

Individual Characteristics as Determinants in Developing Micro and Small Enterprises in Manado, Indonesia

Adolfina

Faculty of Economics and Business. Sam Ratulangi University, Manado

Merinda Ch. Pandowo

Faculty of Economics and Business. Sam Ratulangi University, Manado

Genita G. Lumintang

Faculty of Economics and Business. Sam Ratulangi University, Manado

Abstract

The condition of Micro and Small Enterprises (MSEs), both nationally and regionally, is very large in numbers from the total MSMEs population, but has very low contribution to GDP compared to its large population. This illustrates that the condition of micro and small enterprises are not developing so it requires continues study to know related aspect in developing micro and small enterprises. One of the crucial aspects in developing a business is the individual factor of the entrepreneur because each individual has different characteristics. This study aims to provide a description of the characteristics of micro and small enterprises as well as a description of the entrepreneur characteristics. In addition to that, this study aims to know and analyze the role of individual characteristics in developing the business. This research can contribute to organizational behavior theory at the individual level in the MSEs as an organization. Data collection through questionnaires on 114 MSEs selected accidentally, scattered to three districts in Manado, and analyzed with descriptive and inductive statistic technique using SPSS. The results show that most of studied MSEs have three to ten years operation and mostly use one to four labors. Entrepreneurs are mostly women, aged 30 to 49 years old, and high school education background. The findings of this study are the motivation when starting a business and self-efficacy has significant effect in developing the business but not for the locus of control.

Keywords: Individual Characteristics - Micro and Small Enterprises

INTRODUCTION

In Indonesia, the number of MSMEs is very large namely 99.99 percent. Most of MSMEs is micro, and small enterprises (MSEs) reaching 99.90 percent and able to absorb 94.21 percent of the workforce but only 45.49 percent or very low contribution to GDP (Ministry of Cooperatives and SMEs, 2012). The low contribution of micro and small enterprises to GDP compared to its large population illustrates that the existing conditions of micro and small business are not growing. Therefore, it is necessary to have continues study to find out the related aspects in developing micro and small enterprises (MSEs).

The definition of micro and small enterprises according to Undang-Undang No. 20 year 2008 are: (1) micro enterprise is a productive businesses owned by individual persons and/or individual business entities, having maximum net assets of fifty million Rupiah, exclusive of land and building of their place of business, or having maximum annual sales proceeds of three hundred million Rupiah; and (2) small enterprise is productive economic businesses standing alone, done by individual persons or business entities not constituting subsidiaries or not constituting company branches owned, controlled, or becoming direct or indirect portions of Medium or Large Enterprises, having net assets of more than five hundred million Rupiah up to a maximum amount of ten billion Rupiah, exclusive of land and building of their place of business; or having maximum annual sales proceeds of more than two billion and five hundred million Rupiah) up to a maximum amount of fifty billion Rupiah.

One of the decisive factors in developing a business is the inherent characteristic of the individual entrepreneur. Each individual has different characteristics, such as abilities and skills, background, personality, motivation, needs, perceptions, attitudes, and demographic variables (Gibson, et al., 2012; Robbins, 2013). These characteristic differences will have an impact on the working behavior of the individual to develop the business.

Many previous studies have examined the characteristics of entrepreneurs and linked to the success of entrepreneurs or business performance (Green & Dent, 1996; Tanveer, et al., 2013; Sarwoko et al., 2013), connected to the growth of small business (Verheul & Van Mil, 2008; Sirec & Mocnik, 2010). However, the success of the entrepreneur or the performance of the business or the growth of the business in those researches is the result achieved from the business activities. Research that connects individual characteristics

with intention to develop a business is still lacking. According to Gibson et al. (2012), individual intention influences the behavior that ultimately affects organizational outcomes. Intention refers to how strong a person intends to try certain behavior. The stronger the intention of a person to do something, the greater is the likelihood of implementation of that intention (Inggawati & Kaudin, 2010).

