Empirical Evidence on Locus of Control among Owner and Manager and Its Relation to Success Firms

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Abstract
The aim of this study was to verify whether there is a difference among owner and manager with respect to locus of control, and show whether there is a significant correlation between the variable locus of control and the success of a company. The research would help to compare and know whether in the Mexican context, the variables which compose Spector’s model of Locus of Control (1998) behave the same way as in the field assessed by the author. Fifty-eight owners and 52 managers of small and medium enterprises in the San Luis Potosi area were surveyed. The information was obtained through Spector’s Locus of control questionnaire (1998). Independent two-sample t-test and Pearson correlation coefficient were utilized to analyze data. The findings allow us to say: the locus of control is not a variable that allows categorization of owner and manager. Also, this study allowed us to know that the owner locus of control contributes to the success of the SMEs. Even when the work locus of control is an attribute with no difference in both other-and owner-manager, it is beneficial in strengthening and developing an organizational culture with high ethical standards, because the managers, with a culture as it is, develop and strengthen over their locus of control.

Keywords: locus of control, success firms, owner and manager locus of control, SMEs

INTRODUCTION
Globalizations of markets and precipitated technological changes, as noted by Kauffman (2000) have placed the company in a different setting affecting its objectives, functions, decisions and competitive advantages. These changes have exerted unfavorable and forceful influence on small and medium enterprises (SMEs) to raise transnational parameters for products: higher quality at lower prices. Many small and medium enterprises, in this period of change, have found it necessary to suspend activities. This is because SMEs are not able to compete internationally with quality and demand at the international market price (Iturbide, 2003).

Being the core business systems regional, national or international backbone of any economy, whether local, its importance seems to be an indisputable fact, and one of the main criteria for achieving growth is defined by the owner or administrator. In this sense, the general work of the leader as a creator of wealth and employment agent is a desirable, and sometimes difficult, attitude. However, it remains a necessary way not only to increase individual economic benefits, but primarily for the growth in the economy and the social development of a country.

Faced with this at the state and national scene, which is so problematic for SMEs, it is necessary to analyze, with a much deeper perspective, the factors affecting the development and sustainability of these economic units, so that the generated strategies are appropriate for the new environment.

This new environment leads organizations to behave differently and to search for organizational variables to make a difference. Experts mention that through the owner and manager, a company can add value to its operations (Chiavenato, 2002; Robbins, 2004). Currently, leaders of enterprises are considered an important tool for business development, growth of the company and as a promising way to increase financial performance (Bark, 1981; Sykes, 1986, and MacMillan, 1993, cited by Chesbrough, 2000).

Organizationally, the owner or manager is responsible for achieving business goals, and their relationship with the staff aims to build in a participatory manner the activities and philosophy of the organizational and functional structure of the company, planning joint activities, forming teams for core activities, establishing a win-win relation essential to cope with the changes of the new work environment (Guns, 1996). Hence, the organizational characteristics are determined, ultimately, by whoever runs the corporation.

In the same spirit, Miles and Covin (2002) reveal that the starting point for the work activities should therefore be focused internally or externally based on
theory and one of the main areas is focused at the behavior of manager of the company.

This research provides elements not just to contribute to strengthening the model proposed by Spector. It will also allow government agencies in Mexico to consider factors associated with the behavior of the leaders, because they are the ones who administer businesses. Especially in these current times when the federal government is supporting this sector economically with different programs aimed to remain, compete and grow in global environments that companies live in the present.

Furthermore, research would help to compare and know with more certainty whether the variables that make up Spector’s Locus of control model (1998) behave in the same way, when this variable is evaluated on the owners and/or managers of small businesses in the Mexican context. Thus, the findings could strengthen Spector’s theory regarding measuring the personality of the owner or administrator, because this model measures the locus of control variable in a work-oriented environment, unlike other models that measure locus of control as an personality variable.

**LITERATURE REVIEW**

Small and medium enterprises, in recent years, have attracted great interest as an object of study because they are characterized as a key to stability, wealth and economy of a country (Robinson and Pearce, 1983) sector. A large number of investigations (Ibrahim and Goodwin, 1986, Gilbert, Menon and Schwartz, 1990, Lussier and Corman 1991) are intended to explain the causes that limit their activities, which do not allow them to survive the early years.

