

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 DEFINITION OF LOCUS OF CONTROL**

The concept of locus of control refers to a generalized belief that a person can or cannot control his or her own destiny (Rotter 1966). Those who ascribe control of events to themselves are said to have an internal locus of control and are referred to as "internals." This kind of people has a very clear objective in life, they know what they want to achieve and they also believed that they might achieve it one day. People who attribute control to outside forces are said to have an external locus of control and are termed "externals" (Spector 1992, Nwachukwu 1995, and Carver 1997).

Originally developed within the framework of Rotter's (1954), the locus of control construct refers to the degree to which an individual believes the occurrence of reinforcements is contingent on his or her own behavior. The factors involved with reinforcement expectancy are labeled "external" and "internal" control. In short, internal locus of control refers to the perception of positive or negative events as being a consequence of one's own actions and thereby under one's own personal control. In contrast, external locus of control refers to the perception of positive or negative events as being unrelated to one's own behavior in certain situations and thereby beyond personal control. As a general principle, the locus of control variable may be thought of as affecting behavior as a function of expectancy and reinforcement within a specific situation.

Teri M. Lathrop (1998) defined locus of control in her study "The Effects of Locus of Control on Helping Behavior and the Bystander Intervention", as

the belief one has about his or her own "inner power" over the outcome of internal and external events. Someone with an internal locus of control believes that he or she has the power to change things by the decisions he or she makes and the actions he or she engages in. Someone with an external locus of control believes that luck, fate, or others are responsible for the outcome of events.

The internal – external locus of control construct was conceived as a generalized expectancy to perceive reinforcement either as contingent upon one's own behaviors (Internal control) or as the result of forces beyond one's control and due to chance, fate, or powerful others (External control). Rotter's 1-E Scale (1966) is the instrument that has been most widely used to measure the degree for internality versus externality. The multidimensional conceptualization proposed here differentiates between two types of external orientation – belief in the basic unordered and random nature of the world and belief in the basic order and predictability of the world, coupled with the expectancy that powerful others are in control. In the latter case there is a potential for control. It is quite conceivable that a person who believes in control by powerful others may also perceive enough regularity in the actions of such people to believe that he or she can obtain reinforcements through purposeful action. Such a view of externality would be quite similar to Rotter's conceptualization of internality. Furthermore, a person who believes in chance control may be cognitively and behaviorally different from one who feels a lack of personal control.

## **2.2 DEFINITION OF ENTREPRENEUR**

Researchers have been inconsistent in their definitions of entrepreneurship (Brockhaus & Horwitz, 1986, Sexton & Smilor, Wortman, 1987; Gartner, 1988). There are many definitions of entrepreneur by various authors

according to the time, country, environment, and different reference factors such as politics, economics and social forces.

Definitions have emphasized a broad range of activities including the creation of organizations (Gartner, 1988), the carrying out of new combinations (Schumpeter, 1934), the exploration of opportunities (Kirzner, 1973), the bearing of uncertainty (Knight 1921), the bringing together of factors of production (Say, 1803), and others.

The word entrepreneur is French, and literally translated, means "between-taker" or "go-between". It is actually mean "to undertake". One early example of a go-between is Marco Polo, who attempted to establish trade routes to the Far East. Until 1800, this concept was used by French economists for adventures, government contractors, architects, cultivators, those who bought labor and material at uncertain prices and sold the resultant product at contracted prices, and those who risked capital in manufacturing (Hoselitz, 1952)

The concept of an entrepreneurs is further refined when principles and terms from a business, managerial, and personal perspective are considered.

Knight's (1987) definition of entrepreneur is preferred here according to which an entrepreneur is a person who, in the ultimate sense, controls the decisions made in a productive enterprise and also carries responsibility for the decisions made (cited Yale Brozen, 1054:339). This definition is preferred, because it is not the behavior of the owner or the capital investor but of the decision maker, which affects the production and personnel

management of the unit. The decision maker, owner capital investor may or may not be the same person.

