



Does Performance Matter for Business Survival Based on the Enhancement of Locus of Control and Business Competence? The Case of Micro Small and Medium Enterprises

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Abstract

This study examines and analyzes the mediating effects of business performance on the influences of locus of control and business competence on business survival, taking the case of Micro, Small and Medium Enterprises (MSMEs) in Banda Aceh City, Indonesia. Of the 743 MSMEs engaged in various business sectors, this study only selected 192 MSMEs involved in the creative economy as the research samples. By using the Structural Equation Modeling (SEM) technique, the study documented that the strengthening of locus of control has a significant impact on the business performance and the business survival of the MSMEs. Furthermore, entrepreneurial competence is also found to have a significant positive impact on the business performance and the business continuity of the MSME. Finally, the study also recorded the mediating effects of business performance on the influences of locus of control and business competence on the business survival of the MSMEs. The results of this study indicate that to ensure business continuity, the focus must be given to improving the performance of MSMEs through the increased locus of control and employee competency.

Keywords: Locus of control; Business competence; MSMEs; Business survival.

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) have an essential and strategic role in improving the country's economy, especially in developing countries such as Indonesia. With a total of 64.2 million units and operating in all economic sectors, MSMEs have contributed 60.3% of Indonesia's total gross domestic product (GDP). Besides, MSME absorbs 97% of the total workforce and 99% of total employment ([Indonesian Statistic Bureau, 2020](#)). However, the contribution of MSMEs to the economy is very dependent on the performance and sustainability of its business, especially amid the Covid-19 pandemic. With a small amount of capital and operated by less professional staff, it is not easy for MSMEs to maintain their business performance and sustainability. This is especially so in the midst of changing the economic environment and the impact of the Covid-19 pandemic.

According to the report of the Ministry of Cooperatives and SMEs of the Republic of Indonesia, at least 40% of MSMEs have been closed due to the adverse impact of the Covid-19 pandemic from the January to May 2020 period ([Ministry of Cooperatives and SMEs the Republic of Indonesia, 2020](#)). Likewise, in Aceh Province, of the 74,810 MSMEs that are operating, as many as 29,897 (39.96%) MSMEs had been affected by the Covid-19 pandemic ([Department of Cooperatives and SMEs, 2020](#)). This fact shows the importance of assessing the issue of improving the performance and business sustainability of MSMEs and their determination to be carried out so that MSMEs remain a pillar of economic development in Indonesia, including in the province of Aceh.

Previous studies have shown that the MSMEs' performance greatly influences the sustainability of a business venture. When MSMEs have a good performance, which is demonstrated by an increase in their total sales and assets, the survival of its business would be guaranteed ([Kalleberg and Leicht, 1991](#)). Conversely, companies that fail to maintain performance will go into bankruptcy ([Wennberg and Lindqvist, 2010](#)). This evidence is as found by [Stafford et al. \(2010\)](#), where the long-term survival of the family business is primarily determined by the ability of managers to improve their performance. [Nangoli et al. \(2013\)](#), found that MSMEs in Uganda have experienced business failure because of their low performance. Therefore, to survive, the performance improvement strategy must be a company priority ([Tundui and Tundui, 2012](#)). This is the primary key to the success of the new business model MSMEs ([Simpson et al., 2012](#)).

Furthermore, the performance of a business is influenced by both internal and external factors. Macroeconomic conditions are external factors that determine the business performance of SMEs ([Bekeris, 2012](#); [Ipinnaiye et al., 2017](#)). Internal factors, such as business plans, marketing, access to capital, entrepreneurial ability, human resources, and entrepreneurs' financial knowledge, influence the performance of MSMEs ([Sudiarta et al., 2014](#)). In addition,

competency (Agha *et al.*, 2012; Khalid and Bhatti, 2015) and locus of control (Heywood *et al.*, 2017; Rum, 2013) were also found as determinants of MSMEs performance.

