locus of control may encourage owners to be more proactive in making decisions, planning business strategies, and managing risks, while external locus of control may make owners more passive and dependent on external factors for the success of their businesses.

In Singaraja, Bali, MSMEs play a significant role in the local economy, yet many struggle to achieve stability and sustainable growth. Facing market uncertainty, changing government regulations, and other operational challenges, MSME owners are often faced with the dilemma of how to make decisions that could affect the sustainability of their businesses. Therefore, it is important to understand how differences in locus of control can affect their business performance (Hendriyani et al., 2024). Although several studies have examined the relationship between locus of control and business performance, further research is needed to dig deeper into how these factors affect MSMEs in Indonesia, especially in areas such as Singaraja. The urgency of this research is clear, given that the MSME sector in Indonesia needs encouragement to better adapt to the dynamics of the global economy and improve their performance. One way to help MSMEs thrive is to provide a better understanding of the psychological factors that influence their performance. In this regard, locus of control can be an important indicator that can be used to understand how MSME owners make decisions that will affect the growth and sustainability of their businesses. A deeper understanding of the relationship between locus of control and MSME business performance will provide insight for policy makers, practitioners, and academics in designing more effective interventions or policies to support the development of MSMEs in Indonesia. The purpose of this study is to identify the influence of internal and external locus of control on MSME business performance in Singaraja. This study aims to analyze how both types of locus of control influence business decisions and operational performance of MSMEs, and to what extent these factors can be used as predictors of business success or failure. By knowing the influence of locus of control on MSME performance, this study is expected to provide significant contributions in developing better managerial strategies for MSMEs, especially in areas that still face challenges in developing their business sectors.

The advantage of this study lies in its approach that focuses on the MSME sector in Singaraja, an area that has different local economic characteristics compared to other regions

in Indonesia. By focusing on this area, this study will provide a more specific perspective on the challenges and opportunities faced by MSMEs in Singaraja. In addition, this study also uses a quantitative approach that can provide more objective and accountable data on the relationship between locus of control and business performance, so that the results can be applied in broader policies or strategies. The novelty of this study is the focus on the relationship between internal and external locus of control with MSME business performance in Singaraja. Although several previous studies have examined this relationship, most of these studies do not touch on specific aspects of MSMEs in areas such as Singaraja, Bali. Thus, this study offers a new contribution in understanding the role of locus of control in the context of MSMEs in Indonesia, especially in areas that are still developing and require special attention to overcome local economic challenges. This study is expected to be a reference for the development of MSME management literature, especially those related to psychological factors in decision making.

Concept and Hypothesis

In this study, the theoretical basis used is the *Locus of Control theory* which was first introduced by Julian Rotter in 1966. This theory describes an individual's belief about how much they can control events in their lives (Battu & Susanto, 2022). According to this theory, locus of control is divided into two types, namely internal and external. MSME owners who have an internal locus of control tend to believe that they can influence the results of their decisions and actions, while those who have an external locus of control feel that the results are more influenced by external factors such as luck, destiny, or economic conditions.

Internal Locus of Control

Internal locus of control refers to an individual's belief that they have complete control over the events in their lives. In the context of MSMEs, owners with an internal locus of control believe that the success or failure of their business is largely influenced by the decisions and efforts they make (Habibah & Dwijayanti, 2023). They tend to be more proactive, take responsibility for the decisions they make, and believe that they can influence business outcomes through hard work and careful planning. MSME owners with an internal locus of control are more motivated to innovate, find solutions to problems they face, and adapt to changes in the market.

External Locus of Control

In contrast, external locus of control refers to the belief that individuals have no control over events in their lives and that external factors, such as government policies, luck, or economic conditions, determine the outcome of their efforts (Norawati et al., 2022). MSME owners with an external locus of control tend to be more passive in the face of business challenges and may be more likely to blame external factors for failures or setbacks in their business. They may feel less confident in making strategic decisions and rely more on external events to determine the success of their business.

MSMEs Business Performance

MSME business performance can be measured through several indicators, such as sales growth rate, profitability, operational efficiency, and customer satisfaction. This business performance is an important indicator to measure the success or failure of a business (Manuhutu et al., 2024). In the context of MSMEs in Singaraja, business performance reflects how well the business can grow and survive in an environment full of uncertainty. Good performance includes stable increases in revenue and profit, while poor performance is usually associated with declining sales, inability to adapt to market changes, and inability to retain

customers.

