

The Impact of Internal and External LOC with Intrinsic Motivation as a Mediator on the MSME's Business Performance in Indonesia

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ABSTRACT

Objectives: This research explores the impact of internal and external locus of control (LOC) and mediating role of intrinsic motivation on business performance's MSME owners in Indonesia.

Methodology: This study employs Structural Equation Modelling (SEM) for quantitative analysis. The sample includes 157 MSME owners in Indonesia, selected through convenience sampling.

Finding: The findings reveal that internal LOC influences business performance, with intrinsic motivation enhancing this effect as a mediator. Conversely, external LOC does not impact business performance, and intrinsic motivation does not mediate its effect. This indicates that MSME owners with a strong internal LOC tend to achieve better business performance, especially when driven by intrinsic motivation.

Conclusion: The originality of this study concludes the truth of the EEP Theory, which explains role of entrepreneurial motivation in relationship between the influence of LOC with business performance. Its empirical findings strengthen previous research, and provide a perspective that confirms that generally business owners have an intrinsic motivation orientation with high internal LOC, they see and have a strong belief that business success is something that is under their control and is reinforced by the motive to achieve success. In contrast, their external LOC is low and has no influence on their intrinsic motivation and business performance.

Keywords: Business Performance; External LOC; Internal LOC; Intrinsic Motivation. EEP Theory (Theory of Early Entrepreneurial Performance).

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INTRODUCTION

Micro, Small, and Medium sized Enterprises serve as special piece of the economy for driving growth. MSMEs are one of the most commonly pursued types of businesses among the Indonesian population. The number of MSMEs dominates Indonesian business owners, contributing to 96.9% of the total national workforce absorption (Zakiyah et al., 2022). They play a crucial part in growing of manufacturing sector and overall wealth of a country (Agarwal & Ojha, 2023). To encourage economic growth, MSME owners must strive to achieve strong business performance. This is due to the fact that in the business world, performance is crucial, as the dynamics of competition continue to evolve constantly (Purbasari et al., 2022).

As part of factors influencing a economic growth, Enterprises are operated by individuals with diverse attitudes and behaviors that impact the success of their businesses. A key element of the strategic approach in human resource management is recognizing individuals as valuable assets, as no strategy can be effectively implemented without the right individuals to execute it (Daft, 2021). The quality of the business owner's behavior related to their business influences the business performance (Sugiharjo et al., 2024). MSME owners represent an essential economic resource that must be understood and managed to drive their business success. Therefore, understanding the behavioral factors of business owners as individuals, in relation to efforts to achieve MSME performance, has become a key motivation for conducting this research.

According to data, Indonesia has the highest number of MSMEs among ASEAN countries, representing 90.33% of the total MSMEs in the region, which exceeds 72 million MSMEs. In contrast, other ASEAN countries report significantly lower figures, such as Thailand with 4.32%, Malaysia with 1.69%, Vietnam with 0.90%, Singapore with 0.38%, and other ASEAN countries also have relatively small numbers of MSMEs (UNCTAD, 2022). One indicator of company growth can be seen from the ratio of successful entrepreneurs, as growing businesses boost the economy and improve living standards, which is also applicable in Indonesia (Purbasari et al., 2022). As of 2023, MSMEs in Indonesia had grown to approximately 66 million, making up 99% of all business entities. With a significant contribution of 61% to Indonesia's GDP, MSMEs continue to serve as a cornerstone of the country's economic growth (ICCI, 2024). That is also the basis for the author's interest in conducting research on MSMEs, specifically examining the clout between LOC, distinguishing between which originates from the internal personal side and external side of control, intrinsic motivation, and business performance.

Business owners must possess the ability converting to environmental alteration in order to utilize on opportunities overcome challenges, ultimately enhancing business performance (Agustina, 2019). In a business context, performance refers to the "execution of an action," and subsequent performance is determined based on actions carried out in alignment with expectations or established standards (Folan et al., 2007). Thus, business performance can indicate the success of business owners in controlling and utilizing resources to achieve their goals. The study conducted by Purbasari et al. (2022) identifies several individual factors of entrepreneurs that can influence business performance, including motivation, attitude, and persona attributes of business owners. The variables studied are limited to examining how locus of control, intrinsic motivation, and business performance impact the development of knowledge related to these research variables.

Locus of control refers to assumption events in one's life are either caused by themselves or by external influences (Alfred & Idoghor, 2020; Ng et al., 2006; Spector et al., 2002).