In order to improve the performance and sustainability of MSMEs business, the locus of control of businessmen has been shown to have an important role (Oktabriyantina *et al.*, 2014). As human beings, there is a locus of control or a control center in business people that determines whether or not they can overcome obstacles in themselves. An entrepreneur who has an internal locus of control will be better able to take advantage of entrepreneurial opportunities. They also have confidence in their ability to take advantage of opportunities, resources, develop strategies, and organize their businesses. This is evident from the results of previous studies that found that locus of control has a positive contribution to the performance of entrepreneurship (Adekunle, 2011; Hsiao *et al.*, 2016; Mali, 2013) and at the same time guarantees business continuity (Groenewegen and de Langen, 2012; Korunka *et al.*, 2010; Rum, 2013).

In addition to the locus of control, the competencies of entrepreneurs have also an influence on improving performance (Ismail, 2012; Yazdanfar *et al.*, 2014) and ensuring the business sustainability of MSMEs (Ibrahim *et al.*, 2016; Lampela *et al.*, 2017; Łompiński, 2016). A businessman must have competence in running his business that is always dealing with business risks and uncertainties to be able to maintain and even improve business performance under any circumstances (Zimmerer *et al.*, 2008). In their research, Tocher *et al.* (2012) found evidence that entrepreneurial competence plays an essential role in ensuring the business performance. These empirical pieces of evidence show that the performance of MSMEs would determine the sustainability of its business, supported by the locus of control and high business competence.

Previous studies on the determination of performance and business continuity of MSMEs have been done in many developing countries, generally in Africa, but very little has been done in Indonesia even though this country has millions of MSMEs units. In addition, previous studies only examined the direct influence of competence (Ismail, 2012; Safik and Suparwati, 2013) and locus of control (Idawati and Pratama, 2020; Insani *et al.*, 2019; Safik and Suparwati, 2013; Sumantri and Gemina, 2015) on the performance of MSMEs in Indonesia. Likewise, previous studies only examined the direct effect of competence (Haryono *et al.*, 2017; Yanti *et al.*, 2018) and locus of control (Haryono *et al.*, 2017; Yanti *et al.*, 2018) on business continuity (Idawati and Pratama, 2020) of the MSMEs in Indonesia.

Referring to the above-reviewed studies, it is clear that none of the previous studies have examined the direct and indirect effects of locus of control and competence on MSMEs' business continuity through improving their performance in Indonesia. Thus, driven by the desire to fill the gaps in the previous research, this study aims to measure and analyze the mediating effects of business performance on business continuity through strengthening locus of control and employee competency. The focus of the research is the MSMEs in Banda Aceh City, Indonesia. The results of this study are expected to be beneficial for entrepreneurs and regulators in designing performance improvement strategies while ensuring the sustainability of MSMEs in Indonesia. Besides, the results of this study are also expected to enrich the literature related to strengthening MSMEs in Indonesia.

The rest of the study is preceded in the following sequences. Section 2 provides the literature review on the relevant theories and previous studies on determinants of business performance and business survival. Section 3, in turn, highlights the data and empirical estimated model, followed by the discussion and implications of the findings in Section 4. Finally, Section 5 concludes the study.

2. Literature Review

In the Indonesian context, MSMEs are defined as productive economic activities that stand alone. Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises (MSMEs) classifies business scale units based on the number of assets and turnover, as follows:

1. Micro-scale business: having assets of a maximum of IDR50 million (not including land and buildings for business premises) and a maximum turnover of IDR300 million annually.
2. Small scale business: having assets of IDR50-500 million (excluding land and buildings of business premises) and a maximum turnover of IDR300 million-IDR2.5 billion annually.
3. Medium-scale business: having assets of IDR500 million - IDR10 billion (not including land and buildings where businesses are located) and turnover of IDR2.5-50 billion annually.
4. Large scale business: having assets of more than IDR10 billion (excluding land and buildings where businesses operate) and a turnover of more than IDR50 billion annually.

Based on the above business unit scale categories, the focus of this study is the first three business categories, namely Micro, Small, and Medium Enterprises (MSMEs)

2.1. Business Survival

Business survival is the ability of business managers to maintain their business operations without a time limit (Geraldina and Rossieta, 2011). Business survival is the primary goal of all business entities, including MSMEs, which are highly determined by business management in managing resources and anticipating changes in the economy, politics, and social environments. Proper management that can handle business resources and environmental changes professionally and efficiently will guarantee business survival. Conversely, poor management that is unable to manage business resources and environmental changes properly will lead to business bankruptcy (Simpson *et al.*, 2012).

