

LOCUS OF CONTROL, INNOVATION, PERFORMANCE OF THE BUSINESS PEOPLE IN THE SMALL BUSINESS AND MEDIUM INDUSTRIES IN SOUTH SULAWESI

Muh. Rum

Sekolah Tinggi Ilmu Manajemen Publik Makassar

E-mail: r12um@yahoo.co.id

Maccini Tengah Street 50-54, Makassar, 90114, South Sulawesi, Indonesia

ABSTRACT

Locus of control has been seen as an important factor in boosting the business performance. Beside, it can also be used as the trigger to enhance the business survival. However, so far, there has no any study especially analyzing this factor in a specific situation such as in Small and Medium Enterprises (SMEs). The research aims tries to analyze the influence of Locus of Control, innovation ability on the performance of small medium industry in south Sulawesi. Practically, this research was conducted using survey with purposive sampling on industrial Small and Medium Enterprises (SMEs) in South Sulawesi, then conducting a clustering on four regions in northern, southern, eastern, and western areas which were centralized in Makassar municipality. The data were collected by interview and questionnaire to 200 industrial SME owners. Technical analysis data run by use of Structural Equation Model (SEM). The result in, points out that by reinforcing potential Locus of Control can stimulate the increasing of Innovation, and increases the performance of SMEs industry. The reinforcement of Locus of Control can be conducted by increasing memory ability, innovation ability, and Performance, in terms of employee productivity, ability, and skill.

Key words: *Locus of Control, Innovation, and Performance of SMEs.*

LOCUS OF CONTROL, INOVASI, KINERJA BISNIS MASYARAKAT USAHA KECIL DAN MENENGAH DI SULAWESI SELATAN

ABSTRAK

Locus of control telah dilihat sebagai faktor penting dalam meningkatkan kinerja bisnis. Selain itu, factor ini juga dapat digunakan sebagai pemicu untuk meningkatkan kelangsungan usaha. Namun, sejauh ini, belum ada studi khusus setiap menganalisis faktor ini dalam situasi tertentu seperti di Usaha Kecil dan Menengah (UKM). Penelitian bertujuan mencoba untuk menganalisis pengaruh Locus of Control, kemampuan inovasi terhadap kinerja industri menengah kecil di Sulawesi Selatan. Penelitian ini dilakukan menggunakan survei dengan metode purposive sampling pada Usaha Kecil dan Menengah (UKM) di Sulawesi Selatan, kemudian melakukan pengelompokan pada empat wilayah di utara, selatan, timur, barat yang terpusat di kota Makassar. Data dikumpulkan dengan wawancara dan kuesioner kepada 200 pemilik UKM. Data analisis dengan Structural Equation Model (SEM). Hasil penelitian menunjukkan bahwa dengan memperkuat potensi Locus of Control dapat me-rangsang peningkatan inovasi, dan kinerja UKM. Penguatan Locus of Control dapat dilakukan dengan peningkatan kemampuan memori, kemampuan inovasi, dan kinerja, dalam hal produktivitas karyawan, kemampuan, dan keterampilan.

Kata Kunci: *Locus of Control, Inovasi, dan Kinerja UKM.*

INTRODUCTION

Internal locus of control for the business-people is considered psychological factors influencing the attitude and acts. Othman and Ishak (2009), Broadbent, Cooper, Fitzgerald dan Parkers (1982), Communion (1993), Ishiyama and Munson (1993), Kendall and Ingram (1989), Sarason, Keefe, Hays and Shearin (1986) stated that someone who has high locus of control influences his psychological health, in turn, when he is psychologically healthy, it will also determine his success. By having a high confidence of success, then someone can be more confident to step in with his own power without relying on external power or let alone on fate. Thus, the psychological condition of an individual should make himself have full of confidence for success. Besides, it can also improve the business performance as well.

The employers' internal locus of control in Bugis, Makasar is high, coupled with the entrepreneurial character of tolerance. The successful merchants in Bugis-Makassar with their confidence have become the business philosophy as depicted in Lontara. Matulada (1998), for example, stated in Lontara "*Toddo Puli Temmalara ri Resoe na Resopa natinulu kuae topa temmanginngi malomo naletei pammase dewata*". Matulada (1975) also says that the merchants' entrepreneurial traits in Bugis-Makassar have high internal locus of control, also supported by the hard work, high work ethos or "*getteng, warani, reso, amaccangeng, tenricau, maradeka, and assimellereng*". This philosophy means that employers have to take risks, be consistent, knowledgeable, experienced, and tolerant for others.

With a tolerance, the merchants in Bugis Makasar have typical entrepreneurial entrepreneurs who have been in co-operation and mutual respect. Even Firmansyah (2008) asserted that Bugis-Makassar merchants are characterized by not only being tolerant, but also they have good honesty, scholarship, decency, and courage which increase their confidence to succeed. So, successful mer-

chants in Bugis-Makassar are due to their high confidence, coupled with entrepreneurial traits of tolerance.

Small and Medium Industries (SMEs) in South Sulawesi helped to determine the structure of the local economy. Development of industrial SMEs in South Sulawesi also contribute to economic growth in 2008 of 6.98%, GDP totaled to 12.99%, lower than the year 2007 which was 13.97, while in 2006 amounted to 13.78% after the agriculture and trade. This was in terms of labor absorption which increased from 147,391 in 2007 into 183,430 in 2008 (BAPPEDA Sulawesi 2009).

It is relevant to compare the research by Beaver & Jennings (2000), that SMEs are considered a factor creating economic value in the structure of the national economy. Therefore, the contribution made by SMEs is greater when compared with large companies. Even when viewed from the point of view of creating competitive advantage, maintaining structural balance of industries and markets. This is because the SMEs are spread throughout the lower level that mediates resources to market, big business, even to the export market. According to Wang, Rowe and Cripps (2006) SMEs dominate many key industrial sectors ranging from upstream to downstream for creating value chains. Thus, from the stand point of the role of SMEs in South Sulawesi, it is obvious that they have great enough contribution to the economic development area.

SMEs are assessed more likely to survive in the early days of the financial crisis than large employers. They are able to maintain their performance when compared to large employers. It has been proved that many bad loans are caused by large employers. There is a strong resistance from SMEs because their capital structure depends on their capitals. Their capital structure consists of 73% equity, private banks 4%, 11% state-owned banks, and suppliers of 3%. In the effort of tackling tackle unemployment, the SMEs are also able to absorb the labor force, about 12 million workers absorbed in 1980,

45 million in 1990, 71 million in 1993, and 74.5 million in 2001 (Kementerian Negara Koperasi dan UKM 2007).