Hypothesis Development

Based on the theoretical basis above, there is a relationship between internal locus of control, external locus of control, and MSME business performance. MSME owners with internal locus of control are more likely to have better business performance because they feel responsible for the success or failure of their business and are more proactive in managing their business (Surya Kristanto et al., 2021). They tend to be more innovative, manage risks better, and make the right decisions based on the existing situation.

On the other hand, MSME owners with external locus of control may be less effective in managing their businesses, as they rely more on external factors and are less proactive in making changes or innovations. This can lead to poor business performance as they are more likely to avoid risks or make less strategic decisions.

Based on this theory, the hypothesis in this study can be constructed as follows:

Hypothesis 1 (H₁):

Internal locus of control has a positive effect on the performance of MSME businesses in Singaraja.

Explanation: MSME owners with internal locus of control tend to be more active in decision making, have greater control over the actions and results achieved, and are more confident in facing business challenges, which ultimately leads to increased performance of their businesses.

Hypothesis 2 (H₂):

External locus of control has a negative effect on the performance of MSME businesses in Singaraja.

Explanation: MSME owners with external locus of control may be more passive and tend to blame external factors such as market conditions or government policies for the failures they face, which can hinder their business performance. They tend to be less proactive in making necessary changes or improvements.

Hypothesis 3 (H₃):

Internal locus of control has a stronger influence on MSME business performance compared to external locus of control.

Explanation: MSME owners with internal locus of control are more proactive, innovative, and make decisions based on situational analysis, which is more supportive of improving business performance. In contrast, external locus of control that relies on external factors tends to have a weaker impact on MSME business performance.

Method

In This study uses a quantitative approach with a survey research design. This survey aims to collect data on the influence of internal locus of control, external locus of control, and business performance of MSMEs in Singaraja. The quantitative method was chosen because it allows researchers to test the relationship between variables objectively using numerical data obtained from the questionnaire.

The population in this study were all MSMEs in Singaraja city. This study involved 62 MSMEs as samples, which were selected using *simple random sampling techniques*. This sampling technique was carried out with the aim of ensuring that each MSME had an equal opportunity to be selected in the study. The selected respondents were owners or managers of MSMEs who were willing to participate in this study.

Measurement of Variables

In this study, measurements were carried out using a questionnaire consisting of three main parts, each measuring internal locus of control, external locus of control, and MSME business performance.

1. Internal Locus of Control

Internal locus of control measurement is based on Rotter's theory (1966). The questionnaire used contains statements that measure the extent to which MSME owners feel that their business outcomes depend on the efforts and decisions they make. The assessment is carried out using a Likert scale of 1-5, where 1 indicates strongly disagree and 5 indicates strongly agree. Some examples of questions asked include: "I believe that the results of my business are greatly influenced by the decisions I make."

2. External Locus of Control

External measurement of locus of control aims to determine the extent to which MSME owners feel that external factors, such as government policies or market conditions, affect their business results. This instrument also uses a Likert scale of 1-5. An example of a question asked is: "The success of my business is more influenced by external factors such as government policies or market conditions."

3. MSME Business Performance

Business performance is measured through several indicators including sales growth, profitability, operational efficiency, and customer satisfaction. The questionnaire includes questions such as: "Have your annual sales increased in the last two years?" and "To what extent are your customers satisfied with the products or services you offer?" The questionnaire uses a Likert scale of 1-5.

Research Instruments

The assessment instrument in this study was designed to measure two main variables, namely internal locus of control and external locus of control, as well as the business performance variable of MSMEs in Singaraja. The measurement was carried out using a questionnaire consisting of several questions arranged based on a Likert scale of 1-5, where 1 indicates strongly disagree and 5 indicates strongly agree.

To measure internal locus of control, this instrument aims to determine the extent to which MSME owners or managers feel that the success or failure of their business is the result of their own decisions and actions. Statements used in this measurement can include "I believe that the results I achieve in this business depend entirely on my decisions and efforts." Respondents were asked to give a score from 1 to 5 based on their agreement with the statement.

On the other hand, external locus of control measurement aims to determine the extent to which MSME owners or managers feel that external factors, such as economic conditions, government policies, or luck, influence the success or failure of their businesses. Questions used in this instrument can be read like "The success of my business is more influenced by external factors such as economic conditions and government policies." As with internal locus of control measurement, a Likert scale of 1-5 is used to measure the extent to which respondents agree or disagree with the statement.

In addition, the instrument also measures the performance of MSME businesses by covering several aspects, such as sales growth, profitability, and customer satisfaction.

Questions related to business performance include, for example, "Have your sales increased in the last two years?" and "How do you rate the level of customer satisfaction with the products or services you offer?" Respondents were asked to provide an assessment based on their perception of their respective business performance.