According to Geraldina and Rossieta (2011), the business survival could be measured by the the ability of the business to: (i) make a positive contribution to employees internally; (ii) create a conducive business climate; (iii) to

build the image and brand of products created; (iv) to develop product innovation; and (vi) to have a social impact on society.

Previous studies have found that external and internal factors influence business survival. External factors include macroeconomic conditions, political stability, regulation, and so on (Bekeris, 2012; Ipinaiye *et al.*, 2017). Meanwhile, the internal factors include the ability of human resources such as competence and employee locus of control, capital adequacy, teamwork, and so on (Simpson *et al.*, 2012). Previous studies have also documented that business competence (Ibrahim *et al.*, 2016; Lampela *et al.*, 2017; Lompi  s, 2016) and the locus of control of had a positive contribution to business continuity (Groenewegen and de Langen, 2012; Korunka *et al.*, 2010; Rum, 2013).

2.2. Business Performance

Business performance reflects the ability of business units to realize their achievements by their targets (Monsur and Yoshi, 2012). In other words, the result of performance can easily be seen in the ability of a business venture to realize its vision through its implemented missions (Baum *et al.*, 1998). This shows that business performance is a series of analytical processes in managing organizational performance to realize the goals set previously. Various activities that are strictly related to business competencies that help business people to accomplish business goals based on the leading indicators set.

Business performance has been measured by various indicators that focus on profit, growth, and social performance of the business. This shows that business performance has been measured using financial ratios and the social dimension of a business unit. According to Robbins (2005), business performance can be measured by five indicators, namely: (i) product quality, (ii) sales volume, (iii) the timeliness of completion of products ordered, and those to be marketed; (iv) marketing independence; and (v) sales target realization.

Business competence of human resources is referred to as one of the critical factors that determine the success of small businesses (Kurniawati and Yuliando, 2015). Human resources are considered as a critical factor because the quality of human resources is unique and difficult to imitate or possess like other assets. Therefore, human resources that have high competence and locus of control will contribute to improving business performance. This is evident from the previous studies that found that locus of control (Adekunle, 2011; Hsiao *et al.*, 2016; Mali, 2013) and competence (Ismail, 2012; Yazdanfar *et al.*, 2014) business practitioners have a positive effect on business performance.

2.3. Locus of Control

The concept of locus of control was first introduced by Rotter (1966), a social learning theorist, is interpreted as a person's perspective of an event, whether he can or cannot control events that occur surroundings him. According to Brownell (1982), locus of control is the degree to which a person accepts personal responsibility for what happens to them. Locus of control consists of two constructs, namely internal and external. The former refers to a person's belief that what happens is always within his control and always takes a responsible role in every decision making. Meanwhile, the latter refers to a person's belief that an event does not have a direct relationship with action by oneself and is beyond its control.

In short, locus of control is a concept that shows an individual's beliefs about events that occur in his life. This includes the idea that success or failure in carrying out various activities in his life is due to his control or control outside himself. To measure locus of control, Hsinkuang *et al.* (2010) introduce five indicators, namely: (i) like to work hard; (ii) has a high initiative; (3) find solutions to problems in every problem that occurs; (iv) always try to think and develop new products; and (v) always have a positive perception of success and business continuity.