Although there is no exact knowledge of the failure rate, researchers report that it is high. The statistics presented in their studies reported that one in three companies has closed its doors after a year of activities (Ireland and Van Auken, 1987 cited by Boyle and Harsha, 1991). Other authors (Cooper, Woo and Dunkelberg, 1989) show that 67% of new businesses fail within four years. Timmons (1999) mentions that 20% of new businesses fail within a year and 66% within six years, and Monk (2000) indicates that the failure rate in the first 5 years, ranges between 48 and 68%, depending on the size of the company. In Mexico, 65% of established companies disappear before two years (Secretaria de Economia 2001).

Previous research has shown what really happens in small businesses that does not allow them to evolve. From modern empirical knowledge, obvious and specific mechanisms of success or failure of small and medium enterprises have been studied from a
variety of approaches (Duchesneau and Gartner, 1990).

It is important to point out that from the time a business activity emerges, success is an obvious idea in the owner and administrator. But as Serra (2002) mentioned, in the current environment, characterized by a globalized, dynamic and increasingly competitive economy, the future of SMEs is uncertain because the environment of firms becomes increasingly complex and changes occur more quickly. Moreover, markets are constantly evolving and the key factors that determine success change. Based on them, a company must obtain a decisive, durable and defensible advantage robust enough to deter competition barriers. Therefore, it is essential to define the key success factors.

It is important therefore to identify what success is. Although there is no agreement on the concept, Wijewardena and Cooray (1995) suggest that the company has achieved success when the owner or manager estimates that sales have increased over a two years period. Luck (1996) explains that a company is successful if the owner or operator has obtained a surplus in earnings over the time proposed as a goal. By contrast, Lusier (2000) notes that the owner or administrator is found to have been successful because the profits earned are greater than the amount of assets invested in the company.

From previous concepts, it appears that the owner or administrator is a key factor in an organization and hence its success, but it is widely known that the owner and administrator assume different behaviors according to their personality characteristics. In this sense, Foley and Green (1989) comment that the individual attributes and specific behaviors of who heads the organization harm or favor significantly the behavior of the same and show that no rational behavior of the owner and administrator is the root cause of lack of success in business.

Along the same lines, Chell (1991) observed that personal characteristics are vital for the creation and development of the organization; these can inhibit growth, enhance or ultimately threaten the survival of the company. For many years there have been studies on trends towards business success in relation to the characteristics of the leader’s personality. It is assumed that these fundamental characteristics are different.

Some authors have proposed attributes that differentiate owners and managers and have chosen different characteristics such as the risk they assume (Brockhaus, 1980). Others were inclined to stipulate risk, locus of control, and ambition (Olson, 2000) and (Borland, 1975; Timmons, 1978, quoted by Olson, 2000) characterize them simply by locus of control.

In the context of the corporate world, the locus of control is an important framework in which many of the behaviors occur and is one of the psychological characteristics that have been used to differentiate successful owners and managers.

In fact, literature argues that the locus of control of owners and managers is different. To Gilad (1982) and Ward (1992), owners have an internal locus of control while managers are characterized by an external locus of control. Honda and Zuffa (1997) also identify that owners have an internal locus of control and administrators an external locus of control and the former work harder than their counterparts. In contrast, Spector (1982) alludes to no difference between owners and managers in relation to locus of control work.

Durán (2001) mentions that the locus of control is a theoretical concept that has been developed to explain the subject's beliefs from which it establishes the origins of everyday events, and therefore, their own behavior. He notes that in social learning theories, locus of control is the center where the motivating force that leads people to behave in a certain way and not another in the same situation occurs.

Rotter (1966) mentions that it is a personality trait which explains the perception from which the individual determines the causes of life events. Thus, locus of control can be defined as the belief that the person has about how and where perceived pleasant or unpleasant events originate in order to act. The term internal control refers to the belief that people have that their behavior determines what happens. On the other hand, external control is defined as the belief that the events that take place in life and in which people participate, external forces are involved. Therefore, if an individual believes he has little control over the rewards and punishments he receives, he will not find enough reason to change his behavior, because he does not consider it possible to influence the likelihood of such events occur.