After data is collected from 62 MSMEs in Singaraja, the results will be analyzed using statistical techniques to identify the relationship between internal and external locus of control with MSME business performance. The following table shows the instruments used in this study, along with their assessment indicators:

Table 1. Research Instruments and Assessment Indicators

Variables	Assessment Indicators	Likert Scale
Internal Locus of Control	The belief that business outcomes are influenced by personal decisions and efforts	1 - 5
External Locus of Control	Belief that success is influenced by external factors (economics, policies)	1 - 5
MSME Business Performance	Increased sales, profitability, customer satisfaction	1 - 5

The analysis of the results of this study is expected to provide an understanding of how internal and external locus of control affect the performance of MSME businesses in Singaraja. The results showing a positive influence of internal locus of control on business performance may indicate that owners who feel more responsible for the success of their business tend to be more successful in improving their business performance. Conversely, if the external locus of control is more dominant, MSME owners may be more likely to feel that external factors play a greater role in determining the success of their business.

Research Stages

The stages of this research are divided into several steps, starting from planning to data analysis. The first stage is to design and compile a research instrument consisting of a questionnaire to measure the research variables, namely internal locus of control, external locus of control, and MSME business performance. This instrument is compiled based on relevant theories and has been tested for validity. After the research instrument is compiled, the next stage is data collection. The questionnaire was distributed to 62 MSME owners or managers in Singaraja. Respondents were asked to fill out the questionnaire honestly and completely, either directly or through an online filling method, depending on the conditions and preferences of each respondent.

Before data analysis is carried out, validity and reliability tests are carried out to ensure that the instruments used can measure the research variables accurately and consistently. Validity tests are carried out using factor analysis, while reliability tests are carried out using Cronbach's Alpha . After the data is collected, the next step is to conduct data analysis. Data obtained from the questionnaire will be analyzed using appropriate statistical techniques. Classical assumption tests, such as normality tests, multicollinearity tests, and heteroscedasticity tests, will be carried out first to ensure that the data meets the requirements for regression analysis. After that, multiple linear regression analysis will be carried out to test the effect of internal locus of control and external locus of control on MSME business performance.

After conducting the regression analysis, the next stage is the interpretation of the results. Researchers will analyze the regression coefficient and p-value to determine how much influence the internal locus of control and external locus of control have on the performance of MSME businesses. Based on these results, researchers can draw conclusions about the relationship between variables and discuss their implications. After the analysis results are complete, researchers will compile a research report that covers all stages of the research, from the background, methodology, results, discussion, to conclusions. This research report will be published in a scientific journal, especially in the Scopus journal, which can contribute to the development of MSME management theory and practice in Indonesia.

Results and Discussion

After collecting data through questionnaires distributed to 62 MSMEs in Singaraja, the collected data were analyzed using multiple linear regression techniques. The results of this analysis aim to test the influence of internal locus of control, external locus of control, and MSME business performance, as well as to identify the relationship between these variables. Before conducting the regression analysis, a classical assumption test was first conducted to ensure that the data met the requirements for regression analysis, which included normality tests, multicollinearity tests, and heteroscedasticity tests. The results of the classical assumption test showed that the data met the requirements for multiple linear regression analysis.

Table 2. Multiple Linear Regression Analysis Results

Variables	Regression Coefficient	Sig. (p-value)	T-statistic
Internal Locus of Control	0.354	0.003	2,982
External Locus of Control	-0.056	0.467	-0.730
Intercept	1,875	0.000	6,532

The Influence of Internal Locus of Control on MSME Business Performance

The results of the regression analysis show that internal locus of control has a significant positive effect on the performance of MSME businesses in Singaraja. The regression coefficient for internal locus of control is 0.354 with a p-value of 0.003, which is smaller than 0.05. This shows that internal locus of control has a significant effect on MSME business performance, with a positive relationship direction. This means that the higher the level of internal locus of control in MSME owners, the better the business performance that can be achieved. MSME owners who have an internal locus of control tend to believe more that they can control the results of their decisions and actions, so they are more proactive in making business decisions and strive to improve their business performance. Owners with an internal locus of control are also more likely to innovate, manage risks better, and face challenges with a more positive attitude.

The Influence of External Locus of Control on MSME Business Performance

Meanwhile, the analysis results for external locus of control show a regression coefficient of -0.056 with a p-value of 0.467. A p-value greater than 0.05 indicates that external locus of control does not have a significant effect on the performance of MSME businesses in Singaraja. Although owners with external locus of control may feel the influence of external factors such as market conditions or government policies, the results of this study indicate that this influence is not strong enough to significantly affect their business performance. MSME owners who have an external locus of control may be more passive in

managing their businesses and rely more on external factors to determine the success of their businesses, which has the potential to hinder the development and performance of their businesses.