This study examines the individual characteristics, namely: motivation to start a business, self-efficacy, and locus of control as a predictor in developing the business. It is for the reason that when a person is drawn into entrepreneurial activity because of a positive impulse then the motivated individual stays on the job long enough to achieve the goal, with an individual's level of confidence in his or her competencies and competencies, and individual who are internally oriented. The objectives of this research are to describe the characteristics of micro and small enterprises, the characteristics of the entrepreneur, and to examine the individual characteristics that play a role in developing the business.

LITERATURE REVIEW

Developing the Business

A growing business is the expectation of everyone who starts a business but it does not happen instantly. Nevertheless, a process requires perseverance, motivation, and resources to develop the business in the future. A developing business can be quantitatively measured such as increasing sales, profits, asset values, employment, and so on. Employee growth, sales growth, and assets growth are used to measure the growth of small and medium enterprises (Sirec & Mocnik (2010); Neneh & Vanzyl (2014)). Some researchers use terminology growth intention (Stenholm, 2011; Neneh & Vanzyl, 2014) because the concept of entrepreneurship does not stop when a business is created but also includes the intention to develop the business. Business growth can also be measured by one's intention to develop the business. According to Gibson et al. (2012), individual intention influences behavior that ultimately affects organizational outcomes. Intention refers to how strong a person intends to try manifesting a particular behavior. The stronger the intention of someone to do something, the greater is the likelihood of implementation of that intention (Inggawati & Kaudin, 2010). Mappigau & Maupa (2012) and Fatoki (2013) measure the growth of intentions in the entrepreneur's willingness terminology to increase the number of employee and sales in a specific time.

Individual Characteristics

In organizational behavior theory, individual characteristics influence individual behavior, and individual behavior will determine outcomes (Gibson et al., 2012). Therefore, the understanding of individual behavior is very important because each individual is unique, different from individual to individual. To be able to understand well the behavior of individuals, we must first understand the characteristics of the individual because each individual has different characteristics, such as abilities and skills, background, personality, motivation, needs, perceptions, attitudes, and demographic variables (Gibson et al., 2012; Robbins, 2013).

Motivation to Start a Business

Motivation is the processes that account for an individual's intensity, direction, and persistence of effort toward attaining a goal (Robbins, 2013). Intensity concerns on how hard someone tries. However, high intensity will not bring the desired result unless it is directed to a favorable goal. The dimension of persistence concerns on the size of how long a person can keep his business. Motivated individuals stay on the job long enough to achieve the goals. Motivation is a psychological drive that directs a person toward a goal. Motivation makes the circumstances within the individual appear, directional, and maintain behavior meet to or satisfy needs. In the context of entrepreneurship, the need is related to the need to develop the business. Intrinsic motivation occurs at time individuals feel that their work is important, interesting and challenging providing them freedom to act, and developing skills and abilities (Armstrong & Taylor, 2014). Intrinsic motivation can be described as motivation of the work itself. This intrinsic motivation is identical with pull factor for entrepreneurship. The motivation to start a business is generally categorized in terms of pull factors and push factors (Gilad & Levine, 1986). Theory of push and pull that is closely related to entrepreneurship motivation (Gilad & Levine, 1986; Taormina & Lao, 2007). The push theory argues that a person is pushed into entrepreneurship by negative external forces or factors that force someone to start a business to avoid unwanted situations such as job dissatisfaction, difficulty in getting a job, inadequate salary. The pull theory holds that one is interested in entrepreneurial activity for wanting to manage own work time, finding freedom, self-fulfillment, wealth, and other desired results (positive motivation). Previous research results such as Keeble et al. (1992); Birley & Westhead (1994); Orhan & Scott (2001) show that a person becomes an entrepreneur primarily concerned with pull factors rather than push factors. Pistrui et.al (2001) examines the entrepreneur motivation in the Chinese region and suggested that the motivation of the Chinese entrepreneur is rooted in the pull factor than of in the push factor. According to Segal et al. (2005), the motivation of starting a business is triggered by desirability to create self-employment, called the Net Desirability for Self-Employment (NDSE). Their findings indirectly support the importance of the pull factor in starting a business. Taormina & Lao (2007) uses pull factors in researching the