For a long time, social scientists could not figure out just who these entrepreneurs were, because they sometimes keep on changing their behavior to adjust to the environment. Joseph A. Schumpeter (1971) characterizes the entrepreneur – an innovator who creates new combination for development and moves the economy toward a new equilibrium. This concept of new combinations appears in five forms:

- (a) Introducing a new good
- (b) Introducing a new method of production
- (c) Opening a new market
- (d) Locating a new source of supply of raw materials, and
- (e) Carrying out the new organization of any industry

According to Rashid Malik (1997) in his research on Chinese Entrepreneurs in the Economic Development of China, the Definition of an entrepreneur in the China is based on empirical observation and interviews with entrepreneurs in China who are gravely influenced by history, recent politics and culture. He defined Chinese entrepreneurs as those individuals who are engaged in business, or were engaged in business, after 1978 for the sake of profit and are willing, under the conditions of the life uncertainly, to take the risk of loss and find new ways to fill gaps in the economy which are, or were, left by the state-run economy.

Donald F Kuratko and Richard M. Hodgetts (1995) in their book "Entrepreneurship – A Contemporary approach" defined today's entrepreneur as an innovator or developer who recognizes and seizes opportunities; converts those opportunities into workable/marketable ideas; adds value through time, effort, money, or skills; assumes the risks of the



competitive marketplace to implement these ideas; and realizes the rewards from these efforts. In their idea, entrepreneur him or herself must have the skills before he or she can use the opportunity wisely to achieve his or her objective.

## **2.3 THE SIGNIFICANCE OF THE ENTREPRENEUR**

There is no established economic theory of the entrepreneur. There are two (2) main reasons why there is no economic theory of the entrepreneur (Mark Casson, 1982). The first lies in the very extreme assumptions about access to information, which implicit in orthodox economics – that is in the neoclassical school of economic thought. Simple neoclassical models assume that everyone has free access to all the information they require for taking decisions. These assumptions reduce decision-making to the mechanical application of mathematical rules for optimization. It trivializes decision-making, and makes it impossible to analyze the role of entrepreneurs in taking decisions of a particular kind.

Secondly, the Austrian school of economics, which takes the entrepreneur more seriously, is committed to extreme subjectivism – a philosophical standpoint, which makes a predictive theory of the entrepreneur impossible.

## **2.4 DEFINITION OF ENTREPRENEURSHIP**

The Entrepreneurship Center at Miami University of Ohio (2000) has an interesting definition of entrepreneurship: "Entrepreneurship is the process of identifying, developing, and bringing a vision to life. The vision may be an innovative idea, an opportunity, or simply a better way to do something. The end result of this process is the creation of a new venture, formed under

conditions of risk and considerable uncertainty." (An excerpt from webpage, 2002, "*Definition of Entrepreneurship*")

Entrepreneurship refers to a set of attributes, which the entrepreneurs possess and a set of activities, which they perform in relation to the expansion of their units. Entrepreneurship, as used here, is synonymous with entrepreneurial role conformity, which is to be measured in terms of entrepreneurial roles. In entrepreneurial roles we do not include the entrepreneurial attributes and activities as specified by Schumpeter (1934), and McClelland (1961). The entrepreneurial roles shall be explicated from the prevalent entrepreneurial situation. Its justification is already given in the theoretical frame of analysis.

Most of the researchers defined entrepreneurial activity as a creative and innovative one. Jean Baptiste Say (1803): Entrepreneur is the agent "who unites all mans of production and who finds in the value of the products.. the reestablishment of the entire capital he employs, and the value of the wages, the interest, and rent which he pays, as well profits belonging to himself."

Frank Knight (1921); Entrepreneurs attempt to predict and act upon change within markets. Knight emphasize the entrepreneur's role in bearing the uncertainty of the market dynamics. Entrepreneurs are required to perform such fundamental managerial functions as direction and control.

Joseph Schumpeter (1934): The entrepreneur is the innovator who implements change within markets through the carrying out of new combinations. The carrying out of new combinations can take several forms;

- 1) the introduction of new good or quality thereof,
- 2) the introduction of a new method of production,

- 3) the opening of a new market,
- 4) the conquest of a new source of supply of new materials or parts,
- 5) the carrying out of the new organization of any industry.

Schumpeter equated entrepreneurship with the concept of innovation applied to a business context. As such, the entrepreneur moves the market away from equilibrium. Schumpeter's definition also emphasized the combination of resources. Yet, the managers of already established business are not entrepreneurs to Schumpeter.