The study of this variable by Frucot and Shearon (1991) shows that the level of education and culture contributes to the development of locus of control held by business leaders, although some authors suggest that the locus of control is a natural characteristic of each person (Gable and Dangello, 1994).

Some authors (Hurrell and Murphy, 2000) indicate that locus of control has been developed in different fields; one of them is work. The work locus of control is the perception that an individual has on the control that may be exercised with respect to the working environment, for stimuli and results. If an individual believes that the results and the rewards obtained by their own actions brought in the
workplace, the person indicates an internal locus of control; however, when people believe that the results and rewards are obtained by external environmental forces work, the individual has an external locus of control Spector (1982).

Empirical research indicates that the locus of control is significantly related to professional behavior. Some authors (Gibb and Scott, 1985; Phares, 1976 cited by Nwachukwu, 1995) indicate that individuals with an internal locus of control activity business, establish more difficult goals, exhibit internal motivation and are more committed to their work, while an individual with an external locus of control looks an external reason to do their job and a better salary or economic stimulus. Spector (1982) states that owners and managers with an internal locus of control can control the working environment and achieve the expected results and rewards.

In the same spirit, Boone and De Brabander (1996) reveal that locus of control influences the profitability of the organization. Thus, leaders with an internal locus of control are confident in their decisions and in their capacity to influence the environment and obtain better profits, whereas leaders with an external locus of control are passive in their business and perceived incidents their environment. This affects their profits.

On the other hand, Lonergan and Maher (2000) note that the locus of control of the leader influences productivity. Managers with an internal locus of control show less delay in the fulfillment of their obligations, in contrast to those with external locus of control. Moreover, as Strasser, Cummings and Dunham (1989) mentioned, managers with an external locus of control could be more sensitive to environmental ambiguity; basically they see the environment as a source of rewards, incentives, and general welfare. However, owners with an internal locus of control are less sensitive to the effects of the environment.

According to Holmes and Cartwright (1994) locus of control is related to job satisfaction and benefits the growth of the company. Job satisfaction is the attitude assumed by the person about their work. The person who gets to be quite good in terms of employment adopts positive attitudes towards work and is generally characterized by internal motivation and a high internal locus of control.

When reviewing the empirical research that has addressed the locus of control at work and how it contributes to professional behavior, it can be seen that this attribute in the owner and manager gives a positive disposition towards self-concept and self-image as a leader. These ideas lead him to express a professional consistency, leading effectively and efficiently performing the organizational role as an entrepreneur.

The conclusions of the studies described above are for reference and project some light on the problem analysis, i.e., on the personality characteristics and particularly on the locus of control of the owners and managers in the success of small and medium businesses in San Luis Potosí. Although this relationship has been empirically examined (Spector, 1982), investigations have been limited to other countries and very few researchers in Mexico (Box, Vargas and Watts 1999; Buitron, 1999) have clearly demonstrated no significant difference between owners and managers in relation to their locus of control.

METHODOLOGY
The sample comes from the owners and managers of SMEs registered with the Ministry of Economy of the state of San Luis Potosí, 2005. In the study, 58 owners and 52 administrators participated. Sample was defined according to three criteria: 1) companies in the service, trade and industry, 2) labor force between 10 and 250 workers, and 3) having started operations at least two years previously.

Variables defined for this study are the success of the company and work locus of control. Success is considered if the owner or operator has overcome business goals related to profits obtained for two consecutive years and work locus of control is the ability of an individual to believe that rewards and results of their activities are controlled by their own actions and/or external force

The sampling was random probability and sample size was calculated considering a confidence level of 95% and the allowable error was 5%. Spector instrument composed of 16 questions on the belief that the skills of the owner or administrator influence the overall success of the work was used for data collection. For all responses, the range was from 1 (strongly disagree) to 6 (strongly agree). The reliability of the instrument for this research ranges from 75-85 for the instrument measuring the overall locus of control. The validity has been demonstrated with the scale of locus of control and organizational variables, and other measures of locus of control (Hoff-Macan, Trusty & Trimble, 1996), so it was considered suitable for use in this research. A high score on the scale represents the person presents an external locus of control and a low score an internal locus of control.