Based on the above facts, it is clear that the movement of national economic development seems to have exacerbated the development of SMEs that support the movement of big business. All the pillars of the economy in Indonesia sought not to walk alone but in a mutually beneficial cooperation. In this case, the SMEs are at the cutting edge of economic movement in the country. There must be synchronization between the policies of the central government and local governments to help development of SMEs. Their development can be paid attention when all the agencies in the government line are giving legal protection, elaborated infrastructure and helping to access domestic and overseas markets, giving stimulus tax and ensure easy financing.

Ward, EA (1993) says that if the government supports SMEs continuously it will display a dual effect (multiplier effect) on increasing revenue, stimulate local economic activity and create jobs. The government must understand the needs of employers so that they can achieve more targeted policies. Government should help SMEs to enter the export market, mediate cooperation between SMEs and large employers, obtain external services such as foster parents, marketing consultancy, strategy formulation, management, accounting, financial management, advertising, and information systems. With the issuance of Law No.20 of 2008, the government of South Sulawesi province through the Department can develop a number of SME-related industries, as seen in Table 1.

SMEs in South Sulawesi need an innovation strategy to develop and market the products. For example, Rafinaldy (2004) argues that the constraints faced by SMEs in entering and penetrating the market is diversification, information, innovation, product quality, expert support, and entrepreneurship. SMEs have a weak strategy as said by the Ministry KUKM & BPS (2004). They are still weak in the capital, and expertise to

innovate. Products developed are based on generally the simple technology with labor intensive. Schumpeter (1883 - 1950) in Machaba (2003) says that support innovation strategy can help to achieve performance.

Drucker (1985), Low and Mac Millan (1988), Sharma and Chrisman (1999) in Single (2008) also support the strategy on SMEs in the form of innovation, information systems, expertise, and entrepreneurial spirit. By doing so, it will improve the performance of SMEs. So, marketing of SME products can be viewed as strategic plan, aided by information systems, expertise, and entrepreneurial spirit. In that case, the government should provide the opportunity to assist SMEs in innovation and diversification of partnerships.

In connection with the above effort, the government has issued a policy in fostering SMEs, in which, the Minister of Finance No. 316/KMK.016/1994, Presidential Decree. 127 of 2001 has to do with a partnership with big business, Presidential Decree. 56 Year 2002 on credit restructuring of small and medium enterprises, The Ministry regulation Per-05/MBU/2007 concerns partnerships with state-owned small and medium enterprises. Opportunities provided by the government can be used to innovate or diversify products and markets with their partners.

However, so far, research and development of the SMEs do not support innovation and diversification due to lack of financing. For example, Brouters, Andriessen and Nicolaes (1998) that SMEs are limited to research and development investment, but according to Acs and Audretsch (1990) that SMEs contribute a lot of innovation to production and market activities. Basically, SMEs innovate despite a smaller scale, for larger scales require large expenditures. In this case, almost all SMEs have been facing cost issues. So, the opportunities provided by the government should be used to do innovation, partnership with major employers.

The training and coaching for SMEs in-

Table 1
List of SMEs in South Sulawesi in 2008

No.	Regency	Number of SMEs
1	Selayar	6,013
2	Bulukumba	4,019
3	Bantaeng	2,169
4	Jeneponto	2,574
5	Takalar	3,314
6	Gowa	3,783
7	Sinjai	2,490
8	Maros	1,360
9	Pangkep	2,284
10	Barru	1,365
11	Bone	5,053
12	Soppeng	3,410
13	Wajo	0,239
14	Sidrap	3,704
15	Pinrang	2,402
16	Enrekang	2,793
17	Luwu	170
18	Tator	2,891
19	Luwu Utara	447
20	Luwu Timur	49
21	Makassar	4,211
22	Pare-Pare	10,005
23	Palopo	161
Total Number		65,906

Source: Central Bureau Statistics in South Sulawesi in 2008.

dustries in South Sulawesi are pretty much, as presented in Table 1.

It is a fact that strengthening internal locus of control by the merchants Bugis-Makassar can be done by holding the Lontara principle (Mattulada 1998). In this case this study attempts to formulate the problem such as whether internal locus of control can strengthen the SMEs in South Sulawesi so as to improve their innovation and performance.

THEORETICAL FRAMEWORK

This research attempts to clarify the variables being used, as a basis for preparing the research framework, and brings together theoretical studies that will be used for analysis. As such, all these will be discussed in detail.

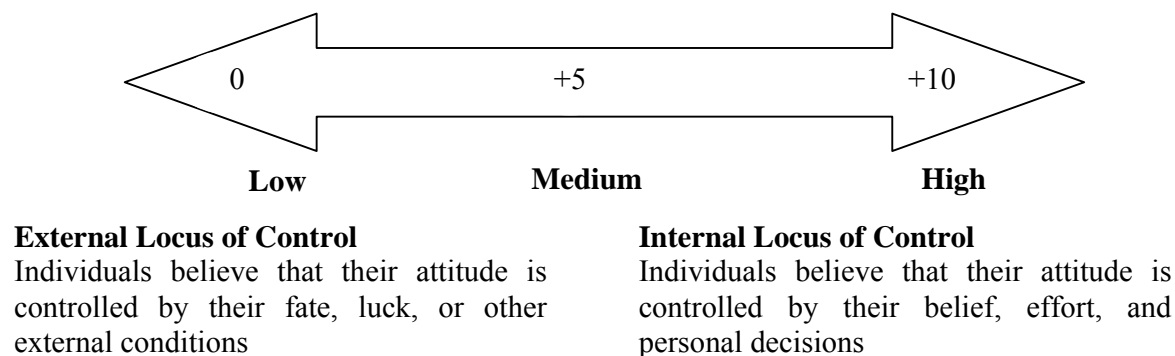
Locus of Control

Locus of Control is a psychological dimension to behave. Studies of successful confi-

dence began in 1936 by Julian Rotter (Asta, P and Jurga D 2006). This was derived from the phenomenon of many people who failed in their attempt due to severe depression. For this, then it uses Freud's Psychoanalysis and the empirical influence theory by Sigmund Freud that states that everyone is always motivated to look for positive stimulation or reinforcement and avoid unpleasant stimulation. This development is then referred to Julian Rotter who found that successful confidence is the determining factor (Motivating factor) in success. A successful conviction is now replaced with the term internal locus of control.