Individuals who believe their actions determine what happens to them are contemplated having an internal LOC, whilst those who have assuredness external factors control their fate tend to have an external LOC (Daft, 2021). Numerous studies have concluded individuals with a high internal LOC tend to exhibit high performance and achieve career success (Ng, 2006; Rahmawati, 2023; Zain, 2023). Conversely, for individuals with an external LOC, many findings conclude an external LOC does not influence performance (Anugerah, 2016; Purwati, 2023; Rahmawati, 2023).

According to TPB, locus of control can indirectly impact business success by affecting variables like entrepreneurial motivation (Purbasari, 2022). Internal LOC has a role in framing motivation and performance (Sundjoto, 2017). When an individual is intrinsically motivated, enthusiasm, energy, and focus emerge, which leads them to act voluntarily in ways that benefit their environment and impact performance (Shin et al., 2019). Research on business performance has been widely conducted, yielding diverse findings. Analyzing factors that can affect performance makes performance management issues even more intriguing (Purbasari & Septian, 2017).

There is a research gap identified between studies on LOC with performance. Several research findings have concluded there is an effect, other studies find the opposite results. The study by Murti & Utami (2021) with respondents consisting of employees of rural credit institutions, it came to conclusion that internal LOC does not have clout on performance. Additionally, research by Purbasari (2022) with respondents consisting of student business owners, it was found that LOC does not directly influence business performance. The study also revealed that students who own businesses exhibit a still dominant external locus of control, although they also possess an internal locus of control. Watchfulness explained that external LOC does not influence business performance. This finding is also supported by the research of Rahmawati (2023) and Purwati (2023). However, in contrast to the findings of Hermawan & Kaban (2014), which state that external LOC was found to have an influence on performance.

Evaluation results of the structural model examining how its relationship confirmed that entrepreneurial motivation influences business performance (Purbasari, 2022). This is supported by the findings of Virgana & Lapasau (2024), Hanandeh (2024), Srimulyani (2023), Hajiali (2022), Rachman (2022), Shin (2019), and Sundjoto (2017). However, in a study involving respondents on small technology-based new ventures, it stated entrepreneurial motivation does not influence business performance (Chen & Chang, 2013).

This research predicts and analyzes the impact of internal and external LOC on business performance, intrinsic motivation as mediating factor for MSME owners. It also re-examines the Early Entrepreneur Performance (EEP) Theory with a broader population. The EEP Theory states that locus of control affects business performance through entrepreneurial motivation. It aims to contribute to knowledge development and provide strategic recommendations for MSME owners to manage business performance, enhance competitiveness, and sustain their businesses amid increasing competition.

LITERATURE REVIEW

Theory of Early Entrepreneur Performance

In the concept of the EEP Theory is explained how entrepreneurial motivation or behavioral intentions, based on intrinsic and extrinsic motives as a result of subjective or objective evaluation of the underlying motives, determine entrepreneurial behavior, particularly business

performance (Purbasari, 2022). The TPB is a framework utilized predicting and analyzing individual behavior by means of determining their actions (Ajzen, 1991). This theory explains that business management carried out by an entrepreneur is based on planned activities or behaviors.

TPB proposes three predictors: the first is attitude toward behavior, where it can describe the extent to which someone be of the opinion positively or negatively about behavior in question. Second is subjective norm, a social element that reflects discerning community pressure to involve or not in behavior. Third is perceived behavioral control, which refers recognizing ease or difficulty in fulfill certain behavior and considered to contemplate past experiences and anticipated impediments (Purbasari, 2022).

Based on the TPB, it can be concluded LOC is a variable can indirectly have an effect business performance by first affecting other variables, such as entrepreneurial motivation (Purbasari et al., 2022). The EEP Theory also demonstrates that entrepreneurs must first provide entrepreneurial motivation oriented toward intrinsic motivation as a construct that mediates influence of LOC on their business performance, thereby achieving strong business performance.

Internal Locus of Control

Internal LOC make references to an individual's belief that they are truly responsible for the consequences of their steps in life (Alfred & Idoghor, 2020; Ng, 2006; Rotter, 1966; Spector, 2002; Wijbenga & Witteloostuijn, 2007). People with an internal LOC generally demonstrates a well built awareness that success is within their own control, leading them to exhibit persistence and confidence in achieving their goals. Those with a strong internal LOC believe that their actions shape their destiny (Daft, 2023; Rahmawati, 2023), they tend to self-aware of what is right and wrong and take responsibility for their movements (Anugerah, 2016). According to Sundjoto (2017), persons with internal LOC have confidence in their activities determine events they are exposed to and confident in success. Compared to individuals with an external LOC, those with an internal LOC are typically further serious and less most likely to blame others for their failures (Alfred & Idoghor, 2020).

