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Importance of human interaction as psychological capital in entrepreneur skills and success of managers

SRIDEVI K.

Research scholar, Bangalore University.

ABSTRACT

Financial, human, and social types of capital are widely discussed in the literature as they relate to entrepreneurial success. To date, however, positive psychological capital has not received adequate attention by academics or practitioners. Psychological capital refers to psychological states such as hope, confidence, resilience, and optimism, which are discussed in this paper as being crucial for entrepreneurs to genuinely demonstrate. The four states are discussed and the Expanding Capital Model for Entrepreneurial Success is introduced.

INTRODUCTION

The word capital refers to the value of assets and resources available for a specific need. Many times financial capital comes to mind when thinking about an entrepreneurial venture, whether it is fixed, working, or growth capital. However, other types of capital are just as important to consider. These include human, social, and most recently psychological capital, which all incorporate the intangible assets and resources supplied by people involved in an entrepreneurial venture, most importantly the top management team. The more widely discussed

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human and social types of capital are reviewed, however, the primary focus of this paper is on psychological capital.

The author contends that positive psychological capital demonstrated by an entrepreneur or top management team of an entrepreneurial venture is crucial for short and long-term success. Further, while financial, human, and social capital can vary in degrees among top management, all members must demonstrate high levels of positive psychological capital to ensure entrepreneurial success.

SOCIAL CAPITAL

Social capital refers to the value of actual or potential assets and resources a person can acquire for an organization based on who he or she knows, what networks that person is associated with, as well as his or her reputation in certain communities. Trust between members of a social network, as a necessary condition for innovation and economic development, is central to the concept of social capital (Lorenz, 1992; Storper, 1993; Putnam, 1995).

When considering who to bring to the top management team of an entrepreneurial venture, potential candidates are often evaluated on things such as their reputation in the business community, what associations they belong to, and people they know who can provide financial assets, information, or other resources to the organization. Empirical research shows that social capital translates directly into financial assets (Belliveau, O'Reilly, & Wade, 1996), as entrepreneurs with higher levels of social capital are more likely to receive funds from venture capitalists than entrepreneurs with lower levels (Shane & Cable, 1999)

In a sense, social capital provides individuals with an important credential that can be directly converted into tangible assets (Baron & Markman, 2000). The basic idea is that norms of reciprocity, obligation, and trust are established within social networks (Coleman, 1988; Portes, 1995). Social capital does not constitute the resources or assets themselves, but rather the ability of the individual to attain and mobilize them (Portes, 1995). It can be

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likened to the exchange theories in leadership where group members make contributions at a cost to themselves and receive benefits at a cost to the group or other members. Interaction continues because members find social exchange mutually rewarding (Bass, 1990).

Reimer (2004) contends that if one prepares a business plan with others, social capital is being built, and with each successful transaction, that social capital is being reinforced and used for productive ends. Social capital in the marketplace can even be thought of as stock in some cases (Policy Research Initiative, 2003).

Like human capital, it is very important to assess how much social capital one could bring to the entrepreneurial venture if chosen to be a member of the top management team.

HUMAN CAPITAL

Human capital, often referred to as intellectual capital, is the value of the skills, abilities, knowledge, and experience a person brings to an organization. Stewert (1999) defines intellectual capital as 'organized knowledge that can be used to produce wealth,' and contends that it is the most important resource in today's organizations, which must operate in the Information Age where knowledge is the preeminent resource.

When considering who to bring to the top management team of an entrepreneurial venture, potential candidates are often evaluated on things such as previous entrepreneurial experience, knowledge of the industry and market, years of education, past work experience, and technical knowledge directly related to a product, service, or process. These factors are important in today's volatile business environment, especially in small, entrepreneurial companies that must continually be flexible, innovative, and quick to react to market demands. Dakhli and De Clercq (2004) empirically tested the relationship between human capital and innovation across 59 different countries. Their findings reveal that there is a positive relationship. Likewise, Hayton (2004) studied 99 small to medium sized enterprises and found a positive relationship

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between human capital and entrepreneurial performance. It also appears that venture capitalists may even overemphasize human capital when making their investment decisions (Baum & Silverman, 2004).