It was derived from the word of Control by Lawrence S, et al. (2005) who defined it as "the process of arranging understanding", and then Internal Control is used by Jackson, Weiss & Lundquist (2000) who also defined it as "the ability of self-confidence, while Locus itself means "to put", if a person puts

Figure 1
The Locus of Control Concepts in Unidimensional Continuum, from External to Internal



Source: Rotter (1996).

his faith to himself or to others' strengths. So, the confidence refers to the statement that success is the ability to lead to understanding the ability of self-confidence.

Successful confidence is a person who affects his observations on the events, attitudes or actions, and working behavior. Human behavior after observing the environment is expected to lead to sensitivity to take constructive steps or actions. In addition, attitudes and actions are always the best move, and individual's observations will provide additional knowledge that leads him to improve his performance. In connection with this matter, Bonnett & Furnham (1991) argue that a person's beliefs determine successful performance as an entrepreneur. Then, the owner of the company with successful convictions affects the company's performance (Boone, DeBrabander and Van Witteloostuijn 1996), and (Nwachukwu 1995). Performance achieved can not be separated from the process or stages of structured, involving, allocating, and using resources efficiently through planning, acquisition of relevant and accurate information.

Rotter (1966) stated that the belief for success is a continuum dimension determining individual perceptions about the causes of events he experienced. In Figure 1, it shows the scale of successful confidences in continuum, the lower confidence leads to success. In this sense, people who have a high confidence of success and attention can record the cause of each event. Rotter (1966)

said that there was a relationship between confidence and success as well as behavioral understanding (cognitive) one. This view can be interpreted that the high confidence of success provides reinforcement and convince that someone understands the causes of each action.

High confidence of success demonstrates the high maturity of behavioral, cognitive, and attitude. Actions taken through a process is called internal locus of control orientation, while the action beyond the control of someone is called external locus of control orientation. Therefore, in a condition of uncertainty, people who have high confidence and successful retrieval can be more informed with decisions than people who are, in fact, lack of confidence in success.

For example, Mamlin, Harris, and Case (2001) argue that there is a difference between the successful confidence, age structure, sex, and social status, which internally on men rather than women. The older people have a more internal and the positions in the organization the more they have a internal locus of control. For the entrepreneurs who succeed will not suffer from a failure. Instead, the failure will become the lesson learned as part of the stages for success. In addition, another element is the cooperation between men and women. The older people and the young, and those who have a higher social status tend to guide their subordinates to make them more mature for success confidence.

Thus, success confidence is seen as self-agency, personal control, and self-determination for success. For example, the employers who have a higher rate of successful convictions tend to be more sensitive to changes in their environment. It is easy for them to interpret any information, act on the environment, and achieve higher performance. Lee and Tsang (2001) saw a positive relationship between confidence and growing successful companies. Van Zuuren and Wolfs (1991) said the more success confidence and flexibility the more individuals can adapt to environmental change.

The above arguments mean that high confidence for success will determine an individual's performance because he is more concerned about the environment, more mature way of thinking, and more flexible in doing. Successful entrepreneurs with a high confidence can retrieve decisions in conditions of environmental uncertainty. According to Hendrickx, Vlek & Calje (1992) the success confidence of every person can provide them with the ability to estimate the probability of failure and decide the best way and even the risky one. The owners and managers of successful SMEs also are faced with uncertainty conditions, such as market uncertainty, economic, cultural, and concern of society, where the risk from such factors can not be avoided but minimized, even in a condition of uncertainty still provides the best performance.

Innovation capacity is determined by the Internal Locus of Control toward the belief for success. Perry (1990), and Kaufmann and Walsh (1995) also argue that success confidence determines intelligence and predictive capabilities and innovation of a businessman. Gilad (1982) also saw the influence of success confidence towards intelligence. They can find and use opportunities, and be innovative. Bygrave (1993) that success confidence determines the ability of an entrepreneur to seek opportunities, innovation, and flexibility. So, a creative entrepreneur with innovative success is largely determined by the beliefs they hold.

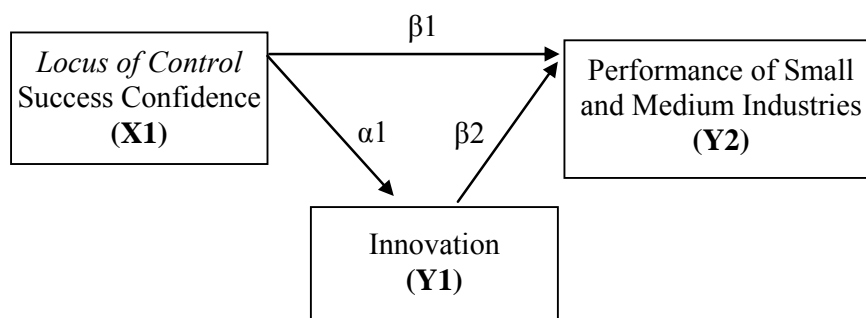
The performance of small and medium industries is largely determined by the success confidence of a businessman. Wheatly, Anthony, and Maddox (1991), and Ward (1993) state that a person who has a high confidence of success is always accompanied by a high entrepreneurial spirit. His attitudes and actions as entrepreneur is always accompanied by the confidence that comes from inside his heart after receiving information. Sapp and Harrod (1993) define a successful entrepreneurial can gain his confidence in formulating business strategy after he obtains a clear information.

Brockhaus (1982) argues that the need for achievement, success, and confidence greatly influences the success of a business man. Brockhaus and Horwitz's (1986) empirically demonstrate that success confidence determines the achievement of high performance. So, the success of SMEs is determined by availability of information supported by an entrepreneurial spirit and success with high confidence. Innovation according to Wilbert (2007) is the act or process, introducing something new like the method, manner, or a new tool, by making changes in the way in the implementation

The availability of innovation in organizational change can be attained at any given stage by doing a better and different than before. Innovation can be done by changing the mindset, reviewing prospects goal, by collecting accurate information from the experts in the field. So innovation is a change for the better through ideas, attitudes, and actions.

The performance of SMEs has a wider meaning than productivity. Productivity is merely related to the input and output, and efficiency, but many aspects of the performance measures such as customer needs, quality of work and quality of production. In this case, performance measurement is the process that leads to the calculation of the performance level. Neely et al. (1995) showed that the performance of a set of tools can also be used for measuring the action. There are several reasons why performance should be measured among SMEs. It is due to the

Figure 2
Model of the Framework



operational work that has been carried out, increased competition, quality globally, changes in management, and changes in market demand. Neely (1999) measured performance due to the easy access to information technology to market. Thus, the performance is the process of measuring achievement to make changes.