External Locus of Control

External LOC is a insight where individuals trust that affairs in their lives are caused by luck, chance, or significant external forces, and they do not take responsibility for their actions (Alfred & Idoghor, 2020; Ng, 2006; Rotter, 1966; Spector, 2002; Wijbenga & Witteloostuijn, 2007). Individuals who believe they have little influence over their achievement or lack of success and feel can't do much to make their circumstances different are often categorized as having an external LOC (Sundjoto, 2017). Individuals with an external LOC believe what they achieve not a result of their movement, and there is no connection between their success and their efforts (Anugerah, 2016). Those with an external LOC attribute outcomes to fate, luck, or external factors (Daft, 2023; Rahmawati, 2023).

Intrinsic Motivation

Motivation can be defined as an internal (intrinsic) or external (extrinsic) force that drives an individual to take actions. Intrinsically motivated behavior is driven by challenges, enjoyment, or satisfaction (Dede & Kuşakcı, 2022). Intrinsic motivation is the internal drive to do something due to interest and enjoyment. Providing motivation is crucial as it sparks the individual's interest in their efforts and leads to good performance (Sugiarti, 2022). Some

individuals appear enthusiastic about what they do, find satisfaction in their efforts, and view participation and engagement as a form of self-reward. This type of motivation is known as intrinsic motivation (Lin, 2021; Monteiro, 2015; Purbasari, 2022; Shin, 2019).

Business Performance

Business performance is the result of resource management that reflects a company's ability to achieve its goals. Entrepreneurial motivation affects business performance, at the time when entrepreneur have motivation to be creative and innovative in the business processes they manage (Fitri & Dwita, 2024). The perception of entrepreneurs regarding the outcomes pursued in the business process using available resources is go into as business performance (Ngoc, 2022; Sink, 1984; Zain, 2023). Business performance is important as it reflects a company's ability to allocate and manage assets effectively (Rahmawati, 2023). Business performance is related to the results of actions in utilizing resources, which can be measured both financially and non-financially (Folan, 2007; Purbasari, 2022; Sink, 1984). Business performance is a crucial aspect of modern business administration. However, managing business performance is the responsibility of business owners, regardless of the business scale. MSME owners must adapt and evolve over time by seizing opportunities and facing obstacles to achieve strong business performance (Agustina, 2019).

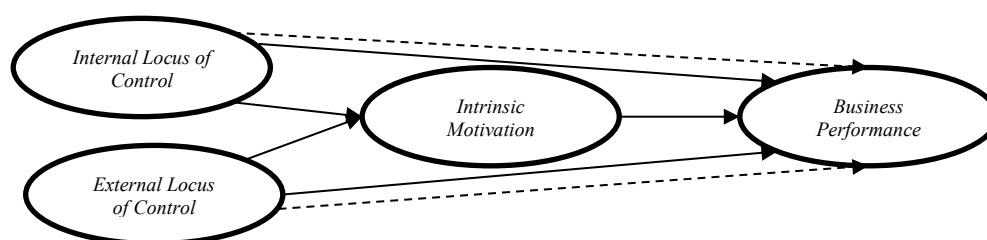


Figure 1 Research Model

The Effect of Internal Locus of Control on Business Performance

Internal LOC indicates behaviors where success is determined by one's own will, accompanied by self-awareness in determining the actions to be taken. Research findings show that internal LOC influences performance (Sundjoto, 2017). Individuals with confidence in internal control are considered to be expected rely on their skills rather than favorable circumstances. They also believe that individual behavior can influence the environment around them, thus affecting the performance outcomes (Ng et al., 2006). The ability to make decisions by internal LOC becomes increasingly important for business success (Rahmawati, 2023). Be based explanation, hypothesis is suggested:

H1: There is an influence of internal locus of control on MSME business performance.