2.4. Business Competence

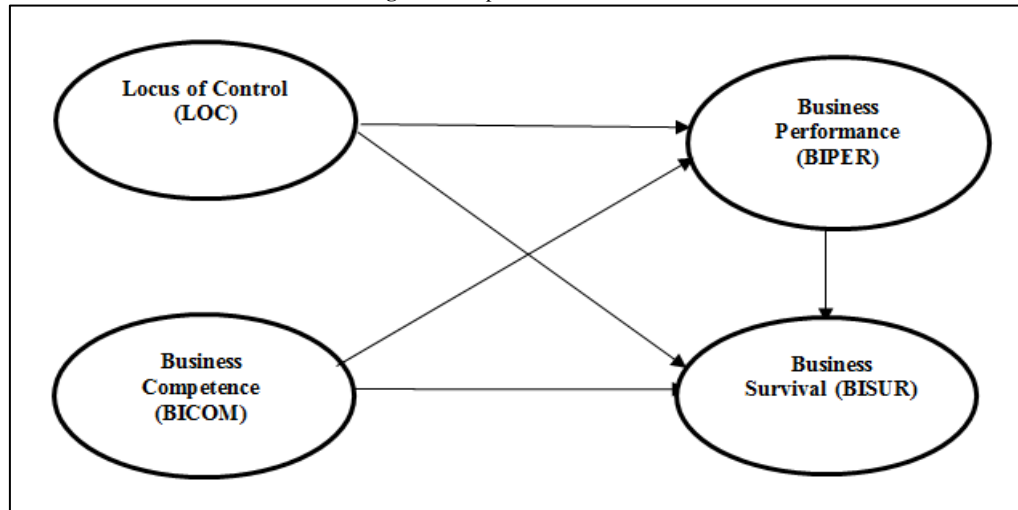
Competence is a concept of a person's knowledge, skills, and behavior in carrying out works. Competence refers to the ability to carry out or do a job or task based on knowledge and skills (Wibowo and Pramudana, 2016). For an entrepreneur, business competence will be important in determining the level of business success (Ahmad *et al.*, 2010; Radzi *et al.*, 2017), which are also a benchmark of business performance. To measure business competence, (Wibowo and Pramudana, 2016) introduces five indicators, namely: (i) level of knowledge, (ii) workability, (iii) communication skills, (iv) skills, and (v) Information and Technology mastery.

The explanation above shows that its performance greatly influences the sustainability of a business. The long-term survival of the family business is primarily determined by managers' ability to improve their performance (Nangoli *et al.*, 2013; Stafford *et al.*, 2010). Therefore, for businesses to survive, the strategy of improving performance must be a priority of the company (Tundui and Tundui, 2012). It is the primary key to the success of the new MSMEs business model (Simpson *et al.*, 2012).

Furthermore, the performance of a business venture is influenced by internal factors, such as locus of control (Heywood *et al.*, 2017; Rum, 2013) and business competence (Agha *et al.*, 2012; Khalid and Bhatti, 2015). To improve performance and ensure business continuity, business operators' locus of control has been shown to have an important role (Oktabriyantina *et al.*, 2014). Previous studies have found that locus of control has a positive contribution to entrepreneurship performance (Adekunle, 2011; Hsiao *et al.*, 2016; Mali, 2013) and at the same time guarantees business continuity (Groenewegen and de Langen, 2012; Korunka *et al.*, 2010; Rum, 2013). Likewise, business competencies that contribute to improved performance (Ismail, 2012; Yazdanfar *et al.*, 2014) ensure the sustainability of MSMEs business (Ibrahim *et al.*, 2016; Lampela *et al.*, 2017; Lompi  s, 2016).

Referring to the above explanations, this study proposes a research model, as illustrated in Figure 1.

Figure-1. Proposed research model



Based on the proposed research model (Figure 1), this study proposes the following seven hypotheses to be tested in the study, as follows:

- H₁: Locus of control influences business performance
- H₂: Business competence influences business performance
- H₃: Locus of control influences business survival
- H₄: Business competence influences business survival
- H₅: Business performance influences business survival
- H₆: Business performance mediates the effect of locus of control on business survival
- H₇: Business performance mediates the effect of business competence on business survival

3. Research Method

This study measures and analyses the mediating effect of business performance on the relationship between locus of control and business competence on business performance of Micro, Small, and Medium Enterprises (MSMEs) in the city of Banda Aceh, Indonesia. Of 743 units of MSMEs that operate in various economic sectors (Department of Cooperatives and SMEs, 2020), this study only selects 192 units of MSMEs in the creative sector of the economy, using the purposive sampling technique. These MSMEs produce and sell their products and services and have been in the market for three years.