motivation of Chinese entrepreneurs and their search results are consistent with the findings of previous studies that psychological characteristics such as motivation to start a business continue to be essential for entrepreneur motivation. The research results of Inggarwati and Kaudin (2010) is that the most decisive factor to develop a business is the initial motivation when establishing a business. According to them, small entrepreneurs start their business because of the attraction (pull) factor of more desire to grow than small entrepreneurs who start a business because of the demands of circumstances or forced.

Based on the results of previous researches, this research uses pull factor to measure the motivation to start business for micro and small business in Manado. The understanding that an entrepreneur who starts a business because of the attraction factor drive will have a high intention to develop the business. The first hypothesis is:

H1: The higher the perceived pull factor to start a business, the higher is the intention to develop the business.

Self-Efficacy

Bandura 1977 cited by Gibson et al. (2012) discusses the concept of self-efficacy as part of social learning theory which states emphatically that self-efficacy is a belief that we are capable of performing adequately in certain situations. A person's sense of ability affects his perceptions, motivations, and accomplishments. Individuals with high self-efficacy are more likely to perform at high levels of achievement and may respond to issues in a more aggressive, corrective way than low self-efficacy individuals. Luthans (2011) argues that self-efficacy is character in nature because it is intended for specific tasks and can be trained and developed. Furthermore, it is said that people with high self-efficacy focus on opportunities that are worth of pursue and see obstacles as something that can be overcome. The hesitant, silent in trouble person see the obstacles as something they cannot control and easily convincing themselves that their efforts will be useless. Based on these opinions, in the context of entrepreneurship, self-efficacy means associated with a complex process, starting from establishing a business, running its business, and then developing it. An entrepreneur who is convinced of the ability to face the challenges that arise will not feel anxious and restless when running his business. Conversely, if the entrepreneur is not convinced or doubtful of his ability to develop the business, that is, having low self-efficacy, he will tend to reduce his business or easily to give up when facing with difficulties and challenging situations in developing his business.

The concept of self-efficacy includes three dimensions namely: magnitude, strength, and generality (Ivancevich, et al., 2005; Luthans, 2011). The magnitude dimension (seriousness) measures the difficulty level of the task that is believed to be resolved. Strength identifies whether the seriousness is high and can produce persistence when facing with adversity. Generality as a discretion of the form of self-efficacy that a person has for using in different situations. The results of Purnomo and Lestari (2010) found that the self-efficacy of SMEs has positive and significant impact on SME's performance and Sirec and Mocnik (2010) revealed that self-efficacy has an effect on SME growth.

In this study, the measurement of self-efficacy in the form of a score describes the entrepreneurial belief in the ability possessed. It can be explained that the higher the total score entrepreneurship on the scale of self-efficacy means increasingly confident in ability to run or develop his business. Thus the second hypothesis is:

H2: The higher the self-efficacy score, the higher is the intention to develop the business.

