Psychological Capital: Key to Entrepreneurial performance and Growth intentions

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Abstract

This paper highlights the importance and need of studying psychological capital in entrepreneurial context. It further presents some propositions regarding the influence of psychological capital on entrepreneurial performance and growth intentions. Modern entrepreneurs often operate in dynamic and competitive environment with minimal financial, social and human resources. Scarcity of traditional forms of resources and limited volitional control requires entrepreneurs to heavily rely on personal/psychological resources in their entrepreneurial endeavor. One such resource is psychological capital (PsyCap) which can equip entrepreneurs with believe that they: are more impervious to setbacks (resilience), can create their own success (efficacy and hope), will experience good things happen to them (optimism) and have strong behavioral control (efficacy). Thus, for entrepreneurs, PsyCap may serve as an important resource for performance improvement and future intentions (e.g. growth intention). This paper presents a review and calls for the research on the effects of psychological capital on performance and future growth intentions of entrepreneurs. This study has implications for the current and prospective entrepreneurs as well as government and private bodies working on regulating, developing, encouraging and enhancing entrepreneurship.

Keywords: Psychological capital, positive organizational behaviour, entrepreneurial performance, growth intention.

Introduction

Growth is usually thought as the core to entrepreneurship1. Growth of small firms play important role in a country’s economy as it is an important source of innovation and new jobs creation2. It is also a significant indicator of venture success and economic replenishment3,6. That is why, venture growth has gained substantial consideration in the field of entrepreneurship and the factors affecting venture growth have been attracting researchers since recent past4,7. In economics literature, venture growth has been considered as an expected phenomenon occurring for increasing profit5. On the other hand, in social psychology and entrepreneurship literature, venture growth is seen as a consequence of deliberate individual decisions6,9. Previous research highlighted venture creation as a result of founder’s deliberate decision10. Likewise, growth of a venture is also a deliberate decision of the entrepreneurs6,9,11. In the same vein, growth intention can be regarded as an important and valid predictor of entrepreneurial venture growth and performance. Further, intention is described as a cognitive state which comes immediately before the targeted behavior (i.e. the decision to act) and is the best indicator of succeeding behavior12. Therefore, it can be argued that, as far as the future growth of a venture is concerned, it is mostly determined by the future growth intention of entrepreneurs. Furthermore, with respect to venture performance, researchers commended that it is affected by the motivations, aspirations or intentions of entrepreneurs11,13,14.

It is also well known that successful organizations are the one which manage their resources effectively to maximize productivity, performance outcomes and returns to stakeholders. For that, organizations mainly take help from reengineering and quality movement. In recent past, organizations shifted their focus more towards human and social capital for improving their efficiency15. However, more recently, organizations have started turning their attention towards the development of positive psychological resources (e.g. Psychological Capital) as other important sources of productivity and competitive advantage16. It is an appealing fact that where human capital characterize what you know and social capital describes who you know the psychological capital, as a positive psychological resource, used to elaborate who you are and who you are becoming17. This contemporary progression is founded on the conviction that positive workplace is more productive workplace. Further, it is both conceptually and empirically evident that psychological capital has considerable positive effect on the individuals’ performance and substantial negative impact on individuals’ intention to quit16,18.

In relation to entrepreneurship, Hmieleski and Carr proposed that psychological capital (PsyCap) is a vital individual trait.
required by entrepreneurs to lead their businesses throughout their entrepreneurial practices. However, inadequate empirical studies examined the application of positive psychological capital on entrepreneurs. Furthermore, psychological capital has been argued to have positively linkages with desirable attitudes and negative linkages with the undesirable attitudes. Unfortunately, past researchers ignored the influence of psychological capital on positive attitudes like future growth intentions of entrepreneurs'. As PsyCap, theoretically and empirically, have positive relations with higher performance and positive attitudes and negative relations with negative attitudes like quitting intentions so it would be valuable to examine its effects on performance of entrepreneurs and their positive attitude like growth intentions.