Comparison of Internal and External Influences of Locus of Control

Regression analysis also shows that internal locus of control has a stronger influence on MSME business performance compared to external locus of control. This is reflected in the higher regression coefficient of internal locus of control (0.354) compared to the negative external locus of control (-0.056), although the influence of external locus of control is not significant. Therefore, the hypothesis that internal locus of control has a stronger influence on MSME business performance compared to external locus of control can be accepted.

Discussion

The results of this study indicate that internal locus of control has a significant positive effect on the performance of MSME businesses in Singaraja. This is consistent with previous studies showing that business owners who have an internal locus of control tend to be more active in making decisions, more confident in managing their businesses, and better able to adapt to changes in the market. MSME owners with an internal locus of control believe that they can control the results of their business through the decisions and efforts they make. This leads to better decision making and improves overall business performance.

On the other hand, external locus of control does not show a significant influence on the performance of MSME businesses in Singaraja. Although MSME owners with external locus of control may feel the influence of external factors such as economic conditions or government policies, the results of this study indicate that these influences are not significant enough to affect their business performance. This may be due to the tendency of owners with external locus of control to rely more on external factors, which can make them less proactive in making decisions that can improve their business performance.

Overall, these findings provide important insights for MSME managers and owners in Singaraja about the importance of having an internal locus of control in achieving better business performance. Owners who have the view that they can control their business outcomes through their own efforts and decisions are more likely to succeed in managing their businesses. Therefore, it is important for MSMEs to improve their proactive attitude and sense of responsibility in managing their businesses to improve overall business performance.

Conclusion

This study aims to analyze the influence of internal locus of control and external locus of control on the performance of MSME businesses in Singaraja. The results of the analysis show that internal locus of control has a positive and significant effect on MSME business performance, while external locus of control does not show a significant effect. MSME owners who have an internal locus of control tend to be more confident, proactive, and have greater control over decisions taken in running their businesses, which leads to better business performance. Conversely, owners with an external locus of control, who are more dependent on external factors, do not show a significant effect on their business performance.

Based on these findings, it can be concluded that internal locus of control plays a more important role in determining the success or failure of MSMEs. Therefore, managing psychological factors, such as increasing the sense of control over the business, can be one of the key factors to improve the performance of MSMEs, especially in Singaraja.

Theoretical Implications

Theoretically, this study contributes to the development of literature on locus of control in the context of MSMEs. Previously, most studies on locus of control focused more on individuals in the context of work or the wider environment. This study deepens the understanding of how internal locus of control affects business management and business performance of MSMEs. The results of this study also emphasize the importance of psychological factors in business decision making and enrich the understanding of factors that influence MSME performance, which have so far been studied more from the perspective of external factors such as markets and government policies.

This study also provides empirical evidence linking personal beliefs about control with business outcomes, strengthening the argument that internal locus of control can be a determining factor for the success of MSMEs, especially in competitive markets.

Practical Implications

The practical implication of the findings of this study is that MSME managers, especially those in Singaraja, need to understand the importance of developing internal locus of control among their owners and managers. MSME owners who have an internal locus of control tend to have a better orientation towards managing their businesses, more effective decision-making, and more resilient adaptation strategies amidst market changes. Therefore, training programs that emphasize the development of a proactive attitude and a sense of responsibility for business success are needed.

In addition, these findings also have implications for policy makers and institutions that support MSMEs. By introducing interventions that can improve internal locus of control, such as mentoring, self-development training, and managerial skills improvement programs, it is hoped that MSMEs can be better prepared to face challenges and take advantage of existing opportunities.

Suggestions for Future Research

For future research, it is suggested that the research focus be expanded to include other factors that may affect MSME performance, such as motivation, leadership, and innovation. In addition, further research can consider moderating or mediating variables, such as social support or human resource quality, to see whether these factors moderate the relationship between locus of control and business performance.

Furthermore, this study was only conducted in Singaraja with a limited sample. Future research should include MSMEs from other regions in Indonesia to see whether the findings obtained can be generalized to a broader context. Research involving more MSMEs and using more diverse sampling techniques can provide more representative results and strengthen conclusions regarding the influence of locus of control on MSME business performance.

Thus, further research can deepen the understanding of psychological factors that influence MSMEs in Indonesia and provide more applicable suggestions in supporting the development and growth of MSMEs in various regions.

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