Locus of Control

The basic concept of locus of control is related to the degree to which an individual accepts events as part of own behavior. Individuals who believe that they can influence the outcomes or the result through their abilities, efforts, skills, and characteristics are said to be internal- oriented individuals. While those who believe that the outcomes are determined by forces outside themselves such as fate, luck, opportunity, and other forces are said to be external-oriented (Rotter, 1966). In organization behavior, locus of control is one of the attributes of individual personality that affect behavior (Robbins, 2005). According to Robbins (2005), locus of control is the level at which individuals are convinced that they are the determinants of their own destiny. Internal is individuals who believe that they are the holder of control over whatever happens to them. On the other hand, the external is the individuals who believe that whatever happens to them is controlled by outside forces such as luck. Luthans (2011) argues that people with internal locus of control orientation believe that they control their own destiny, for example because of their efforts and abilities. Whereas, people with external locus of control orientation perceives the task as too heavy or as luck factor. Thus, according to Luthans, by using locus of control, work behavior can be explained through employee appraisal of their results when controlled internally or externally. Employees with internal control feel that they can personally affect results through their own abilities, expertise, or endeavors. Employees who value external controls feel that their outcomes are out of control or there are external forces such as luck or task difficulties that control their results. Spector (1982) and Luthans (2011) state that the locus of control on employees has different impact on job performance and satisfaction. According to Spector (1982), internal locus of control is suitable for tasks and jobs that are skillful,

professional, managerial, and controlling. External locus of control is more suitable or more appropriate for industry-line jobs, jobs with non-skilled labor, administration and routine jobs. Sirec and Mocnik (2010) revealed that locus of control affects the growth of SMEs. Adolfina (2012) found that internal locus of control has positive and significant effect on individual performance.

Based on these opinions, in the context of entrepreneurship, if an entrepreneur thinks that success in developing a business is determined by a factor of luck or fate, he may not be trying as much as possible to develop his business. Some studies conducted on the locus of control of entrepreneurs include Pandey and Tewary 1979 cited by Kroeck et al. (2010) that internal locus of control becomes an entrepreneurial characteristic; Rahim, 1996 cited by Kroeck (2010) that entrepreneurs tend to report high internal locus of control compared to managers; and Kroeck et al. (2010) found that there is a significant difference in locus of control between entrepreneurs and non-entrepreneurs.

Referring to these findings, the construct of locus of control measured in the research is internal locus of control. To measure the locus of control is The Work Locus of Control Scale (WLCS) developed by Spector (1988) and adapted to the conditions of entrepreneurship. The WLCS can be explained that higher locus of control score shows higher internal locus of control (high internal). The locus of control is a continuum scale (Rotter, 1966) from external to internal. The third hypothesis is:

H3: The higher the locus of control score, the higher is the intention to develop the business.

METHOD

This research is an explanatory research trying to explain the relationship between individual variables that include motivation to start a business, self-efficacy, and locus of control as a predictor in developing MSE business. The population of the study is MSEs in three districts in Manado selected as MSEs centers. The size of the sample is set by 120 MSEs, taken with accidental sampling, that is easy to find and willing to be the respondent based on the criteria of MSE. Data collection through questionnaires is distributed to MSEs, yet only 114 questionnaires returned and eligible for analysis.

Measurement

Developing a business is measured with the intention of developing a business related to the future business development plan and efforts undertaken by the entrepreneurs. The motivation to start a business is the drive that causes the entrepreneur to start a business caused by pull factors. Measurement of variables refers to push factors and pull factors as a motivator to start a business as proposed by Gilad and Levine (1986) and Taormina & Lao (2007). This study only measures the pull factors.

Self-efficacy is an entrepreneurial belief in ability to develop a business. Measurement of variables refers to Ivancevich, et al. (2005) and Luthans (2011) which consists of dimensions of magnitude, strength, and generality.

Locus of control is related to the degree to which an entrepreneur receives success or failure in developing a business as part of his own behavior. To measure the locus of control is The Work Locus of Control Scale (WLCS) developed by Spector (1988) and adapted to the conditions of entrepreneurship.

The data collected is analyzed using descriptive technique with table of frequency and regression technique, by using SPSS 22.0.

FINDINGS AND DISCUSSIONS

Description of Business Characteristics

Mostly type of business studied are food outlets (24,6%), business outlets include grocery store, building material store, and motorcycle spare parts store (23,7%), followed by boutique and clothing store (9.6%), beverage kiosk (5.3%), mobile phone shop (4.4%), bakery shop (4.4%), salon (4.4%), drinking water depots (3.5 %), photo copier (3.5%), laundry (3.5%), online shop (3.5%), and other businesses (9.7%). The length of business operation is 3 to 10 years (80.7%), 11 to 15 years (10.5%), and over 15 years and above (8.8%). The number of employed employees is 1 to 4 people (80.7%), 5 to 8 people (14.9%), and 9 to 12 people (4.5%).