Literature review

Growth intention: Various definitions of intention have been proposed by numerous scholars. Bird refers intention as a cognitive state which points to an individual’s attention and action towards a particular goal. In the same way, Angelle describe intention as an attitudinal construct which is purposeful and is dependent on intrinsic personal beliefs and values. She discussed that the intention is a determination of a person to act in a particular manner. Some others contend that intentions are the prelude part of behaviour as there is substantial support showing that intention is a major indicator of following behaviour. Eagly and Chaiken discussed intention as the motivation of a person with regard to his/her cognizant plans of putting efforts towards performing particular behaviours. Here, it is understood that intentions detain the motivations affecting person’s behavior. Contrary to this, Greve suggested that as actions are intentional and are performed for some certain reasons therefore intentions should be understood as action components.

The debate is on; however, whether it is a part of attitude, behaviour, or action, intentions are considered as core conception in entrepreneurship because it is a vital indicator of successive behaviour of entrepreneurs. According to Bird, intentions direct entrepreneurs in their work, goal settings, commitment and even communications. She contended that intentions lay down the entrepreneurial firm’s type and direction at the time of initiation and further during its survival, growth, and change phases. Therefore, intention to grow is deemed as an essential characteristic of entrepreneurs’ behaviours which plays important role in successive actual firm’s growth.

Krueger, Reilly and Carsrud stressed on significance of examining intentions. They contended that, entrepreneurship stresses more on the recognition of opportunities as compared to threats. Further, this opportunity recognition process has been deemed as the intentional processes which depict and explain entrepreneurship in best possible manner. Similarly, growth intention relates positively with the performance and future growth of a business venture. Thus, growth intention is considered as an essential aspect of entrepreneurial behavior. However, there is a need to study the factors which influence entrepreneurs’ intentions during entrepreneurial endeavor (e.g. growth intention) as past researchers pay very little consideration to this conception.

Performance

Performance of small business is an important determinant of venture success or failure. However, past literature shows diminutive consistency regarding the measurement of entrepreneurial ventures’ performance. Generally, the firm performance has been measured through multiple financial and non-financial factors. Murphy et al. argued the benefit of considering multiple performance dimensions in studying entrepreneurship. Wiklund and Shepherd also argued that entrepreneurial performance is multidimensional and it is better to incorporate multiple performance dimensions to incarcerate diverse aspects of venture performance. A good number of researchers link entrepreneurial performance with sales growth, profitability, sales turnover, cash flow, employment growth and innovation. Innovative activities have been considered as crucial element of entrepreneurship. Its usual measures include introduction of new processes and products, research and development expenditure incurred by entrepreneurs etc. However, measuring performance through innovative activities is cumbersome, demanding and full of concerns particularly when it involves process or organizational innovation. In comparison, financial measure like sales return or profitability may prove to be easier and much state forward measures of performance outcome of entrepreneurs. Similarly, growth is also considered a proxy for venture performance and success. Usually, growth is referred to the growth in sales, employment and/or assets over a period of time. Even it is considered as more reachable and precise measure of performance than financial measures like profitability. Therefore, profitability and sales growth are considered as most conventional and distinguishing methods for measuring the entrepreneurial venture performance.

Psychological capital

Contemporary positive psychology movement has emerged from the call of Martin Seligman who urged the focus to be also given on positive qualities and beneficial functioning of capable ones rather than only treating the wrongs with the people. Seligman draws attention towards three pillars of positive psychology. These three pillars include: positive subjective experiences, positive personal characteristics, and positive organizations and society. In conjunction to this call, some researchers draw their consideration on appliance of positive psychology to micro level analysis and on the processes which are capable of improving performance at workplace. This research stream is referred as Positive Organizational Behaviour which is initiated by the work of Luthans.
Positive Organizational Behavior (POB) stream does not claim the discovery of importance of workplace positivity. It only draws focus on comparatively state-like positive constructs which have impact on work performance. Further, on such constructs which exists at individual level and have valid measurements and strong theoretical base. This call postulates the inclusion criteria for constructs to be part of POB stream. By employing these inclusion criteria, Luthans and his colleagues recognized self-efficacy, resilience, hope and optimism as four constructs which are specifically pertinent to Positive Organizational Behaviour (POB).