RESEARCH METHOD

This research is a conceptual framework based on the theory of Rotter (1966) that states that the higher the Internal Locus of Control confidence, the higher a person's success of achievement towards his performance. Based on the key issues and theoretical studies, the study is presented as in Figure 2 and the indicators of the research are shown in Table 2.

$$Y_1 = f(X_1) \quad (1)$$

$$Y_2 = f(X_1, Y_1) \quad (2)$$

It is then formulated the simultaneous regressions as the following.

$$Y_1 = \alpha_0 + \alpha_1 X_1 + \epsilon_1 \quad (3)$$

$$Y_2 = \beta_0 + \beta_1 X_1 + \beta_2 Y_1 + \epsilon_2 \quad (4)$$

or

$$Y_1 = \alpha_0 + \alpha_1 X_1 + \epsilon_1 \quad (5)$$

$$-\beta_2 Y_1 + Y_2 = \beta_0 + \beta_1 X_1 + \epsilon_2 \quad (6)$$

From that, it can be resulted in the following.

$$Y_1 = \alpha_0 + \alpha_1 X_1 + \epsilon_1 \quad (7)$$

$$Y_2 = (\beta_0 + \beta_2 \alpha_0) + (\beta_1 + \beta_2 \alpha_1) X_1 + (\beta_2 \epsilon_1 + \epsilon_2) \quad (8)$$

$$Y_2 = \delta_0 + \delta_1 X_1 + \mu_1 \quad (9)$$

Notation Description:

1. Constant

α_0 = Constant for Y_1

$(\beta_0 + \beta_2 \alpha_0)$ = Constant for Y_2

2. Direct Effect

α_1 = direct effect X_1 on Y_1

β_1 = direct effect X_1 on Y_2

β_2 = direct effect Y_1 on Y_2

3. Indirect Effect

$\beta_2 \alpha_1$ = indirect effect X_1 on Y_2 through Y_1

4. Total Effect

$\beta_1 + \beta_2 \alpha_1$ = Total effect X_1 on Y_2

β_2 = Total effect Y_1 on Y_2

5. Error Term

ϵ_1 = Error term for Y_1

$(\beta_2 \epsilon_1 + \epsilon_2)$ = Error term for Y_2

This study was conducted in South Sulawesi by four clusters namely Makassar and surroundings, Bone, Bulukumba, and Palopo. As referred to Morris Boydston, Lisa Hopper and Alan Wright (2007) SMEs are generally based on studies on major cities in the region.

The population covers all entrepreneurs who are qualified to be small and medium-sized businesses, whether incorporated or not incorporated, located in South Sulawesi, mainly residing in the city of Makassar, Bone, Bulukumba, Palopo, and surrounding areas.

The sampling method is based on purposive sampling according to the criteria issued by the government of the research object as follows:

a. Small industry:

1). has assets between Rp 50,000,000 to Rp 500,000,000 outside the land and buildings.

2). annual sales between Rp 300,000,000 to Rp 2.5 billion,.

Table 2
The Indicators of the Research

Main Variable	Indicators	Researchers
Locus of Control	1. M1= process of thinking 2. M2= Problem solving ability 3. M3= Memory ability 4. M4= Attention	1. Rotter (1966), 2. Van Zuuren & Wolfs (1991), 3. Brockhaus and Horwitz's (1986), 4. Spector (1982), Nwachukwu (1995), and Carver (1997). 5. Lumpkin and Berrin Erdogan (2006). 6. Boydston Morris, Hopper Lisa, and Wright Alan (2007).
Innovation	1. M5= Technology innovation 2. M6= Managerial innovation 3. M7= Marketing innovation 4. M8= Product innovation	1. Porter (1985).
Performance	1. M9= Profit 2. M10= Employees 3. M11= Capitalization 4. M12= Asset	1. Venkatraman and Ramanujam (1986) in Gibcus, 2. Kemp, and Zoetermeer (2003), 3. Gupta (1984), 4. Guimaraes (1996), 5. Asdar and Syamsu Alam (2002), 6. Kim Hak-Su (2005).

Source: Frame work formulation 2010.

- 3). workers between 5 to 19 people
- b. Medium industries:
- 1). has assets between Rp 500,000,000 to Rp 10,000,000,000 beyond the land and buildings.
 - 2). annual sales above Rp 2,500,000,000 to Rp 50,000,000,000.
 - 3). the workers between 20 to 99 people.

The sample size used in SEM by Tanaka (1987) and MacCallum et al. (1986) should be used as many as 200 respondents, with a test indicator model as follows.

1. χ^2 chi-square, the smaller the value, the better the model χ^2 and accepted by probability with a cut-off value of $p > 0.05$ or $p > 0.10$ (Hulland in Ferdinand 2002).
2. RMSEA (The Root Mean Square Error of Approximation), a RMSEA value is less than or equal to 0:08 that is an index for the admissibility of the models. This shows a close fit of the model based on degree of freedom (Browne and Cudeck in Ferdinand 2002).
3. Cmin / DF (The Minimum Sample Discrepancy Function), when the relative χ^2

values less than 2.0 are indicative of acceptable fit between the model and data (Arbuckle in Ferdinand 2002).

4. TLI (Tucker Lewis Index) value close to 1 indicates a very good fit (Arbuckle in Ferdinand 2002).

5. CFI (Comparative Fit Index), in which when it is close to 1, indicating the highest level of fit (Arbuckle in Ferdinand 2002), the recommended value is $CFI \geq 0.95$.

DATA ANALYSIS AND DISCUSSION

Results

The 200 respondents were identified based on the level of age, gender, educational level, and occupation as in Table 3, Table 4 and Table 5.

The age of respondents is presented in Table 3 that shows a young age as in the SME entrepreneurs. According to Brockhaus (1982) the age is not an indicator of success, but psychological factors, experience, and personality are able to determine the attitude and actions of an entrepreneur to succeed. Mamlin, Harris, and Case (2001) state that

Table 3
Respondents Based on Age

No	age	Total	Percentage
1	21 – 40	97	49%
2	41 – 60	77	39%
3	≥ 61	26	13%
Total Number		200	100%

Source: Processed primary data in 2009.

Table 4
Respondents Based on Sex

No	Sex	Entrepreneurs	Percentage
1	Male	111	55%
2	Female	89	45%
Total Number		200	100%

Source: Processed primary data in 2009.