The selected sample in our study fulfills the minimum sample size. Hair *et al.* (2014), state that a minimum sample should be at least equal to the number of indicators multiplied by 5 to 10. Having five indicators for every four variables investigated (a total of 20 indicators), the minimum sample size required is equal to 100 (20 indicators x 5). The selection of 192 units of MSMEs is large enough for empirical analysis to provide reliable and consistent findings.

This study gathers primary data for the analysis by distributing structured questionnaires to the respondents. The respondents' responses for each indicator for particular variables are measured using a 5-point Likert scale: strongly disagree, disagree, somewhat agree, agree, and strongly agree. Each variable is measured by five indicators used in the previous studies. Variable business survival is estimated based on the indicators proposed by Geraldina and Rossieta (2011), variable business performance is based on the research of Robbins (2005), the variable of locus of control is measured using the indicators introduced by Hsinking *et al.* (2010), and finally to measure variable business competence, the indicators proposed by Wibowo and Pramudana (2016) are adopted.

The Structural Equation Modeling (SEM) is used to test the proposed hypotheses. The use of SEM is due to its ability to confirm the dimensions of a concept or factor that is very commonly used and its ability to measure the influence of existing relationships theoretically (Hair *et al.*, 2014). However, before the SEM is estimated, the tests of instruments and goodness-of-fit model will be firstly conducted to ensure the fitness of indicators to measure variables.

Based on Figure 1, the mathematical relationship between the variables could be written in the SEM equations, as follows:

$$\text{BIPER} = \gamma_{11}\text{LOC} + \gamma_{12}\text{BICOM} + \zeta_1 \quad (1)$$

$$\text{BISUR} = \gamma_{21}\text{LOC} + \gamma_{22}\text{BICOM} + \beta_{21}\text{BIPER} + \zeta_2 \quad (2)$$

where BIPER is the business performance, LOC is the locus of control, BICOM is business competence, BISUR is business survival, γ_{ii} and β_{ii} are the estimated coefficients for each exogenous variable, and ζ_i is the structural error term.

To test the hypothesis of direct relationships (hypotheses 1-5), the t-statistic test is used, while to test the hypotheses of indirect effects (hypotheses 6-7), the Sobel statistic test within the framework of Baron and Kenny (1986) is used.

4. Findings and Discussion

4.1. Brief Overview of MSMEs

Micro, Small, and Medium Enterprises (MSMEs) is the main pillar of economic development, especially in developing countries, including in Banda Aceh, Indonesia. In the city of Banda Aceh, MSMEs have been showing rapid development and growth. In the city, 8,405 MSME units operate in various economic sectors, representing 3.4% of the population of Banda Aceh City. If the potential of MSMEs can be maximally developed, it is believed that it will provide significant benefits in advancing the community's income and economic level.

From 192 questionnaires distributed, it is found that the majority of MSMEs perpetrators were men (64.60%), and the remaining 35.40% of MSMEs perpetrators were women. In terms of age, MSMEs business people are generally having age between 40-49 years old (47.40%), followed by 30-39 years old (31.30%), more than 50 years old (19.30%), and 20-29 years old (2.1%). Most of them have married (60.40%), while the rest 39.60% were unmarried. In terms of educational background, the majority of them graduated with bachelor degrees (42.70%), followed by the graduates from diploma (26.60%), high school (22.40%), and postgraduate degree (8.30%). Finally, in view of monthly income, majority of them earned IDR4-5 million (35.90%), followed by the monthly income of IDR3-4 million (31.30%), IDR5-6 million (21.40%), lesser than IDR 3 million (5.70%), and more than IDR6 million (5.7%).

4.2. Direct Effects of Locus of Control and Business Competence on Business Performance and Business Survival

Before the SEM equations are estimated, the study conducts the instrument test of validity and reliability. Based on the findings of correlation coefficients, all indicators were found to have a strong correlation with the investigated variables, indicating their validity. Furthermore, the study found Cronbach's Alpha value of greater than 0.60 for all variables, showing the reliability of all indicators used to measure variables. If the Cronbach's Alpha is higher than 0.60, then the indicators are said to be reliable in measuring variables (Malhotra, 2010).