Laferrere (2001) separated formal versus informal human capital within entrepreneurial businesses, with formal human capital referring to educational qualifications while informal human capital was knowledge and skills acquired by having parents who were entrepreneurs. It was discovered that individuals who grew up in families where one or both parents owned a business were able to attain "inside" knowledge of enterprise. Likewise, Anderson and Miller (2003) explored how entrepreneurial family background impacts the development of human capital. Those with high socioeconomic groupings were highly endowed with human capital, which ultimately led to greater profitability and growth potential. Therefore, evaluating the level of human capital one brings to the top management team of an organization is very important to consider. Often, the degree of human capital sought is directly related to the specific needs of the business in regard to the environment in which it operates. It is important to note, however, that this paper is not suggesting that higher socioeconomic groupings with higher levels of human capital are those people who traditionally become entrepreneurs. In fact, those with fewer means may be more likely to take the risks associated with entrepreneurial ventures.

PSYCHOLOGICAL CAPITAL (Human Interaction)

While human capital refers to "what you know" and social capital refers to "who you know", psychological capital is reflected in person's self-view or sense of self-esteem (Goldsmith, Veum, & Darity, 1997). Thus, one could look at psychological capital as a person's sense or view of his or her ability to successfully utilize the financial, human and/or social capital he or she brings to an organization in a productive manner.

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Psychological capital encompasses an array of personal characteristics, which can influence productivity. For example, Goldsmith, Veum and Darity (1997) used Rosenberg's (1965) Self-Esteem Scale to operationalize psychological capital as it relates to wage rates of lower-level employees (those who had finished high school and were employed). Their findings indicate that self-esteem, as a broad measure of psychological capital, is positively and significantly related to wages earned. Self-esteem can also be related to productivity as Schultz (1994) demonstrates. He contends that self-esteem is essential to the success of any organization and illustrates that people who develop healthier concepts of themselves enhance their own productivity and thus the success of the organization.

The author of this paper chose to use the four constructs of hope, confidence, resilience, and optimism to embody the concept of psychological capital for an entrepreneur. These constructs were chosen because: (1) Self-esteem appears to be too general and basic to capture how an entrepreneur or someone in a top management position would view him or herself; and (2) These four constructs were recently used by Luthans, Luthans, and Luthans (2004) to demonstrate the importance of positive psychological capital in the business environment.

It is important to note that these four constructs are not psychological traits, but psychological states. Generally, a trait is something a person either has or does not have. A state involves behaviors, thoughts, and actions that can be learned and developed in almost anyone. It is also imperative to understand that in order for an individual to genuinely exhibit these four states, he or she must firmly accept the reality within an identified situation.

Confidence

Confidence is defined as a person's conviction about his or her abilities to successfully execute a given task within an identified context (modified from Luthans, et al., 2004). Stajkovic and Luthans

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(1998) have empirically shown that confidence has a positive effect on work performance, and Stajkovic (2003) has used this psychological state to develop his core confidence factor of work motivation.

Famed cyclist Lance Armstrong said, "The world is full of people who are trying to purchase self confidence, manufacture it, or simply posture it. But you can't fake confidence, you have to earn it, and they only way to do that is work" (Armstrong, 2003). In other words, a person cannot truly gain conviction about his or her abilities to execute a given task unless he or she works to become better at that task. The person with the most expensive set of golf clubs on the course is oftentimes not the best golfer. Likewise, an entrepreneur can only gain confidence in his or her ability to attract investors and secure capital if hard work is involved.

An entrepreneur should feel confident in the knowledge, skills, and capabilities he or she brings to the business backed by a good work ethic. The demonstration of this confidence should be genuine and only attained through hard work. The business would surely suffer and possibly never get off the ground if the entrepreneur was simply posturing confidence, and truly lacked the human and social capital he or she purportedly possessed.

Hope

Hope is a desire accompanied by an expectation of fulfillment. It is a positive motivational state with two important components, (1) the physical and mental energy to meet goals, or "willpower" and (2) having identified avenues to meet those goals, or "waypower"(modified from Snyder 2000, and Luthans et al., 2004).

Hope becomes an enduring psychological state when a person attributes permanent and universal causes to good events along with temporary and specific causes to bad events (Seligman, 2002). An example of a bad event for an entrepreneur is losing an important customer. Consider two responses to the loss: "I'm miserable at business," versus "I really need to learn more about good customer relations." The second statement is

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much more hopeful in nature as it is specific to customers, and it is temporary with the assumption that with more knowledge gained, customer relations will improve. The first statement is universal and thus implies a sense of hopelessness. Hope has been shown to have a positive effect on leadership and workplace performance (Peterson and Luthans, 2003).