Table 5
Respondents Based on Education

No	Level of education	total	Percentage
1	SD (Primary School)	17	9%
2	SLTP (Junior High School)	28	14%
3	SLTA (Senior High School)	84	42%
4	Diploma 3 (Undergraduate)	15	8%
5	Sarjana (Graduate) and Pascasarjana (Postgraduate)	56	28%
Total Number		200	100%

Source: Processed primary data in 2009.

there is a difference between the success confidence, age, sex, and social status between men which is higher than women. For example, those who are older also have more success confidence. In addition, those who have a high position confidence in the organization have a higher success. The Mean of the age is between 21 and 40 mature enough who have a high confidence of success, especially with considerable experience in the management of SMEs in South Sulawesi. They are, in fact, better. Table 4 is the respondents by gender characteristics. Sex aspect shows that male is dominant to be as entrepreneurs than female.

The condition is said to be consistent with research by Mamlin, Harris, and Case (2001) proving that success confidence by men is higher than by women. This indicates that the success confidence in the manage-

ment of SMEs in South Sulawesi can be higher if it is still dominated by male entrepreneurs. As in Table 5, it is based on the characteristics of education, high school graduates which occupy the highest position. The undergraduate and graduate came second, while the primary and secondary school graduates occupy a low position.

In connection with Casson (1982), it is stated that successful entrepreneurs are also determined by their level of education and knowledge. In addition, Mamlin, Harris, and Case (2001) state that social status determines one's success confidence. Like Mamlin et al, Brockhaus (1982), also argues that the knowledge and experience of a person can also lead to a successful entrepreneur. For that reason, the SMEs in South Sulawesi have a high success confidence and this implies that they also have a high performance.

Figure 3
Model of Internal Locus of Control

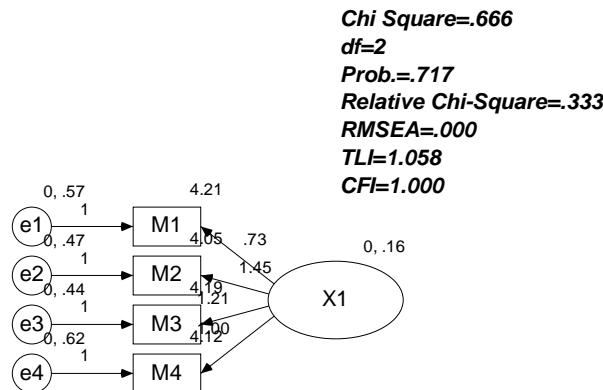
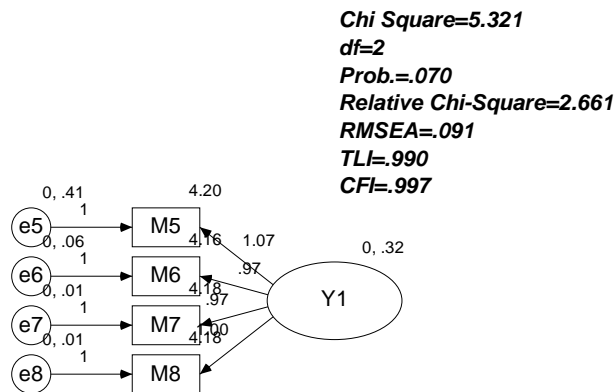


Figure 4
Testing Model of Innovation i



In reference to data analysis and the results in Figure 3, 4 and 5, it is demonstrated that the model is suitable. Such a model will be further analyzed. In Table 5, it can be seen that there is a positive and significant relationship between Internal Locus of Control Beliefs Success, Innovation, and Performance in SMEs in the province of South Sulawesi at $\alpha = 5\%$ and $n = 200$. As a confirmatory analysis, it is shown that indicator M3 = ability to remember, M6 = Managerial Innovation, and M10 = employees most dominant based on the analysis results (see Table 6).

1. Internal Locus of Control or success confidence has a positive and significant effect on innovation. It is shown that counted t is $6.954 > 1.96$ t -tables, and then the coefficient estimate is 1.353. This means the Internal Locus of Control of the owners of SMEs determines innovation efforts.

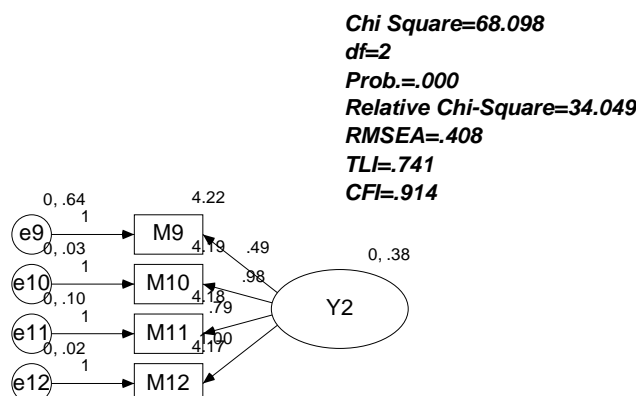
2. Internal Locus of Control or success confidence has positive and significant effect on performance. It is indicated by counted t -which is $1.692 > 1.960$ t -tables, and then the estimated coefficient is 8.331. This reflects that Internal Locus of Control of the owners of SMEs determines the performance of its business.

3. Innovation has positive and significant effect on performance which is indicated by the counted t - that is $2.166 > 1.96$ t -table, and then the estimated coefficient is 5.366. From this, the Internal Locus of Control of the owners of SMEs also determines its performance improvement.

Discussion

Internal Locus of Control of the owners of SMEs have positive and significant influence towards innovation. Thus, success confidence by the SMEs can define business innovation.

Figure 5
Testing Model of Performance



This fact is in line with that by Leitão and Franco (2008) stating that there is a positive relationship between success confidence, innovation and competitiveness. Another proponent is Youndt et al. (2004) that argue that innovation is influenced by the Internal Locus of Control of success confidence.

With Internal Locus of Control, the SMEs have become agile for innovation. The principle of success confidence in business is spirit in achieving goals with hard work. Success confidence also affects the improvement of innovation based on the cleverness to make improvements or new findings in production and marketing. Dominant indicator of Internal Locus of Control is the ability to remember. With the increased ability to recall past successes and failures, both experienced by oneself, or by co-workers, SMEs can get a valuable lesson so that they are more confident in their ability so as to be less dependent on outsiders.