Table-1. Findings of Goodness of Fit Indices (GoFI)

GoFI	Cut-off-value	Finding	Remark
χ^2 (Chi-Square)	Expected to be small	480.418	Best fit
Sig. Prob.	≥ 0.05	0.065	Best fit
CMIN/df	≤ 2.00	1.203	Best fit
GFI	≥ 0.90	0.948	Best fit
AGFI	≥ 0.90	0.993	Best fit
PGFI	≥ 0.90	0.961	Best fit
NFI	≥ 0.90	0.957	Best fit
TLI	≥ 0.90	0.981	Best fit
CFI	≥ 0.90	0.929	Best fit
RMSEA	0.05 – 0.08	0.073	Best fit

Furthermore, the goodness of fit models is tested to ensure the suitability of the estimated model to the data to arrive at the robust findings. Table 1 provides the results for the goodness of fit indices. As observed in Table 1, the study found that all goodness of fit indices is found to be the best fit. These indices comprise χ^2 -Chi-Square, Significant Probability, Root Mean Square Error of Approximation (RMSEA), Goodness of Fit Index (GFI), Augmented Goodness of Fit Index (AGFI), Tucker and Lewis Index (TLI), Normed Fit Index (NFI), and Comparative Fit Index (CFI). The estimated values for all the goodness of fit indices were above their cut-off values, indicating that our estimated models were a good fit to assess interactions among variables based on the proposed hypotheses.

After providing the findings of the instrument and goodness of fit indices, the findings from the estimated SEM is now reported in Table 2.

Table-2. Standardized Regression Weights

Hypothesis	Endogenous Variable		Exogenous Variable	Estimate	Prob.	Remark
H1	Business Performance	<---	Locus of Control	0.758	0.000	Do Not Reject
H2	Business Performance	<---	Business Competence	0.243	0.000	Do Not Reject
H3	Business Survival	<---	Locus of Control	0.152	0.000	Do Not Reject
H4	Business Survival	<---	Business Competence	0.111	0.000	Do Not Reject
H5	Business Survival	<---	Business Performance	0.487	0.000	Do Not Reject

As observed from Table 2, both business locus of control and business competence positively affected the business performance at the 1% level of significance with the estimated values of 0.758 and 0.243, respectively, indicating the non-rejection of Hypotheses 1 and 2. These findings show that an increase in the locus of control and business competence by one unit, it has improved the business performance of the MSMEs in the city of Banda Aceh, Indonesia by 0.758 units and 0.243 units in the Likert scale, respectively. These findings further imply the importance of locus of control and business competence to enhance the business performance of the MSMEs.

These findings are in harmony with findings of previous studies that found a significant role of locus of control in improving business performance (Adekunle, 2011; Hsiao *et al.*, 2016; Mali, 2013; Oktabriyantina *et al.*, 2014). When entrepreneurs can control themselves and focus on their business, they might easily manage all business risks and challenges. In turn, it could grasp business opportunities for the betterment of their businesses. They also have confidence in their ability to take advantage of opportunities, resources, develop strategies, and organize their businesses.

Furthermore, the significant effect of business competence on a business performance recorded in our study is also supported by earlier studies (Ismail, 2012; Yazdanfar *et al.*, 2014). A businessman who has competence in running his business could easily deal with business risks and uncertainties, thus consequently maintaining and even improving their business performance under whatever circumstances (Zimmerer *et al.*, 2008).

Table 2 also shows that both business locus of control and business competence also positively affected the business survival at the 1% level of significance with the estimated values of 0.152 and 0.111, respectively, indicating the non-rejection of Hypotheses 3 and 4. These findings show an increase in the locus of control and business competence by one unit. It has enhanced the business survival of the MSMEs in the city of Banda Aceh, Indonesia, by 0.152 units and 0.111 units on the Likert scale, respectively. These findings further signify the importance of locus of control and business competence to enhance the business survival of the MSMEs.