Kirzner (1973): The entrepreneur recognizes and acts upon market opportunities. The entrepreneur is essentially an arbitrageur. In contrast to Schumpeter's viewpoint, the entrepreneur moves the market toward equilibrium.

Gartner (1988): The creation of new organization.

Robert C. Ronstadt (1984) has defined the following summary description of entrepreneurship – Entrepreneurship is the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time, and or career commitment of providing value for some product or service. The product or service itself may or may not be new or unique but value must somehow, be infused by the entrepreneur by securing and allocating the necessary skills and resources.

Entrepreneurship is the process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence (Hisrich and Peters, 1995).

Entrepreneurship is often viewed as a function which involves the exploitation of opportunities which exist within a market. Such exploitation is most commonly associated with the direction and/or combination of productive inputs. Entrepreneurs usually are considered to bear risk while pursuing opportunities, and often are associated with creative and innovative actions (Timmons, 1999).

Many people now regard entrepreneurship as "pioneership" on the frontier of business. Jeffry A. Timmons (1999) in his book "New Venture Creation" has defined entrepreneurship as the ability to create and build a vision from practically nothing; fundamentally it is a human, creative act. It is the application of energy to initiating and building an enterprise or organization, rather than just watching or analyzing. This vision requires a willingness to take calculated risks – both personal and financial – and then to do everything possible to reduce the chances of failure. Entrepreneurship also includes the ability to build an entrepreneurial or venture team to complement your own skills and talents. It is possessing the know-how to find, marshal, and control resources (which is often owned by others). Timmons believed that entrepreneurship is very much depends on the individual or locus of control of the entrepreneur himself or herself.

#### **2.4.1 Characteristics of Entrepreneurs**

Entrepreneurship is a function of the entrepreneur. Oliver Clayton (1981) in a study concluded with the following advice:

Be aggressive, be competitive, be goal-oriented, be confident, be egocentric, make decisions, be an achiever very early in life, be a loner in your final decision, put family and friends second to business, be an opportunist, do not be security-oriented, be persistent, have

determination, be an optimist (to an extreme), have desire to achieve, be hyperactive mentally, be a dreamer, be a calculated risk-taker, want power, learn from previous mistakes, be a perfectionist, and be intuitive.

Entrepreneurship has also been characterized as the interaction of the following skills, inner control, planning and goal-setting, risk taking, innovation, reality perception, use of feedback, decision making, human relations, and independence. Moreover, successful entrepreneurs are individuals who are not afraid to fail. In support of the study of an entrepreneurial personality, Smith and Miner (1983) find entrepreneurs different from top and middle level managers in terms of managerial motivation.

In a study comparing entrepreneurs with employee/managers, entrepreneurs were found to display significantly higher levels of internal locus of control than the non-entrepreneur with both measures (Kaufmann and Welsh 1995).

### **(1) Commitment, Determination and Perseverance**

Sheer determination and an unwavering commitment to succeed often win out against odds that many people would consider insurmountable. Entrepreneur committed to what are they doing and put 100% of their time to achieve their objective.

### **(2) Drive to Achieve**

Entrepreneurs are self-starter who appear to others to be internally driven by a strong desire to compete, to excel against

self-imposed standards, and to pursue and attain challenging goals.

### **(3) Opportunity Orientation**

They start with the opportunity and let their understanding of it guide important issues. They are goal-oriented in their pursuit of opportunities. Setting high but attainable goals enables them to focus their energies, to be selective in sorting out opportunities, and to know when to say no.

### **(4) Initiative and Responsibility**

There is considerable agreement that effective entrepreneurs actively seek and take the initiative. They willingly put themselves in situations where they are personally responsible for the success or failure of the operation. They like to take the initiative in solving a problem or in filling a vacuum where no leadership exists.

### **(5) Persistent Problem Solving**

Entrepreneurs are extremely persistent, there are realistic in recognizing what they can and cannot do and where they can get help in solving difficult but unavoidable tasks.

### **(6) Internal Locus of Control**

Successful entrepreneurs believe in themselves. They do not believe that the success or failure of their venture will be

governed by fate, luck, or, similar forces. They believe that their accomplishments and setbacks are within their own control and influence and that they can affect the outcome of their actions. This attribute is consistent with high-achievement motivation drive, the desire to take personal responsibility, and self-confidence.