Internal Locus of Control has positive and significant effect on performance. There is a positive and significant indirect relationship with innovation. In this case, this evidence is in line with Lefcourt (1982), Stuart and Abetti (1990), Blanchflower and Oswald (1998), Bruderl and Preisendorfer (1998), Cooper et al. (1994), Pennings et al. (1998), Van Praag (2003), and Bosma et al. (2004). All in all, they argue that the Internal Locus of Control is the human capital that affects business performance.

Lee and Tsang (2001) also support this

fact that there is a positive relationship between Internal Locus of Control and the growth of the company after implementing innovation strategies. Boone, de Brabander and van Witteloostuijn (1996) and Boone, de Brabander and Hellemans (2000) even provide evidence that there is a positive relationship between Internal Locus of Control and the company's financial performance.

Brockhaus and Horwitz's (1986) that the Internal Locus of Control determines the high achievement of corporate goals. Che, Kumar, and Yen (2006) that the Internal Locus of Control determines the financial and non-financial performance, such as profits, assets, employment, sales, and market share. Rotter (1966) that the achievement of business performance is determined by the Internal Locus of Control someone businessman.

Again, internal locus of control by the owners of SMEs in South Sulawesi is dominantly to prioritize their employee performance as performance targets.

It is said that by making employees as an indicator, the SMEs can lead to improvements in the quality of human resources and increase the quantity of production. By making the employee as a target indicator, they can plan and do problem solving and innovation. Furthermore, they can have some strategic actions, still relying on the employees as a power base so that employee satisfaction must be maintained.

Innovation has positive and significant effect on performance. This finding is in line

Table 6
Regression Weights: (Group Number 1 – Default Model)

	Calculation	Estimate	Error. S	t-Table	P	Relationship	Effect
Y1	<--- x1	1.353	.195	6.954	***	Positive	Significant
Y2	<--- Y1	5.536	33.437	2.166	.021	Positive	Significant
Y2	<--- x1	8.331	45.751	1.692	.046	Positive	Significant
M4	<--- x1	1.000				Positive	Significant
M3	<--- x1	1.163	.187	6.227	***	Positive	Significant
M2	<--- x1	1.454	.218	6.659	***	Positive	Significant
M1	<--- x1	1.055	.176	5.979	***	Positive	Significant
M8	<--- Y1	1.000				Positive	Significant
M7	<--- Y1	.966	.019	51.467	***	Positive	Significant
M6	<--- Y1	.969	.033	29.427	***	Positive	Significant
M9	<--- Y2	1.000				Positive	Significant
M10	<--- Y2	1.786	.298	5.990	***	Positive	Significant
M11	<--- Y2	1.485	.254	5.840	***	Positive	Significant
M12	<--- Y2	1.795	.300	5.983	***	Positive	Significant
M5	<--- Y1	1.086	.081	13.457	***	Positive	Significant

Source: Output AMOS V 7.0.

with also influence business performance improvement. Stewart, WH, WEWatson, JCCarland and JWCcarland (1999) that the innovation will improve the performance of SMEs. Sarason, IG, Sarason, BR, & Pierce, GR (1995) state, based on innovation (management control system) the companies can increase their performance of SMEs. Lee (2008) asserts that the innovation can enhance the company's performance.

CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATIONS

It can be generalized that the high performance of SMEs in South Sulawesi is due to their high Internal Locus of Control after the innovation. In turn, the innovation itself is determined by the Internal Locus of Control of the owners, employees, and all human resources involved in the SMEs' management.

In addition, to get high Locus of Control, they have to achieve it through among others ability to remember that is the ability to record all the failures and successes both in writing and in sensibility of the past events. This record of event is the can be used as a reference in making decisions in the future. Besides that, innovation can be done by managers of SMEs in South Sulawesi started with managerial in-

novation, because innovation is quite cheap and easy. The continuous operation and business cycle at every stage of the job can be observed carefully to enhance the memory. These can enhance success of the SMEs.

The implications of these findings are as the following.

1. Governments can assist the development of innovation in SMEs by providing the field technical guidance, training, benchmarking, and continuous management. They can also provide a more favorable change.
2. Government through the relevant agencies must help develop the market information systems, products, and technologies that can provide input to the SMEs' management to develop the domestic and foreign market, make improvements of products, find new technology or market-based methods, as well as find technology that can reduce production costs and increase production volume.
3. For the managers, they should improve the information systems as a means of enhancing the ability to remember, such as creating a document transaction involving multiple functions, placing employees in educational background and ability, and issue periodic reports to interpret and make decisions.
4. Government should also enable the techni-

cal training institutions, with universities, and vocational school to train technical personnel of small and medium industries in enhancing innovation.

5. The Government can arrange regulations on the establishment of SME consultants who are certified as professionals such as financial consultants, market, production, and human resources. Consultants come from individuals or organizations, which aims to address cases faced by small and medium industries.

6. Government through the relevant agencies can monitor the development of human resources by having promotion, facilitation, protection of health and safety, and annuities.

It is advisable that the SMEs improve their performance by having Internal Locus of Control starting from the owners or managers. First, they can achieve it by sharpening their problem-solving skills, confident of their own, and reducing dependence on outside forces, by improving the ability to remember. Secondly, the ability to remember can be designed in the form of software that businesses stay focused on the business that was involved in. They then compile the information system that collects such as all events market failure, waste of raw materials, lack of skilled labor, to serve as a lesson in innovation.

Third, the managers should build a network of accurate information to the present institution in the form of market information, product, technology, and raw materials to support managerial innovation, technology, markets, and products. Information systems can be built through the Internet that provides complete data, rapid, accurate, and inexpensive, which strengthens the formulation of measures of innovation.