These findings are in harmony with the findings of previous studies. For example, locus of control is found by Korunka *et al.* (2010), Groenewegen and de Langen (2012), and Rum (2013) to have a significant positive effect on business survival. Similarly, business competence is also recorded by Łompieś (2016), Ibrahim *et al.* (2016), and Lampela *et al.* (2017) to have a positive contribution to business survival. Likewise, in his research, Tocher *et al.* (2012) found evidence that entrepreneurial competence plays a vital role in ensuring the business performance.

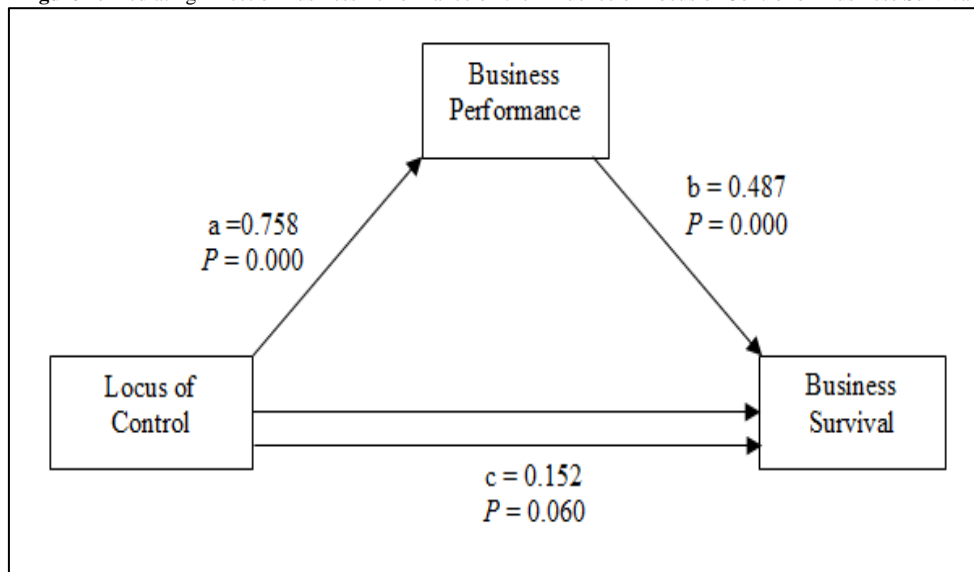
Finally, Table 2 reports the significant positive influence of business performance on business survival of the MSMEs at the 1% level by an estimated value of 0.487, indicating the non-rejection of Hypothesis 5. This finding shows that an increase in business performance by one unit, it has enhanced the business survival of the MSMEs in the city of Banda Aceh, Indonesia by 0.487 units in the Likert scale. These finding further signifies the importance of having the better business performance to ensure the business survival of the MSMEs.

Earlier studies support our finding on the significant effect of business performance on the business survival of the MSMEs. For example, Kalleberg and Leicht (1991) state that MSMEs have better performance; their business survival would be guaranteed. On the other hand, a business unit that fails to maintain its performance tends to go into bankruptcy (Wennberg and Lindqvist, 2010), such as MSMEs in Uganda (Nangoli *et al.*, 2013). Stafford *et al.* (2010), also documented that long-term survival of the family business is mainly depended on the ability of managers to enhance business performance.