The Effect of External Locus of Control on Business Performance

External LOC is believed to represent a perspective in which individuals be convinced by factors beyond their control influence the outcomes they experience. It was found that external LOC negatively have an impact on performance, indicating that individuals with an external LOC tend to have lower performance (Anugerah et al., 2016). Alfred & Idoghor (2020) argue that individuals with an external LOC perceive their actions as random, making them feel weak and powerless. Factors that are outside of a person include fate, luck, or other individuals significantly impact on those with an external LOC (Anugerah, 2016). External LOC reflects

someone's interpretation of the reliance that destiny, opportunity, fate, and luck, as well as more powerful individuals, are the determining factors in whether they succeed or fail in achieving something (Rahmawati, 2023). Be based the explanation, hypothesis is suggested:

H2: There is an influence of external locus of control on MSME business performance.

The Effect of Intrinsic Motivation on Business Performance

Managing a business provides opportunities to develop knowledge and skills, where intrinsic motivation can serve as a key driver in realizing these opportunities. Intrinsic motivation has been found to influence performance, these findings explaining that success is the result of intrinsic motivation, where performance outcomes reflect how successful individuals are in achieving their goals (Sundjoto, 2017; Shin, 2019). If a person achieves the desired goals and results, it can be considered good performance (Sundjoto, 2017). Employees with low intrinsic motivation tend to be unable to sustain effort in their work, which can hinder their performance (Shin, 2019). Be based the explanation, hypothesis is suggested:

H3: There is an influence of intrinsic motivation on MSME business performance.

The Effect of Internal Locus of Control on Intrinsic Motivation

Locus of control is a psychological view, describes belief of an individual concerning the causes of occasions or events in life, whether due to personal traits or external factors beyond their control (Alfred & Idoghor, 2020). According to research by (Lin, 2021; Sundjoto, 2017), concluded internal LOC influences intrinsic motivation and suggest that individuals with internal LOC believe success be achieved along hard work, and that failure is due to a lack of ability or motivation. Be based the explanation, hypothesis is suggested:

H4: There is an influence of internal locus of control on intrinsic motivation.

The Effect of External Locus of Control on Intrinsic Motivation

Personal with an external LOC have confidence that factors beyond one's control such as fate or luck play a larger role in setting outcomes of their lives (Anugerah, 2016). The study suggests that auditors with an external LOC, when under work pressure, tend to disregard the rules, believing that their work results are more influenced by external circumstances. Holden (2019) found that actions boosting intrinsic motivation and competence align with an internal locus of control, while outcomes driven by chance or luck weaken intrinsic drive, known as external locus of control. The research by Purbasari (2022) found that young entrepreneurs in the research, who had an external locus of control and intrinsic entrepreneurial motivation, demonstrated that locus of control influences entrepreneurial motivation. Be based explanation, the hypothesis is proposed:

H5: There is an influence of external locus of control on intrinsic motivation.

The Effect of Internal Locus of Control on Business Performance Mediated by Intrinsic Motivation

Intrinsic motivation is allieding an internal drive to achieve goals derived from satisfaction. In the study by Sundjoto (2017), internal LOC indirectly affects performance by way of intrinsic motivation, suggesting have no directly impact performance but must first be mediated by intrinsic motivation. A different study also found that locus of control influences performance through motivation (Virgana & Lapasau, 2024). Be based explanation, the hypothesis is offered:

H6: There is an influence of internal locus of control on MSME business performance mediated by intrinsic motivation.

The Effect of External Locus of Control on Business Performance Mediated by Intrinsic Motivation

Work motivation is the internal and external drive within a person to achieve desired outcomes. Motivation that comes from internal drive is intrinsic motivation. Purbasari et al. (2022) found that external self-control influences business performance through entrepreneurial motivation, which acts as a mediator. The study explained that although individuals with external LOC tend to feel external factors influence their achievement, they still require intrinsic motivation to take actions and grow their business. The study also concluded that respondents tended to rely on intrinsic motivation, as the satisfaction from achievements or profits encouraged them to work harder for business success. This suggests that young entrepreneurs with an external LOC must first develop intrinsic motivation to achieve strong business performance (Purbasari, 2022). Build upon the explanation above, the hypothesis is proposed:

H7: There is an influence of external LOC on MSME business performance mediated by intrinsic motivation.