REFERENCES

- Acs, ZJ & Audretsch, DB 1990, *Innovation and Small Firms*, The MIT Press, Cambridge, Massachusetts.
- Arbuckle, 2006, *Amos 7.0 User's Guide*, Chicago, IL: SPSS Inc.
- Asdar, and Syamsu Alam, 2002, *Sektor Informal, Usaha Mikro, Kecil dan Menengah, Teori praktik, dan Strategi Pengembangan*, Hasanuddin University Press, Makassar.
- Asta, P and Jurga D 2006, 'CEOs' entrepreneurship in relation to reaction to organizational change', *Engineering Economics*, ISSN 1392-2785 6. No 2 (47).
- BAPPEDA, 2009, *Informasi pembangunan Sulawesi Selatan 2008*, Pemerintah Provinsi Sulawesi Selatan, Makassar.
- Beaver, G & Jennings, P 2000, 'Small business, entrepreneurship and enterprise development', *Strategic Change*, 9 (7), 397-403.
- Blanchflower, D, and Oswald, A 1998, 'What makes an entrepreneur?', *Journal of Labor Economics*, 16(1), 26-60.
- Bonnett, C, and Furnham, A 1991, 'Who wants to be an entrepreneur? A study of adolescents interested in a young enterprise scheme', *Journal of Economic Psychology*, 12(3): 465-478.
- Boone, C, B, De Brabander, and J, Hellemans, 2000, 'Research Note: CEO Locus of Control and Small Firm Performance', *Organization Studies*, 21(3), 641-646.
- Boone, C, B, De Brabander, and Van Witte-loostuijn, A 1996, 'CEO locus of control and small firm performance: An integrative framework and empirical test', *Journal of Management Studies*, 33: 667-699.
- Bosma, N, Van Praag, M, Thurik, T, and Wit, G 2004, 'The value of human and social capital investments for the business performance of startups', *Small Business Economics*, 23, 227-236.
- Boydston, Morris, Hopper, Lisa, and Wright, Alan, 2007, *Locus of Control and Entrepreneurs in a Small Town*, Rich Mountain Community College and Henderson State University, USA.
- Broadbent, DE, Cooper, PF, Fitzgerald, P, and Parkers, KR 1982, *The cognitive failure questionnaire and its correlates*, British General of Clinical Psychology.
- Brockhaus, RH 1982, *Psychology of the Entrepreneur*, In DL, Sexton Kent, CA, and KH, Vesper (Eds.), *Encyclopedia of Entrepreneurship*. Englewood Cliffs,

- NJ: Prentice-Hall, Inc, 39-71.
- Brockhaus, R, and PS, Horwitz, 1986, *The Psychology of the entrepreneur, in the art and science of entrepreneurship*, Ed. DL, Sexton and RW Smilor, Ballinger: Cambridge, MA, USA. 25-48.
- Brouthers, KD, Andriessen, F, and Nicolaes, 1998, 'Driving blind: strategic decisionmaking in small companies', *Long Range Planning*, 31 (1), 130-138.
- Bruderl, J, and Preisendorfer, P 1998, 'Network support and success of newly founded businesses', *Small Business Economics*, 10, 213-225.
- Bygrave, W 1993, 'Theory building in the entrepreneurial paradigm', *Journal of Business Venturing*, 8 (3), 255-280.
- Carver, CS 1997, 'The internal-external scale confounds internal locus of control with expectancies of positive outcomes', *Personality and Social Psychology Bulletin*, 23(6), 580-585.
- Casson, MC 1982, *The entrepreneur: An economic theory*, Oxford.
- Che Rose Raduan, Kumar Naresh, Yen Lim Li, 2006, 'The dynamic of entrepreneurs success factors in influencing venture growth', Volume II, Issue 2 Special Issue, *Journal of Asia Entrepreneurship and Sustainability*, Graduate School of Management Universiti Putra Malaysia.
- Communion, AL 1993, *Anxiety, cognitive interference and school performance of Italian children*, Psychological Reports.
- Cooper, A, Gimeno-Gascon, and Woo, C 1994, 'Initial human and financial capital as predictors of new venture performance', *Journal of Business Venturing*, 9, 371-395.
- Drucker, P 1985, *Innovation and entrepreneurship*, New York: Harper & Row.
- Ferdinand, Augusty, 2002, *Structural equation modeling dalam penelitian manajemen, aplikasi model-model rumit dalam penelitian untuk tesis magister & disertasi doktor*, BP Undip, Semarang.
- Firmansyah, 2008, *Reso dan Siri', vitalitas pantang menyerah*, Komentar Label: Liputanku 7 Oktober.
- Gibcus, P, Kemp, and Zoetermeer, RGM 2003, *Research Report H200208 Strategy and small firm performance*, January Scientific Analysis of Entrepreneurship and SMEs (SCALES).
- Gilad, B 1982, 'On encouraging entrepreneurship: An interdisciplinary approach', *Journal of Behavioral Economics*, 11, 132-163.
- Guimaraes, T, Bond, W 1996, 'Empirically assessing the impact of BPR on manufacturing firms', *International Journal of Operations & Production Management*, Vol 16, No. 8, 5-28.
- Gupta, AK, Govindarajan, V 1984, 'Business unit strategy, managerial characteristics, and business unit effectiveness at strategy implementation', *Academy of Management Journal*, Vol. 27, 25-41.
- Hendrickx, L, Vlek, C, and Calje, H 1992, 'Effects of frequency and scenario information on the evaluation of large-scale risks', *Organizational Behavior and Human Decision Processes*, 52: 256-275.
- Ishiyama, FI, & Munson, PA 1993, *Development and validation of a self critical cognition scale*, Psychological Reports.
- Jackson, T, Weiss, KE, & Lundquist JJ 2000, 'Does procrastination mediate the relationship between optimism and subsequent stress?', *Journal of Social Behavior and Personality*, 15(5), 203-212.
- Kaufmann, P, and Welsh, D 1995, 'Locus of control and entrepreneurship in the Russian Republic', *Entrepreneurship: Theory and Practice*, 20(1), 43-56.
- Kementerian Negara Koperasi dan UKM and BPS, 2004, *Pengkajian dukungan finansial dan non finansial dalam pengembangan sentra bisnis usaha kecil dan menengah*, Jakarta: Kementerian KUKM and BPS Jakarta.
- Kementerian Negara Koperasi dan UKM, 2007, *Revitalisasi koperasi dan UKM sebagai solusi mengatasi pengangguran dan kemiskinan*, Jakarta.
- Kemp and Zoetermeer, 2003, *Innovation and firm performance. Scientific analysis of*