All of these four constructs meets the inclusion criteria of POB. These are competitively state-like, positive, individual level and have valid measures and strong theoretical base. For instance, drawn from the hope theory, hope is defined as motivation which depends on goal-directed energy (agency) and planning to achieve those goals (pathways). Similarly, drawn from attribution theory, optimism is considered as an attribution approach which deems positive events as internal and persistent whereas negative episodes as situation-specific, external and non-persistent. Therefore, optimism individuals posses the positive expectations about the future in spite of current adverse circumstances whereas pessimist expect negative things to happen in future.

Further, resilience is a competence which could cause positive outcomes in spite of considerable risks and adversities. Especially for work settings, resilience is considered as an ability to bounce back against adverse events. Lastly, Bandura defined perceived self-efficacy as personal beliefs with regard to organization and execution of actions which may be needed to achieve desired outcomes. Drawn from the work of Bandura (i.e., Social Learning Theory, Social Cognitive Theory), Stajkovic and Luthans defined self-efficacy for positive organizational behaviour stream as an individual’s confidence on their capabilities to activate the actions, motivations and resources which are required to perform particular objectives.

With respect to state-likeness of these constructs, it is argued that these construct are somehow developable. For instance, according to Seligman, optimism is practiced by individuals within fixed range. However, through trainings it could be inculcated in individuals to its maximum over the period of time. Scheier and Carver also argued that although only 25 to 30 % of variability is possible in optimism however it could be developed through cognitive therapies. Further, Masten asserted that resilience could be developed through adaptive processes. Positive emotions can also play role in improving and developing resilience. Lastly, perceived self-efficacy is also a developable characteristic. It is argued that performance attainment and experience generally causes increase in self-efficacy. In addition to mastery experience, behavioral modeling or vicarious learning, verbal persuasion and emotional/psychological arousal can also help development of perceived self-efficacy.

As far as impact on work performance is concerned, hope, optimism, resilience and self-efficacy have theoretical and empirical relationships with work performance. Such as, positive impact of hope has been found on workplace performance, organizational commitment and profitability. Similarly, optimism also found to have substantial positive impact on factory workers’ performance, sales people performance, higher productivity, job performance, and organizational commitment of workers. Positive relationships of resilience have also been found on employees’ work performance, job satisfaction and commitment. Finally, Self-efficacy also found to have significant relationships with work performance, job satisfaction and work engagement.

Therefore, it is evident that each of these four factors lies within the working boundary of positive organizational behaviour stream. Henceforward, psychological capital has been recognized as a second order core construct comprising of hope, resilience, optimism and self-efficacy as its four first order discriminant elements. Psychological Capital (PsyCap) is comprehensively defined as an individual’s positive psychological state of development characterized by: i. having confidence (efficacy) to take on and put in the necessary effort to succeed at challenging tasks; ii. making a positive attribution (optimism) about succeeding now and in the future; iii. persevering toward goals and, when necessary, redirecting paths to goals (hope) in order to succeed; and iv. when beset by problems and adversity, sustaining and bouncing back and even beyond (resilience) to attain success.

Psychological capital being a multidimensional construct (based on explanatory foundation of psychological resource theory) is thus found to integrate the shared mechanism/variance of these four first order discriminant constructs. Hope, optimism, resilience and self-efficacy have also been depicted in a manner that shows their shared variance. For example, it is stated that people’s achievements need optimistic self-efficacy. Similarly, it is the resiliency of an individual’s self-efficacy which matters to become successful after failed attempts. Further, it is also contended that, similar to hope, optimism is a target oriented cognition based process which triggers in the presence of perceived value of future results.