#### **(7) Calculated Risk Taking**

Successful entrepreneurs are not gamblers. When they decide to participate in venture, they do so in a very calculated, carefully thought-out manner. They do everything possible to get the odds in their favor, and they often avoid unnecessary risks.

#### **(8) Integrity and Reliability**

Integrity and reliability are the glue and fiber that bind successful personal and business relationship and make them endure. Integrity and reliability help build and sustain trust and confidence.

#### **(9) Tolerance for Failure**

Entrepreneurs use failure as a learning experience. The iterative, trial-and-error nature of becoming a successful entrepreneur makes serious setbacks and disappointments an integral part of the learning process. In adverse and difficult times, they look for opportunity. Many of them believe that they

learn more from their early failures than from their early successes.

#### **(10) Creativity and Innovativeness**

An expanding school of thought believes that creativity is not inherited trait but can be learned.

#### **(11) Vision**

Entrepreneurs know where they want to go. They have a vision or concept of what their firm can be.

#### **(12) Self-Confidence and Optimism**

During period where entrepreneurs face obstacles, they maintain their confidence and let those around them know it. This helps the others in sustaining their own optimism and creates the level of self-confidence necessary for efficient group effort.

#### **(13) Independence**

The desire for independence is a driving force behind contemporary entrepreneurs. Their frustration with rigid bureaucratic systems coupled with a sincere commitment to "make a difference" adds up to an independent personality trying to accomplish things his or her own way.



## **(14) Team Building**

Most successful entrepreneurs have highly qualified, well-motivated teams that help handle the growth and development of the venture.

### **2.4.2 Role of Entrepreneurship in Economic Development**

The entrepreneur plays a key role in the creation of new business and hence is a major contributor to economic growth. The role of entrepreneurship in economic development involves more than just increasing per capita output and income; it involves initiating and constituting change in the structure of business and society. The change is accompanied by growth and increased output, which allows more to be divided by the various participants. What in a area facilitates the needed change and development? One theory of economic growth depicts innovation as the key not only in developing new products for the market but also in stimulating investment interest in the new ventures being created. This new investment works on both the demand and the supply sides of the growth equation: The new capital created expands the capacity for growth (supply side), and the resultant new spending utilizes the new capacity and output (demand side).

As a cornerstone of New Economy Plan, Malaysia, along with other developing countries in the 1960s and 1970s, enthusiastically jumped on the "entrepreneurial bandwagon". Through "entrepreneurship", the government sought to "create a new class of small capitalists" leading to the formation of a "middle class". Hundreds of training

programmes were given, millions of ringgit in loans were handed out, and consultants from Western countries were hired to assist the bumiputra entrepreneurs. Prime Minister Dato Seri Dr. Mahathir Mohamad informed the Malaysian Chinese that the government policy of spreading wealth to the Malay Muslims should not be seen as an injustice, but a chance to share business skills with the bumiputras (Aug 1992). The government believed that by providing Malays with access to education, opportunity, resources, and capital, they would emerge as enterprising, business-minded, innovative, self-sufficient modern man and women – that is basically characteristics of an entrepreneur.

## **2.5 LOCUS OF CONTROL AND ENTREPRENEUR**

The success of entrepreneur's venture nevertheless is a result of the profitability of the industry that it involved, Government's Policy and Incentive, and the characteristics of the entrepreneur him or herself. However, the personal characteristics of the entrepreneur contributed a large amount to the success of its venture. Firstly, Entrepreneur's internal locus of control where they believe in powerful control of their own, contributed to their strong intention to become an entrepreneur.

Shapero (1975) found that entrepreneurs tend to have a higher internal locus of control orientation than non-entrepreneurs. Brockhaus (1980) reported that owners of enterprises that survived more than three years had greater internal locus of control than those owners whose businesses have failed. Hisrich and Peters (1989) argue that empirical studies provide some tentative support for the hypothesis that successful entrepreneurs may have greater internal locus of control than unsuccessful entrepreneurs.