METHOD

This research employs a quantitative research design to analyze whether there is an influence of the internal LOC (LOCI) and external LOC (LOCE) variables on business performance (KB) in MSMEs, mediated by intrinsic motivation (MI). The convenience sampling technique was used considering the population size unspecified and majority samples are spread across island of Java, a small part of Sumatra, Kalimantan and Sulawesi. The questionnaire for the internal and external locus of control variable is sourced from Rahmawati (2023), while the questionnaire for the intrinsic motivation and business performance variables is sourced from Purbasari (2022). The subsequent are statements used in the research instruments:

Table 1 Research Questionnaire

Statement
Internal Locus of Control
The achievement of the business unit is entirely be my efforts.
People who effort harder in business will receive improve on recognitions.
What I acquire is proportional to what is put in.
The current growth of my business fully depends on the effort I put in.
External Locus of Control
The stride in my business is just in consequence of luck.
Many displeasing things in life due to bad luck.
I discern that coincidences bring good matters in my life.
Intrinsic Motivation
I enjoy solving complex problems in managing the business.
I like dealing with res that are completely new to me.
I am always driven to try solving very difficult problems, even in managing the business.
I want to know that I am capable of managing the business successfully.
Owning and managing a business gives me the opportunity to improve my knowledge and skills.

For me, the most important thing is enjoyed the business I manage.

Business Performance

The capital I invest in the business I run yields ideal profit.

Sales results of product in my business are hugely.

I have very good quality of raw materials and services used in processes.

The products quality produced meets the expected standards.

Working relationship between owner, employees and business partners is very good.

I have a peachy working relationship with consumers.

The financial gain from my capital is topping.

Overall, the profit rate generated by my business exceeds expectations.

Source: Questionnaire by Rahmawati et al. (2023) and Purbasari (2022)

RESULTS AND DISCUSSION

Results

Out of a total of 157 respondents, the majority were female (72.6%), with most of the businesses they operated classified as micro-enterprises (91.72%) having fewer than 5 employees. Based on the length of business establishment, 31.2% of respondents had been running their MSMEs for more than 5 years, indicating a significant level of experience in business.

Measurement Model (Outer Model) Evaluation

Table 2 Reliability and AVE Result

Construct	Cronbach's alpha	Composite reliability (rho-a)	AVE
LOCI	0.706	0.742	0.524
LOCE	0.670	0.712	0.584
MI	0.852	0.854	0.577
KB	0.890	0.896	0.563

Source: Processed Data (2024)

Reliability Testing

In order, a reliability coefficient of 0.8 or higher is excellent, while a value between 0.6 and 0.7 is adequate (Hulin et al., 2001). Table 2 appears that reliability results of constructs are reliable, as Cronbach's Alpha of constructs is greater than 0.60, and composite reliability is above 0.70.

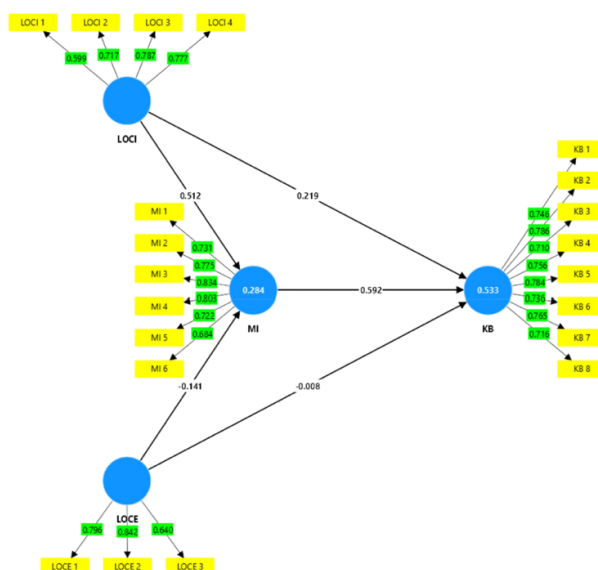


Figure 2 Outer Model Result

Validity Testing

Convergent validity is examining by AVE value and factor loadings. Table 2, shows the AVE constructs used in the study meet the acceptable Average Variance Extracted (AVE) criteria. Standardized loadings should typically exceed 0.707. However, if other indicators in the block provide a basis for comparison, loadings of 0.5 or 0.6 may still be considered acceptable (Chin, 1998). Figure 2 presents the factor loading meets acceptable criteria for convergent validity. In Table 3 showed, since each item reflected by its construct has a higher correlation compared to items from other constructs, this indicates that all items assigned to their respective constructs meet the cross-loadings approach and the assumption of discriminant validity.