Empirical results also prove the psychological capital’s multidimensionality. For instance, Luthans, Youssef and Avolio modeled hope, optimism, resilience and self-efficacy in separate groupings and also jointly in psychological capital model. By comparing competing confirmatory factor models, they identified that overall psychological capital model best fits the data with high convergent validity and correlations ranged from 0.6 to 0.7. Further, while predicting performance, psychological capital as core second order construct shows superior predictive power than its first order constructs. Other scholars also found overall psychological capital model best fitting the data. Thus, it is more viable to see psychological capital (PsyCap) as overall.
second order latent factor comprising of four first order constructs of hope, resilience, optimism and self-efficacy.\textsuperscript{16,38,56}

Relationship among PsyCap, performance and intentions

Psychological capital, under the umbrella of positive organizational behaviour, is conceptually comprehended as a psychological resource that could assist higher performance and growth.\textsuperscript{19} It is also conceptualized to influence behaviours and attitudes of individuals.\textsuperscript{18} Youssef and Luthans also suggested an integrated conceptual model demanding the study of psychological capital influence on work related performance, desirable attitudes and behaviors and undesirable attitudes and behaviours like behavioral intentions.\textsuperscript{57}

Past empirical work also advocates the positive influence of PsyCap on work performance, desirable attitudes and desirable behaviours. Negative relationships of PsyCap with undesirable attitudes and undesirable behaviours have also been demonstrated by previous empirical studies. For instance, Luthans and colleagues identified positive relations of hope, resilience and optimism with 422 Chinese public and private sector factory workers’ performance.\textsuperscript{19} However, they found superior relationship between core construct of psychological capital (PsyCap) and factory workers’ work performance. Therefore, they contended that, for predicting performance, it is more realistic to use PsyCap as core construct instead of its individual first order constructs as PsyCap shows better predictive power.

Later on, while testing the relationships of first order constructs of PsyCap with job satisfaction and work performance, Luthans and colleagues come up only with mixed support.\textsuperscript{58} However, they also found positive and superior relationship among PsyCap (as a core construct), job satisfaction and work performance. Further, while investigating the sample of 336 employees, Avey and colleagues identified the positive relationships of psychological capital with employees’ desirable attitudes and desirable behaviours (such as organizational citizenship behaviour).\textsuperscript{56} They also identified negative relationships of psychological capital with employees’ undesirable attitudes and undesirable behaviours (such as intention to quit and counterproductive work behaviour). Beal and colleagues also found positive relationship between PsyCap and organizational citizenship behaviour of 100 government sector employees.\textsuperscript{21} Similarly, in a cross-national research, Bergheim et al. found that the psychological capital positively and significantly influence the job satisfaction and perception of safety climate among maritime workers.\textsuperscript{58}

In another study on 132 U.S. based different organizational employees, Avey and colleagues identified that psychological capital (PsyCap) is related positively with desirable attitudes (emotional engagement) and desirable behaviours (organizational citizenship behaviour) while it is negatively related with undesirable attitudes (cynicism) and undesirable behaviours (deviance).\textsuperscript{20} They also identified that PsyCap influence the positive emotions of employees which mediates the relationship between psychological capital, attitudes and behaviours. Furthermore, Avey and colleagues conducted a Meta analysis consisting of more than twelve thousand participants from 51 independent samples. They found the positive influence of psychological capital (PsyCap) on (i) work performance (self and/or supervisor rated, objective), (ii) desirable attitudes (organizational commitment, well being and work satisfaction) and (iii) desirable behaviours (organizational citizenship).\textsuperscript{18} They also found the negative relationships of PsyCap on various work related outcomes including (iv) undesirable attitudes (quitting intentions, cynicism and stress) and (v) undesirable behaviours (deviance).\textsuperscript{18}

Pertaining to entrepreneurship context, Baron et al. found negative relationship between entrepreneurs’ psychological capital and their level of stress.\textsuperscript{19} They further, found the negative relationship of entrepreneurs’ stress level with their subjective wellbeing whereas; PsyCap is found positively related with entrepreneurs’ subjective wellbeing. Therefore, they concluded that there is a positive relationship between entrepreneurs’ psychological capital and their subjective wellbeing which is partially mediated by stress level of entrepreneurs. On the other hand, Hmieleski and Carr contended the positive relationship of psychological capital (PsyCap) of entrepreneurs’ with their new venture performance. They collected data from 216 U.S. based entrepreneurs and come up with the conclusion that PsyCap explains considerably large variance, over and above the other forms of human, social and financial capitals, in their new ventures’ performance.