- entrepreneurship and SMEs*. The research programme SMEs and Entrepreneurship, which is financed by the Netherlands Ministry of Economic Affairs, ISBN: 90-371-0875-X.
- Kendall, PC, and Ingram, RE 1989, *Cognitive behavioral perspectives: Theory and research on depression and anxiety*, In PC, Kendall & D Watson (Eds) *Anxiety and Depression and Overlapping Features*, San Diego, CA: Academic Press.
- Kim Hak-Su, 2005, Statement by Dr. Kim Hak-Su, Under-Secretary-General of The United Nations and Executive Secretary of United Nations Economic and Social Commission for Asia and The Pacific (UNESCAP) Joint Event for World SMEs, *Forum and World Trade Point Federation General Assembly Meeting*, 7 November 2005, Bangkok.
- Lawrence S, et al, 2005, 'Shift work locus of control, situational and behavioral effects on sleepiness and fatigue in shift workers', *Industrial Health, Institute of Psychological Sciences*, University of Leeds, Leeds LS2 9JT, UK, 43, 151–170.
- Lee, Sungjoo, 2008, *Open innovation in SMEs*, *Open Innovation Workshop*, 22nd & 23rd, University of Cambridge.
- Lee, DY, and EWK, Tsang, 2001, 'The effects of entrepreneurial personality, background and network activities on venture growth', *Journal of Management Studies*, 38(4), 583-602.
- Lefcourt, HM 1982, *Locus of Control: Current trends in theory and research*, Hel-sead, New York.
- Leitão, João, and Franco, Mário, 2008, *Individual entrepreneurship capacity and performance of SMEs*. Online at <http://mpira.ub.uni-muenchen.de/8179/> MPRA Paper No. 8179, posted 09. April 2008, University of Beira Interior, Portugal lmfranco@ubi.pt.
- Low, MB, & MacMillan, IC 1988, 'Entrepreneurship: Past research and future challenges', *Journal of Management*, 14(2), 139-161.
- Lumpkin, GT, and Erdogan, Berrin, 2006, *If not entrepreneurship, can psychological characteristics predict entrepreneurial orientation*. A Pilot Study Department of Managerial Studies, College of Business Administration University of Illinois at Chicago, USA.
- MacCallum, RC 1986, 'Specification searches in covariance structure modeling', *Psychological Bulletin* 100.
- Machaba, Rahlagane Phillip, 2003, *A Developmental Study to Investigate Whether a Formal Education Is a Determinant of Entrepreneurial Success*, Dissertation, University of Free State Bloemfontein.
- Mamlin, N, and Harris, KR, Case, LP 2001, 'A methodological analysis of research on locus of control and learning disabilities: rethinking a common assumption', *Journal of Special Education, Winter*.
- Mattulada, HA 1975, *Latoa; Suatu lukisan analisis terhadap antropologi politik orang bugis*, Disertasi. Universitas Indonesia, Djakarta.
- Mattulada, 1998, *Sejarah, masyarakat, dan kebudayaan Sulawesi Selatan*, Hasa-nuddin University Press, Ujung Pandang.
- Neely, Andy, M, Gregory and K, Platts, 1995, 'Performance measurement systems design: a literature review and research agenda', *International Journal of Operations and Production Management*, Vol. 15, No. 4, pp. 80-116.
- Neely, Andy, 1999, 'The performance management revolution: why now and what next?', *International Journal of Operations and Production management*, Vol. 19. No. 2, pp. 205-228.
- Nwachukwu, OC 1995, 'CEO locus of control, strategic planning, differentiation, and small business performance: A test of a path analytic model', *Journal of Applied Business Research*, 11: 9-14.
- Othman, N and Ishak, S 2009, 'Attitude towards choosing a career in entrepreneurship amongst graduates', *European Journal of Social Sciences*, Volume 10,

- Number 3 (2009) 419.
- Pennings, L, Lee, A, and Witteloostuijn, V 1998, 'Human capital, social capital, and firm dissolution', *Academy of Management Journal*, 425-440.
- Perry, C 1990, 'After further sightings of the heffalump', *Journal of Managerial Psychology*, 5, 22-31.
- Porter, Michael, E 1985, *Competitive advantage: creating and sustaining superior performance*, The Free press, New York.
- Rafinaldy, Neddy, 2004, Prospek pengembangan ekspor UKM, *Infokop*, Nomor 25 Tahun XX, Jakarta.
- Rotter, JB 1966, *Generalized expectancies for internal versus external control of reinforcement*, Psychological Monographs, General and Applied, 80 (Whole No. 609).
- Sapp, S, and Harrod, W 1993, 'Reliability and validity of a brief version of Levenson's locus of control scale', *Psychological Reports*, 72, 539-550.
- Sarason, IG, Sarason, BR, Keefe, DF, Hays, BE, and Shearin, EN 1986, 'Cognitive interference: Situational determinants, trait and characteristics', *Journal of Personality and Social Psychology*.
- Sarason, IG, Sarason, BR, & Pierce, GR 1995, *Cognitive interference at the intelligence-personality crossroads*. In D. Saklofske and M. Zeidner (Eds.), International handbook of personality and intelligence, New York, Plenum.
- Sharma, P and Chrisman, JJ 1999, 'Toward a reconciliation of the definitional issues in the field of corporate entrepreneurship', *Entrepreneurship Theory & Practice*, 23 (3), 11-27.
- Spector, PE 1982, 'Behavior in organizations as a function of employee's locus of control', *Psychological Bulletin*, Vol. 91, no. 3.
- Stewart, WH, WE, Watson, JC, Carland and JW, Carland, 1999, 'A proclivity for entrepreneurship: a comparison of entrepreneurs, small business owners, and corporate managers', *Journal of Business Venturing*, 14(2), 189-214.
- Stuart, R, and Abetti, P 1990, 'Impact of entrepreneurial and management experience on early performance', *Journal of Business Venturing*, 5, 151-162.
- Tanaka, JS 1987, 'How big is big enough sample size and goodness of fit in structural equation models with latent variables', *Child Development*, 58, 134-146.
- Van, Praag, C 2003, 'Business survival and success of young small business owners: An empirical analysis', *Small Business Economics*, Vol. 21(1), August, 1-17.
- Van, Zuuren, FJ, and Wolfs, HM 1991, 'Styles of information seeking under threat: Personal and situational aspects of monitoring and blunting', *Personality and Individual Difference*, 12 (2): 141-149.
- Wang, C, Rowe, M and Cripps, H 2006, *Collaborative commerce for SMEs: Field data relating to c-commerce adoption - A report to industry partners as part of the research project 'Collaborative commerce for SMEs in regional knowledge networks*, Edith Cowan University Perth, WA.
- Ward, EA 1993, 'Motivation of expansion plans of entrepreneurs and small business managers', *Journal of Small Business Management*, 31(1), 32-38.
- Wheatley, W, Anthony, W, and Maddox, E 1991, 'Selecting and training strategic planners with imagination and creativity', *Journal of Creative Behavior*, 25, 5260.
- Wilbert, Caroline, 2007, *What does innovation mean? Find out at WITI*, Conference first published August 2007 Back to Career & Money : Work: Career Planning. Download 15 September 2008.
- Youndt, M, Subramaniam, M, and Snell, S 2004, 'Intellectual capital profiles: An examination of investments and returns', *Journal of Management Studies*, 41 (2), 335-361.