Table 3 Cross-Loadings Result

Construct	LOC1	LOCE	MI	KB
LOC1 1	0.599	0.073	0.267	0.211
LOC1 2	0.717	-0.039	0.356	0.326
LOC1 3	0.787	-0.021	0.446	0.548
LOC1 4	0.777	-0.012	0.380	0.331
LOCE 1	-0.078	0.796	-0.112	-0.090
LOCE 2	0.014	0.842	-0.142	-0.081
LOCE 3	0.103	0.640	-0.049	-0.032
MI 1	0.363	-0.124	0.731	0.516
MI 2	0.401	-0.121	0.775	0.493
MI 3	0.400	-0.211	0.834	0.552
MI 4	0.393	-0.124	0.803	0.562
MI 5	0.413	-0.042	0.722	0.551
MI 6	0.367	-0.034	0.684	0.535
KB 1	0.557	-0.090	0.625	0.746
KB 2	0.366	-0.002	0.500	0.786
KB 3	0.292	-0.019	0.457	0.710

KB 4	0.334	-0.087	0.533	0.756
KB 5	0.369	-0.074	0.625	0.784
KB 6	0.439	-0.126	0.570	0.736
KB 7	0.369	-0.115	0.442	0.765
KB 8	0.342	-0.048	0.395	0.716

Source: Processed Data (2024)

Table 4 Fornell and Larcker Result

Construct	LOCI	LOCE	MI	KB
LOCI	0.724			
LOCE	-0.010	0.764		
MI	0.514	-0.146	0.760	
KB	0.523	-0.097	0.706	0.750

Source: Processed Data (2024)

Based on the Fornell & Larcker (1981) assumption, each construct should have a higher correlation with own indicators than other constructs (Table 4). The model met these criteria therefore, the model meets the good for distinguishing different constructs.

Table 5 Heterotrait-monotrait ratio (HTMT) Result

Construct	LOCI	LOCE	KB
MI	0.641	0.173	0.793
LOCI		0.141	0.596
LOCE			0.147

Source: Processed Data (2024)

Henseler et al. (2015) recommend using HTMT criterion in assessing discriminant validity of variance-based SEM. A threshold value of 0.90 is suggested for structural models involving conceptually related categories, while a more conservative threshold of 0.85 is recommended for models with more distinct concepts. Table 5 show all correlations between constructs are below 0.85 (HTMT < 0.85), indicating that the criteria have been met.

Structural Model (Inner Model) Evaluation

Collinearity Testing

The results VIF (Variance Inflation Factor) results are presented in Table 6, the correlation between all constructs shows values that meet the good criteria, as all VIF values are significantly lower than the recommended threshold of 3, indicating no multicollinearity issues.

Table 6 VIF Result

Construct	KB	MI
LOCE	1.028	1.000
LOCI	1.366	1.000
MI	1.396	1.000

Source: Processed Data (2024)

Examining the Coefficient of Determination (R^2)

Therefore R^2 value be interpreted within the context of the specific investigation being conducted (Sarstedt et.al., 2022). In Table 7 is showed the R^2 for the KB construct is at a moderate level, and for the MI construct, it is at a weak level.

Table 7 R-Square (R^2) & Q-Square (Q^2) Result

Construct	R-square	Q^2 predict
MI	0.284	0.228
KB	0.533	0.238

Source: Processed Data (2024)

Prediction Relevance (Q^2) Results

A Q^2 value greater than zero means path model performs better than this basic benchmark (Sarstedt et al., 2022). Be based Table 7, the Q^2 test results show that the Q^2 value is greater than 0 ($Q^2 > 0$). The parameter estimates and observed values of the model are good.

Path Analysis Results (Hypothesis Testing)

Table 8 Path Analysis Result

Path	β	t	p	Description
Direct Effect				
LOCI \rightarrow KB	0.219	3.048	0.002	accepted
LOCE \rightarrow KB	-0.008	0.123	0.902	not accepted
MI \rightarrow KB	0.592	8.538	0.000	accepted
LOCI \rightarrow MI	0.512	6.100	0.000	accepted
LOCE \rightarrow MI	-0.141	1.562	0.118	not accepted
Indirect Effect				
LOCI \rightarrow MI \rightarrow KB	0.303	4.455	0.000	accepted
LOCE \rightarrow MI \rightarrow KB	-0.083	1.515	0.130	not accepted

Source: Processed Data (2024)

Table 8 shows a positive path coefficient of 0.219 for internal locus of control on business performance, t-value of 3.048 and p-value of 0.002, confirming H1 is accepted, meaning there is an influence of internal LOC on the business performance of MSME. The path coefficient value of external LOC to business performance yields a negative value, indicating a negative relationship. Leading to the rejection of H2 with t-value 0.123 and the p-value 0.902, meaning there is no influence of external LOC on the business performance of MSMEs.