Hmieleski and Carr further asserted that entrepreneurs generally involve in vibrant environment which is full of risks, threats and uncertainties and which demands prompt decision making from entrepreneurs.\textsuperscript{60} On the other hand, entrepreneurs also usually engage in insufficiency of conventional forms of capital like human, social and financial capital. In such circumstances, entrepreneurs need to highly depend upon their own personal capabilities. Hence, psychological capital, as a personal psychological resource, may prove to be an important element of their entrepreneurial endeavor which may facilitate higher performance achievement and success. In other studies, Hmieleski and Carr and Roche et al. found the positive relationship between entrepreneurs’ psychological capital and their psychological wellbeing.\textsuperscript{61,62} It is also found that PsyCap helps reducing work tension effects on job satisfaction. Whereas, from the analysis of data collected from 215 U.S. entrepreneurs, Drnovšek et al. found the direct and positive relationship between entrepreneurs’ psychological capital and their venture growth.\textsuperscript{63} They also found that goals mechanism partially mediate this relationship between PsyCap and entrepreneurial venture growth.
Even though, the importance of psychological capital, as a vital individual resource for entrepreneurs, has been acknowledged, nevertheless, the entrepreneurship as a field has seldom been given attention in psychological capital literature. Past PsyCap literature had investigated its impact on various work performances such as quality/quantity of manufacturing, sales person performance and creative performance. However, entrepreneurial performance has been overlooked by researchers. Similarly, empirical studies found positive relationships of psychological capital with various desirable attitudes and behaviours (i.e., organizational commitment, job satisfaction and wellbeing). Negative relationships of psychological capital with various undesirable attitudes and behaviours (quitting intentions, cynicism and stress) have also been investigated. However, the positive attitude of entrepreneurs in the form of their future growth intention has been ignored by the researchers. Most of the studies gave consideration to quitting intention of individuals but the entrepreneurial intentions particularly growth intentions as their positive attitude still seeks researchers’ attention.

As psychological capital is theoretically and empirically related positively with performance, desirable attitudes and desirable behaviour and negatively related with undesirable attitudes and undesirable behaviour therefore, it appears convincing to anticipate that PsyCap having shared variance of hope, resilience, optimism and self-efficacy is a strong predictor of performance and growth intentions of entrepreneurs. Thus, this study proposes the investigation on the impact of psychological capital (PsyCap) on performance and growth intentions of entrepreneurs. Following are these propositions:

**Proposition 1:** There is a relationship between psychological capital of entrepreneurs and their venture performance.

**Proposition 2:** There is a relationship between psychological capital of entrepreneurs and their growth intentions.

**Conclusion**

This paper highlights the importance of studying positive psychological capital in entrepreneurship context and calls for the research regarding the influence of psychological capital (PsyCap) on entrepreneurial performance and future growth intentions. The empirical investigation of these propositions will extend our knowledge of entrepreneurship, entrepreneurial performance and entrepreneurs’ growth intention which in-turn may facilitate and enhance the chances of subsequent growth. As growth of entrepreneurial ventures is deemed a vital source of employment creation and economic development/stability therefore, it is important for professional and academic researchers to investigate the potential antecedents of entrepreneurs’ growth intentions and performance. Furthermore, PsyCap is a state-like resource. Short training interventions can be handy in developing positive resource of psychological capital in target audience like established and prospective entrepreneurs. Therefore, empirical confirmation of psychological capital (PsyCap) influence on performance and growth intentions of entrepreneurs will facilitate the likelihood of enhancing entrepreneurs’ performance as well as future growth intentions and in-turn successive venture growth possibilities through development of psychological capital resources. Therefore, the empirical investigation on PsyCap as an antecedent of entrepreneurs’ growth intention and performance is significant not only from academic point of view but also for current / prospect entrepreneurs and government and private sector agencies interested in entrepreneurial development and growth.

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