In a study comparing entrepreneurs with employee/managers, entrepreneurs were found to display significantly higher levels of internal locus of control than the non-entrepreneur with both measures (Kaufmann and Welsh 1995). Nelson (1991) found that specifically female entrepreneurs have specifically more internal locus of control than do females in the general population.

## **2.6 INTENTION FROM ENTREPRENEURIAL PERSPECTIVE**

To be successful in a business of its own, one needs certain personality traits and a plan. Entrepreneurship can be exhilarating, rewarding, and even fun. It can also be risky, scary and lonely. What kind of people has intention to become an entrepreneur?

The theoretical work of Bird (1988) suggests that an entrepreneur's intentions to start a business and the decisions that occur before start-up shape the subsequent goals, strategies, and structures of new venture. Without intensity, the entrepreneur cannot get over the greatest hurdle; to pull it all together and start.

Research by Reynolds and Miller (1992) has indicated that by far the most frequent first event in the life history of a nascent venture is the personal commitment of the lead entrepreneur to found a business. Therefore, the entrepreneur's intention is very important factor contributing to the success of its new venture.

Although Katz (1992) has shown that many start-ups are enacted or unintended rather than intended, Krueger and Carsrud (1993) suggested that intention is the "single best predictor" of entrepreneurial behavior.

Furthermore. People with intentions to start a business can be identified and studied as they progress through the entrepreneurial process much more readily than people without an initial intention. Therefore using intention as a basis or starting point for studying the entrepreneurial spirit of young Malaysian seems to be a logical and practical approach.

Katz and Gartner specified four (4) properties of emerging organizations; intention, boundary, resources, and exchange. Katz and Gartner (1988) defined intention as the search for information that can be used to help fulfill the goal of venture creation. Therefore, intention is an active concept rather than a passive concept. They believed that intention could lead to entrepreneurial behavior; that is to create a new venture. Three of Katz and Gartner's properties are used to measure venture creation.

Using path analysis, Krueger found that the breadth and positiveness of a person's prior exposure to entrepreneurship has a positive relationship with the perceived desirability and feasibility, as well as propensity to act, were, in turn, positively related to a person's expressed entrepreneurial intentions.

Although the relationship intentions and subsequent venture creation has considerable face validity and logic, it is not established that intentions always, or even usually, lead to entrepreneurial activity. For instance, Katz's (1990) study of self-employment follow-through strongly suggested that more people start ventures through intentional processes. Katz's findings indicate that only about one-third (1/3) of those individuals with self-employment intentions actually followed through. Katz further concluded that "preparation seems to have little impact on entry" and that "pursuing opportunities or training leads more people to avoid entering self-employment than to enter it".

Another study, by Carter, Gartner, and Reynolds (1996), found a higher incidence of intention-initiated start-ups. In their study, 48% of the subjects with entrepreneurial intentions actually started a business. The fact that the most extensive study available on the subject indicates that there is only about a 50% probability of start-up among persons with intentions suggests there is much more involved in the process, even conceding that about 30% of the sample were "still trying" to start a business.

## 2.7 INTENTION OF BEING AN ENTREPRENEUR AMONG MALAYSIAN

Most of the empirical studies surveyed (Gorman, G., Hanlon, D., and King, W., 1997) indicated that entrepreneurship can be taught, or at least encouraged by entrepreneurship education. Further more, for some time there has been widespread recognition that entrepreneurship is the engine that drives the economy of most nations.

Therefore, research study need to be done to investigate the level of intention of being an entrepreneur among FDAM managers. These are the people that will contribute to the economy growth in Malaysia. This study would like to investigate the intention of FDAM managers to become an entrepreneur by demographic profiles such as ethnic group, gender, education, income, age and years of working experience. This study would like to investigate whether there is difference in the intention of being an entrepreneur among FDAM managers with different races and gender.

A study by Munira Wahab (1999/2000) "*Hubungan lokus kawalan dengan niat untuk menjadi usahawan: Perbandingan antara Pelajar Universiti, University Malaya,*" has found that students from Business Faculty, University Malaya has significant relationship with the intention of being an

entrepreneur. These Business students have a higher intention to become an entrepreneur compared to other faculty. To further confirm the level of intentions of being an entrepreneur among Malaysian graduates, this study used demographic profile.