The empirical research is based on the statistical technique analysis of mean difference, this technique created a "t" value with the corresponding level of significance, to test that the defined groups come from populations with the same variance, Levene's
test was used and significance was confirmed finally obtaining the critical value of "Z". Besides the t test was used to determine if the owners and managers of SMEs in San Luis Potosí manifest an internal locus of control, the probability of error for the tests was 0.05. The Pearson correlation coefficient was also used to check the correlation between locus of control variables and successful owner and manager of the company. Values range between -1 and +1. Pearson A value of 0 indicates the absence of a relationship, i.e. the two variables are independent. Large values of this coefficient (r), whether positive or negative, indicate a strong relationship between the two variables.

RESULTS

Considering the leaders involved in the management and direction of SMEs, it is possible to distinguish between age ranges, marital status and gender.

Table 1. Demographic characteristics of the leaders of smes SLP

<table>
<thead>
<tr>
<th>Gender (%)</th>
<th>Marital Status (%)</th>
<th>Age (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>Female</td>
<td>Single</td>
</tr>
<tr>
<td>Owner</td>
<td>45.50</td>
<td>46.40</td>
</tr>
<tr>
<td>Manager</td>
<td>86.40</td>
<td>3.60</td>
</tr>
<tr>
<td>Total</td>
<td>86.40</td>
<td>8.20</td>
</tr>
</tbody>
</table>

Source: own.

The above table shows that a high percentage (89.1%) of the owners and managers of SMEs in San Luis Potosí are married, a low (8.2%) proportion are single, 86.4% were men, a small percentage are women and age varies between 25 and 62 years.

Regarding $H_0$ there is no difference in the locus of control at work between the owners and managers of SMEs in San Luis Potosí. Table 2 shows the results of estimating the mean difference of the locus of control of work of the owner and manager are seen first, the statistical value of Levene equal variance and level of significance ($F=1.980 \ p = 0.165$), shows that the population variances are equal, to test the significance of its value the decision rule is: if the value of “$p$” calculated is greater than or equal to ($\alpha$) the null hypothesis is not rejected.

Table 2 Independent Sample Test

<table>
<thead>
<tr>
<th>Locus of control at work</th>
<th>Levene Test F</th>
<th>Sig.</th>
<th>t</th>
<th>Sig.</th>
<th>Mean Difference</th>
<th>Sd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumes the same variance</td>
<td>1.980</td>
<td>.165</td>
<td>-729</td>
<td>.469</td>
<td>-1.77</td>
<td>2.422</td>
</tr>
<tr>
<td>Assumes the same variance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: own.

The value obtained (0.165) in column 4 of Table 2 is greater than 0.05, this means that there is sufficient evidence to conclude that there is no difference in the locus of control at work between owners and managers SMEs in San Luis Potosí.

Finally it is confirmed by the value of Z if the null hypothesis is accepted or not. The decision rule is to "reject $H_0$ if the Z value calculated is greater than the critical value (in tables)", in this process the calculated value $Z \ (0.0695)$ is less than the value of Z obtained from tables $Z_{val} = \pm 1.96$ this indicates that there is insufficient evidence to reject $H_0$ and conclude that the locus of control of work owners and managers is the same.

Regarding the second hypothesis $H_2$, Table 3 shows the results of the correlation between variables.

Table 3. Correlation between locus of control and success of the company

<table>
<thead>
<tr>
<th>Locus of Control of work</th>
<th>Success (Exceeding the target in Utilities)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson correlation</td>
<td>t</td>
</tr>
<tr>
<td>Significance</td>
<td>.046</td>
</tr>
<tr>
<td>N</td>
<td>110</td>
</tr>
</tbody>
</table>

Test statistic 1.7060 1.658

Source: own.
It was found that the Pearson correlation between these variables is \( r = 0.162 \) and \( p = 0.046 \). Once the correlation coefficient is calculated, a hypothesis test is performed to assess the significance of it and confirm whether or not there is a statistically significant association between the two indices. The \( t \) value obtained in this process is 1.7060 and the value of \( t \) in tables is 1.6587, as calculated \( t \) is greater than the correlation obtained \( t \) tables not from a population characterized by a correlation of zero. This determination provides the necessary statistical evidence to say that there is a significant linear relationship between the locus of control of the owner and manager and the success of the company.