As an entrepreneur, one would be more successful if he or she has the energy to strive for the business' goals (willpower) as well as the ability to identify the avenues for reaching them (waypower). A loss of hope, either in a decrease in willpower or waypower, would have a negative effect on the entire business. And thus, one may even lose a significant amount of human or social capital because he or she has lost hope in his or her abilities or in the entire business.

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Optimism

Optimism is defined as the positive side of an emotion that is utilized to explain good and bad events (Seligman, 1998). This explanatory style has two important dimensions, permanence and pervasiveness. Permanence is in regard to time. When a bad event occurs, the optimist will see it only as a temporary situation, whereas a pessimist will view it as permanent. For example, assume an entrepreneur lost a key employee. Now consider the following two statements: "We need to find out why she left so we can prevent other employees from leaving," versus "We'll never be able to keep good employees." The first statement is temporary in nature, while the second statement is permanent, as the first one incorporates a sense that things can improve.

Pervasiveness is about space. People who make specific explanations about bad events are optimistic, while people who make universal explanations about bad events are pessimistic. Consider again the lost employee and compare these two statements: "Losing her will really hurt our production department for awhile," versus "We might as well sit back and wait for everyone else to quit too." The first statement is solely

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about the immediate impact of losing that one key employee and focuses on a specific part of the business, while the second statement is universal in nature and assumes the worst-case scenario for the entire business.

Optimism is a very important characteristic for an entrepreneur to possess. Jeff Bezos, the founder of Amazon.com stated, "I believe that optimism is an essential quality for doing anything hard--entrepreneurial endeavors or anything else" (Walker, 2004).

Resilience

Resilience is the process of adapting well in the face of adversity, trauma, tragedy, threats, or even significant sources of stress, such as business failure (modified from Luthans, et al., 2004). Research has shown that resilience is ordinary, not extraordinary (Road to Resilience, 2004). People commonly demonstrate resilience. One example is the response of many Americans to the September 11, 2001 terrorist attacks and individuals' efforts to rebuild their lives. According to Coutu (2002), resilient people unfalteringly accept reality, have an extraordinary ability to adapt to significant change, and deeply believe that life is meaningful.

Based on a survey by Timmons (1999), resilience was found to be a common trait that all successful entrepreneurs share. He states that entrepreneurs respond to change and learn from their mistakes. They do not blame others for their mistakes, but rather use failure as a lesson. Likewise, psychologist Kosmas Smyrnios found resilience to be a shared trait among entrepreneurs and showed that the personality traits of entrepreneurs are an important driving force of the businesses (Gome, 2003).

Because of the common setbacks associated with entrepreneurial ventures when compared to existing organizations, it is easy to see why an entrepreneur must demonstrate this positive psychological state even more so than a general manager.

Any business would surely suffer if the entrepreneur (leader of the venture) were not able to bounce

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back from adversities. He or she must also be able to accept the reality of a given situation and adapt

CONCLUSION

The importance of psychological capital becomes clear when one considers all that an entrepreneur or entrepreneurial team must overcome in order to achieve success. These events can come in a variety of forms including lack of funding, legal constraints, a weakened economy, an increase in industry standards, employee turnover, a deluge of new competitors, changing customer needs, among other events and situations. These types of trials can lead an entrepreneur to alter the original business plan, eliminate segments of the business, revise timelines and goals, change the entire direction of the company, and can even lead to business failure. It is also important to note that these trials are much more pronounced for the entrepreneur than for long existing organizations and general management in larger organizations. This is why positive psychological capital may be even more essential to establish and maintain in entrepreneurial ventures when compared with other types of organizations.

All top management teams of entrepreneurial ventures are formed based upon complementary assets and resources. One member may be recruited because he or she provides the necessary financial, human, or social capital that other members may lack. However, this paper contends that all members must demonstrate positive psychological capital in order for the business to achieve both early-stage and long-term success. In fact, positive psychological capital may enhance the level at which a person utilizes his or her own human and/or social capital. Research indicates that positive psychological states are associated with good social relationships and one's ability to mobilize them during times of stress (Taylor and Brown, 1994).

Clearly, however, these four psychological states must be measured empirically to determine how significant each state is alone and in conjunction with the other

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states in relation to entrepreneurial performance. Empirical research is needed to measure the aggregate effect of all forms of capital

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