That intrinsic motivation has a positive path coefficient of 0.592, with a t-value of 8.538 and a p-value of 0.000 meaning H3 is accepted, there is an influence of intrinsic motivation on the business performance of MSMEs. The path coefficient value of internal locus of control to intrinsic motivation yields a positive value of 0.512, meaning there is a positive relationship. The t-value 6.100 and the p-value 0.000 indicating for fourth hypothesis, H4 is accepted, meaning there is an influence of internal LOC on intrinsic motivation. The path coefficient value of external locus of control to intrinsic motivation yields a negative value of -0.141, indicating a negative relationship. Leading to the rejection of H5, with t-value 1.562 and p-value 0.118, there is no influence of external LOC on intrinsic motivation.

For indirect effects, H6 is accepted as intrinsic motivation mediates the effect of internal locus of control on business performance with $t = 4.455$ and $p = 0.000$. However, H7 is rejected since intrinsic motivation does not mediate the effect of external locus of control on business performance in $t = 1.515$ and $p = 0.130$.

Table 9 F-square Result

Construct	KB	MI
LOCE	0.000	0.028
LOCI	0.075	0.366
MI	0.538	

Source: Processed Data (2024)

Effect Size (f^2)

Table 9 shows no effect between LOCE and KB ($0.000 < 0.02$). LOCE and MI have a small effect ($0.028 > 0.02$), while LOCI moderately affects KB ($0.075 > 0.02$). LOCI strongly influences MI ($0.366 > 0.35$), and MI strongly impacts KB ($0.538 > 0.35$). This indicates LOCI plays a greater role in explaining MI than LOCE, and MI is crucial for business performance, aligning with the R^2 result of 53.3% for KB.

Discussion

The testing show, internal LOC affects the business performance of MSMEs. This explains that the MSME owners in this study believe that success is within their control and that working harder in business will yield results proportional to their efforts, as well as the belief that business growth is determined by their own actions. Reported by Rahmawati et al. (2023), Virgana & Lapasau (2024), Zain et al. (2023), Purwati et al. (2023), and Agustina et al. (2022), who also found that internal LOC influences better business performance. In contrast, the study by Murti & Utami (2021) showed that internal LOC does not affect performance. The study further explained that this insignificant result may have been influenced by respondents who felt unable to convince themselves that success and failure in their work are influenced by their own actions and abilities, which contradicts the belief in internal LOC. Murti & Utami (2021) explanation is likely due to the fact that in their study, the respondents tended to have an external LOC. Meanwhile, shows the opposite result, this study be indicating that internal LOC influences business performance, and outer model test results also show that MSME owners have a high internal LOC.

Hypothesis test 2 confirms that external LOC does not affect the business performance of MSMEs. This finding aligns with research conducted by Rahmawati (2023), Purwati (2023), and Purbasari (2022). In the research by Purbasari (2022), which involved respondents who were business owners with student status, it was found that they exhibited a more dominant external LOC. In contrast, the respondents in study demonstrated a low external LOC. This difference in the level of external LOC could be attributed to the influence of environmental and cultural factors, which may have shaped their LOC in different ways. Interestingly, another study revealed contrasting results. Hermawan & Kaban (2014) showed that external locus of control has a positive influence on performance. However, a different study concluded that external locus of control had a negative effect on auditor performance (Anugerah, 2016), arguing that reliance on external factors such as fate or luck leads to lower performance. This suggests that the relationship between external LOC and performance varies depending on the respondent context.

The results of hypothesis test 3 show that intrinsic motivation has an influence on the business performance of MSMEs. The research found that the structural model evaluation of the relationship between business performance and motivation validated the idea that business performance is influenced by motivation. Based on the evaluation of the entrepreneurial motivation construct, the research sample demonstrated intrinsic motivation (Purbasari, 2022). This finding is supported by studies conducted by Virgana & Lapasau (2024), Hanandeh. (2024), Srimulyani (2023), Hajiali (2022), Rachman (2022), Shin (2019) and Sundjoto (2017). In line with these findings, a study on small businesses in Iraq revealed that entrepreneurial motivation had significant relationship with small business performance (Aftan & Hanapi, 2018).