Description of Entrepreneur Characteristics

The characteristic of sampled entrepreneurs is female (53.5%) proving the role of MSEs in absorbing female workers. Based on age, the entrepreneurs are aged 40 to 49 years old (31.6%), 30 to 39 years old (27.2%), and under 30 years old (23.7%). It proves that MSEs is occupied by productive labor to support business development. In terms of education, high school educated entrepreneurs is 67.5% and bachelor degree education is 30.7%. It is an indication that the interest of university graduates in MSEs gives a positive impression regardless of whether they will actually have a career at MSEs or only as a temporary job.

Validity and Reliability Testing

Validity test is intended to find out how valid indicator is used to measure research variables using Pearson correlation score between statement scores and overall score of respondent statements, amounting to or more than 0.3 or $r \geq 0.3$ (Sugiyono, 1999). By using SPSS 22.0, validity test results appear in table 1.

The test result shows that one item of statements (statements 4) in the variable of developing the business is not valid thus is not included in the next analysis.

Reliability test is to test the consistency of measurement result of research instrument referring to Alpha-Cronbach ≥ 0.6 . The output of test result is presented in table 2.

The reliability test result shows that all research instruments have the value of Alpha Cronbach's greater than 0.6.

Description of Research Variables

The respondents' tendency is characterized by the average score for each research variable compared with the average range possible as presented in Table 3.

Table 1. Validity Test Result

Statement	Corrected Item-Total Correlation	Description
Developing the business		
Statement 1	.439	Valid
Statement 2	.338	Valid
Statement 3	.449	Valid
Statement 4	.101	Not valid
Motivation to start a business		
Statement 1	.354	Valid
Statement 2	.615	Valid
Statement 3	.425	Valid
Statement 4	.329	Valid
Statement 5	.417	Valid
Self-efficacy		
Statement 1	.494	Valid
Statement 2	.501	Valid
Statement 3	.455	Valid
Statement 4	.479	Valid
Statement 5	.538	Valid
Locus of control		
Statement 1	.488	Valid
Statement 2	.283	Valid
Statement 3	.400	Valid
Statement 4	.442	Valid
Statement 5	.534	Valid

Source: data processed (2017)

Table 2. Reliability Test Result

Variables	Alpha Cronbach's	Description
Developing a business	0.588	Reliable
Motivation to start a business	0.666	Reliable
Self-efficacy	0.728	Reliable
Locus of control	0.671	Reliable

Source: data processed (2017)

Table 3. Average Score of Respondents in Developing the Business, Motivation to Start a Business, Self-Efficacy, and Locus of Control

Variables	Mean	Possible range	The real range	Average range possible	Description
Developing a business	12.97	3 - 15	8 - 15	9	Intend
Motivation to start a business	22.11	5 - 25	16 - 25	15	Agree
Self-efficacy	20.68	5 - 25	15 - 25	15	High
Locus of control	21.98	5 - 25	16 - 25	15	High

Source: data processed (2017)

Based on Table 3, the average range possible indicate moderate perception. The average score below this range indicates perception of not intend/not agree/low self-efficacy and locus of control. Average scores above the average range possible indicate the perception of intend/agree/high self-efficacy and locus of control. It appears in table 3 that there is a tendency of respondents in developing their business, respondents are motivated to start a business because of positive encouragement from entrepreneurial activity itself, the respondents have high self-efficacy to not easily give up in developing the business, and high internal locus of control to not easily give up on fate or depend on others.

Predictor of Individual Characteristics

Individual characteristics include biographical and psychological variables. This study examines some psychological variables as predictors in developing a business. The result of hypothesis testing is presented in Table 4.