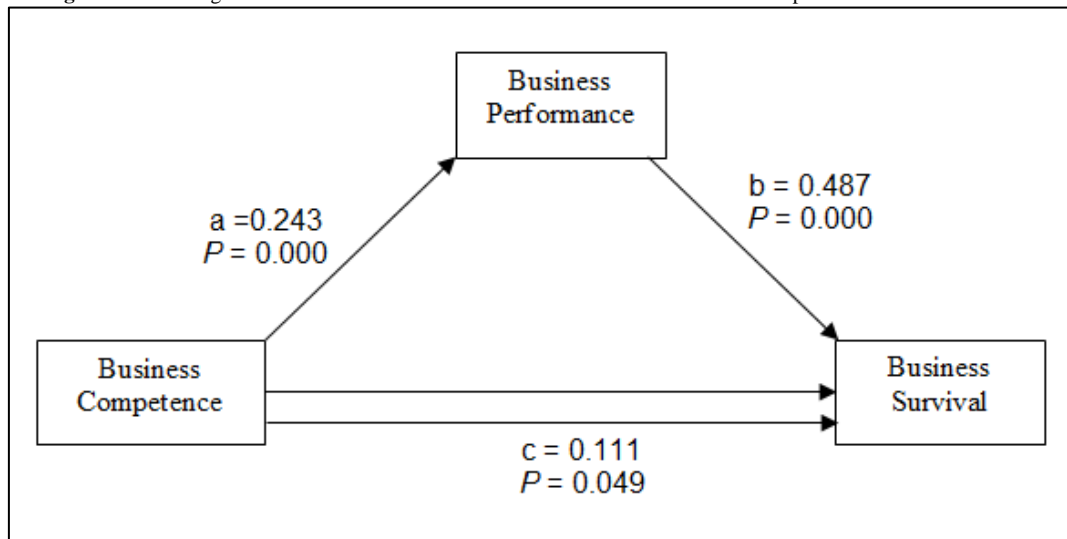
4.3. Mediating Effects of Business Performance on the Influences of Locus of Control and Business Competence on Business Survival

Figure 2 and 3 report the findings of mediating effects of business performance on the influences of locus of control and business competence on business survival of the MSMEs in the city of Banda Aceh using the Sobel test within the framework of Baron and Kenny (1986).

Figure-2. Mediating Effect of Business Performance on the Influence of Locus of Control on Business Survival



As illustrated in Figure 2, the business performance is found to have a significant mediating effect on the relationships between locus of control and business survival at the 5% level, with an estimated value of 0.152. This means that an increase in the locus of control by 1 point on the Likert scale has led to the rise in business survival through MSMEs' performance by 0.052 points on the Likert scale. This indicates that the enhancement of business survival could be done by improving business performance through the improvement of locus of control. Since both direct and indirect effects are found, thus the business performance is functioned as the partial mediation.

Figure-3. Mediating Effect of Business Performance on the Influence of Business Competence on Business Survival

Furthermore, as observed from Figure 3, the business performance is found to have a significant mediating effect on the relationships between business competence and business survival at the 5% level with an estimated value of 0.111. This implies that an increase in business competence by 1 point on the Likert scale through the business performance has led to an increase in business survival of the MSMEs by 0.111 points on the Likert scale. This indicates that the enhancement of business survival could be done by enhancing business performance by improving the business competence of entrepreneurs. Since both direct and indirect effects are found, thus the business performance is recorded to function as the partial mediating variable.

Overall, our empirical findings imply that to ensure their business survival, the MSMEs should design proper strategy focusing on continuous improvement of their business performance through the enhancement of locus of control and business competence of the entrepreneurs. Entrepreneurs should always keep working hard and having an optimistic perception of their business success. They also have to update their skills with the market's needs in the changing business environment, such as improving their communication skills with other entrepreneurs, suppliers, customers, and other business stakeholders.

5. Conclusions

This study examined and analyzed the mediating effects of business performance on the influences of locus of control and business competence on business survival, taking the case of Micro, Small and Medium Enterprises (MSMEs) in Banda Aceh City, Indonesia using the Structural Equation Modeling (SEM) technique. The study documented a significant positive effect of locus of control on both business performance and business survival of the MSMEs. The business competence is also found to have a significant positive impact on the business performance and the business continuity of the MSME. Finally, the study also recorded the mediating effects of business performance on the influences of locus of control and business competence on the business survival of the MSMEs.

This study shows the importance of locus of control and business competence in improving business performance and ensuring the survival of MSMEs. Our findings also imply that to ensure business survival, the managers of the MSMEs should design proper strategies focusing on improving the business performance of MSMEs through the enhancements of locus of control and business competency. These could be done by motivating entrepreneurs always to work hard and have an optimistic perception of their business success. Entrepreneurs have also to update their skills to respond to the changing business environment by improving their communication skills.

To enrich and provide more comprehensive findings on this topic, future studies might incorporate both internal and external factors determining the business performance of the MSMEs and their survival. Enlarging sample size by incorporating more MSMEs across the cities in Indonesia could also enhance the present findings on the MSMEs' business success.

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