The hypothesis test 4 shows that there is an influence of internal LOC on intrinsic motivation. This aligns with the findings of research by Virgana & Lapasau (2024), Rachman (2022), and Lin (2021). Personal with an internal LOC tend to depend on their own judgment about what is right and wrong and are inclined to take responsibility for the outcomes of their actions (Anugerah, 2016). Business owners with an internal LOC can be demonstrated by behaviors that place control under their own management, which impacts problem-solving as a means of fulfilling the need to enhance knowledge and skills in managing their business (Hajmohammadi & Aghayani, 2022; Rachman et al., 2022; Sundjoto, 2017). A stronger internal LOC reflects intrinsic motivation to achieve the desired results. Furthermore, intrinsic motivation, driven by internal factors, can lead to high task completion and responsibility performance as well as success in achieving goals, as business owners internally recognize the rewards for the hard work they have put in, with hard work serving as a capital investment for the business owner (Ng et al., 2006; Purbasari, 2022).

The hypothesis test 5 explained no influence of external LOC on intrinsic motivation. This result contrasts with the findings of research by Purbasari (2022) and Rachman (2022). In study by Purbasari (2022), the findings from the structural model evaluation regarding the influence between LOC and entrepreneurial motivation were validated, and the analysis results showed that student entrepreneurs tended to have a higher external locus of control. Furthermore, a positive relationship between LOC and motivation, indicating the ability to perform tasks and responsibilities independently drives goal achievement (Rachman, 2022). External factors are the causes of the results of their actions, so the likelihood of individuals knowing whether what they are doing is right or wrong is lower (Anugerah, 2016).

Testing of hypothesis 6 indicated that intrinsic motivation has been mediated the effect of internal LOC on the business performance of MSMEs. These findings are supported by Purbasari (2022), where entrepreneurial motivation plays a perfect mediating role in the influence of LOC on business performance. The study shows that internal LOC affects performance indirectly through intrinsic motivation, meaning that although an individual has a high internal LOC, optimal performance can be achieved if the individual has strong intrinsic motivation to reach their goals (Sundjoto, 2017; Virgana & Lapasau, 2024).

The analysis results of hypothesis 7 found that intrinsic motivation does not serve as a mediator in the relationship between external LOC and business performance in MSMEs. The opposite result was found in research by Purbasari (2022) which explains that there is a significant difference in motivation between individuals with internal and external LOC. Individuals with internal LOC possess intrinsic motivation, which drives them to show high job satisfaction and self-determination. This enables them to manage themselves successfully, promote innovation, and produce good performance. In contrast, individuals with external LOC, a person who places control over his or her actions in himself or herself or internally

often show performance below their best abilities because they feel dissatisfied with their work or the rewards they receive (Monteiro et al., 2015).

CONCLUSION

An interesting finding in the study explains that factors that are beyond the control of business owners, such as luck, good fortune and coincidence are not factors that will influence the success or performance of their business. However, the research results found conclusions that were in line with many studies, that when business owners believe they are responsible for their efforts, they work harder to achieve better results, as reflected in good business performance. This study also concludes that if the behavior of business owners is driven by internal motives, such as the desire to be able to solve even difficult problems, demonstrate the ability to manage a successful business, and get opportunities to improve business knowledge and skills, it will show a strong effort to achieve optimal business performance. Furthermore, the drive to improve problem-solving skills and enjoy business operations as reflections of intrinsic motivation play a role in linking beliefs in self-determined success with actual success. However, intrinsic motivation does not mediate the influence of external locus of LOC on business performance.

Exploration of this research supports and strengthens EEP theory. The findings indicate that internal LOC plays a role in influencing business performance, with intrinsic motivation, particularly from the business owners, acting as a mediator that enhances business performance. The belief in having control over business outcomes determines success. Practically, it reinforces previous research stating that business owners with high internal LOC believe that business success is within their control. For MSME owners in Indonesia, fostering intrinsic motivation through genuine interest in their business is crucial, as it enhances skills and strengthens internal locus of control. They must believe that success depends on their efforts rather than external factors. Internal LOC is a psychological key to achieving business success and high performance, as evidenced by the ability to sustain businesses long-term. Most respondents in this study were successful business owners for over five years. The findings also show that individuals with a high internal locus of control are more intrinsically motivated, driving business performance. They believe success depends on their efforts, making them more proactive, strategic, and optimistic in facing challenges.

The researcher recommends further testing of the EEP theory on a broader geographical scale, with a larger sample size, and expanding the theory by adding organizational culture variables that may influence locus of control. Additionally, studies with different subjects and objects could evaluate the consistency of the relationship between LOC, intrinsic motivation, and business performance in various contexts. These recommendations aim to enrich the perspective and relevance of similar research in the future.

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