Table 4. Predictor of Individual Characteristics In Developing the Business

	B	Std. Error	t	Sig.
(Constant)	9.294	1.996	4.657	0.000
Motivation to start a business	0.182	0.086	2.118	0.036
Self-Efficacy	0.145	0.075	1.923	0.057
Locus of control	0.061	0.087	0.709	0.480

Source: data processed (2017)

Table 4 shows that motivation to start a business has significant influence in developing the business ($p = 0.036$) and self-efficacy has significant influence in developing the business ($p = 0.057$). However, locus of control has no significant influence in developing the business ($p = 0.480$).

There are many factors determine the success of MSEs, one of them is the characteristics of the individual itself. In this study, the characteristics of individuals studied as predictors in developing a business are motivation to start a business, self-efficacy, and locus of control. The finding of this research is that motivation to start a business is an important factor that can determine the intention in developing the business. Pull factors of entrepreneurs such as freedom to manage work time, desire for achievement, and desire to use opportunities are factors that motivate entrepreneurs in developing the business. According to Garba & Aliyu (2017), individual motivation plays an important role in creating new business. People who are not motivated in developing a business will be difficult and probably has no enthusiasm in facing challenges. The decision to start a business depends on various factors such as family background, experience, education, social networking, gender, age, and financial availability. The unavailability of these factors can be obstacles to start a business and even no strong intention in developing a business (Garba & Aliyu, 2017).

The individual characteristic of self-efficacy also determines the intention to develop the business. Entrepreneurs who have high confidence in the ability to control and achieve the results may have high intention to develop the business. Entrepreneurs with high self-efficacy are more optimistic and eager to achieve determined goals. Markman et al. 2002 cited by Drnovsek et al. (2010) described self-efficacy as a key determinant of new venture growth and personal success. According to Shane et al. (2012), an entrepreneur with high self-efficacy for a given task will exert more effort for a greater length of time, persist through setbacks, set and accept higher goals, and develop better plans and strategies for the task. An entrepreneur with high self-efficacy will also take negative feedback in a more positive manner and use that feedback to improve their performance. These attributes of self-efficacy may be important to the entrepreneurial process because these situations are often ambiguous ones in which effort, persistence, and planning is important.

Locus of control has no significant effect in developing a business, meaning that entrepreneur assessment that outcomes determined by internal factors such as ability, effort, skills, and other characteristics is not proved in this study. Entrepreneurial activity with the internal strength of entrepreneurs is not enough to develop the business. According to Drnovsek et al. (2010), there is dynamic interaction between the individual and the environment by explaining what cognitive, motivational and affective processes are implicated in an individual's decision to engage in entrepreneurial activities and how these processes are shaped by environmental and market factors.

CONCLUSIONS

Based on the research objectives, it can be concluded that the characteristics of micro and small enterprises (MSEs) in the sample research is 3 to 10 years of length of business operation and the number of employees employed mostly 1 to 4 people. The characteristics of the entrepreneur are mostly women, most are 40 to 49 years old and most high school education background. The findings of this research are motivation to start a business and self- efficacy are an important factor that can determine the intention to develop the business. Pull factors of entrepreneurship such as the freedom to manage work time, desire of achievement,

and desire to take advantage of opportunities are factors that motivate the entrepreneur to develop a business. In addition, entrepreneurs who have high self-efficacy will be able to control and achieve established results; and have high intention to develop the business. Entrepreneurs who have high self-efficacy are more optimistic and eager to achieve the determined goals. However, locus of control has no significant influence in developing the business.

Based on the conclusion of research findings, suggestions for further research are the sample in this study consists of various types of businesses that certainly have different characteristics and entrepreneurs with various ethnicities. This has the potency to cause a bias towards perceptions of forces affecting outcomes of whether from external or internal locus of control thus further research is expected to minimize the biases.

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