However, a significant correlation does not necessarily have to be a strong correlation; it is just a correlation different to zero. It is important to further interpret the correlation coefficient in terms of the proportion of shared or explained variability, the proportion of shared variance between the two variables is \((0.162^2 = 0.02592)\), this value indicates that 2.59% of the company's success depends on the locus of control of the owner and administrator.

**DISCUSSION**

The objective of this research was to determine if there are differences in the locus of control of labor between the owners and managers of SMEs from SLP and identify if there is statistically significant correlation between the locus of control of the owner and manager and the success of the company.

In this study, we found that the population variances of locus of control of the owners and managers are the same, the values of \( F \) in relation to locus of control were \((F = 1.980 \text{ and } p = 0.165)\), indicating that the locus of control is not an attribute to categorize the owner or administrator. These results are consistent with the studies of Box, Vargas and Watts (1999) and Buitron (1999), they studied the psychological characteristics (locus of control) of the Mexican owners and administrators and found no difference between them.

These results, however, are not consistent with the findings of previous research supporting the hypothesis that locus of control allows differentiation between owners and managers (Gilad, 1982 and Ward, 1992)

In this study, it was also found that the locus of control of the manager contributes to the success of the company \((r=0.158 \text{ and } p=0.049)\). The above coincides with that reported by Whetten and Cameron (2005) and Boone and De Brabander (1996) mentioned that there are two key attitudes that contribute to the success of the company. One of them is the locus of control, even though the variable has an acceptable significance. However, this is very weak, as it is not can explain 97.5% of the variations in the success of the company.

**FINAL REMARKS**

The owner or manager has a key role in the history of the company, both in its inception and in its subsequent development. However, his administrative management is very limited, as only one or two individuals absorb the responsibility and control of the situations. In small and medium enterprises, the administrative process and management of the business are unique. They are characterized by the peculiarity of being highly customized- undoubtedly the attributes of personality. Locus of control of the owner or administrator are very important and are related to dedication and hard work.

Even when the work locus of control is an attribute that no difference in both other-and owner-manager, it is beneficial in strengthening and developing an organizational culture with high ethical standards, because the managers, with a culture as it is, develop and strengthen over their locus of control.

Success in business requires the support and involvement of management, while the locus of control of the person who runs the company allows him to establish conditions to encourage the company to be more competitive.

At this time, knowledge, talent and individual initiative of the owner or administrator properly aiming at the common good, are the most powerful competitive weapon. Thus, the proper preparation of the leader as mentioned by Font, Gudino and Sanchez, (1999), becomes one of the success factors for the company.

This research gave sufficient weight to indicate whether there are significant differences between the locus of control of the work of the owners and managers of companies of a same region and its relationship to success. However, a limitation was not addressing sociocultural and economic variables. A study in this regard would be desirable because these factors can be associated with the success of the company. They can be used to design intervention strategies in organizational and individual levels, able to change the situation described here in the medium and long term.

**LIMITATIONS**

All studies have limitations; therefore, this research is not an exception. We next describe the main constraints to do this work, those that we believe were the more evident limitations:

1. The first constraint is: we only used the work locus of control test (Spector, 2008) for this study. We believe another test can
be used, such as the Rotter test that evaluates whether the events of a person are motivated by an external or internal action when it is goal-oriented. Or from another author to check if this scale, the locus of control of owners and managers, is different.

2. The research was focused on SMEs of one area in San Luis Potosi with the intention to note whether there are significant differences between the locus of control of the owners and/or managers of companies, and how it impacts on the success of the company. In this regard, it would be appropriate to study the owners and/or managers of small and medium enterprises in different regions, in order to confirm whether this variable is a key success factor for the company.

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