An Overview of the Relationship between Psychological Capital and Entrepreneurial Orientation of Startup Companies

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Abstract: Start-up is a driving force to promote technological innovation, create new jobs, and support economic growth. Throughout the ongoing progress of developing Vietnam’s economic growth model, the start-up and improving labor productivity issues have been playing an increasingly crucial part. In this study, the authors examined the relationship between psychological capital and business orientation of start-up companies to provide a model for optimal utilization of these companies’ resources. It has been observed that the intermediary role of employee’s engagement in the relationship between psychological capital and organizational commitment within the companies is genuinely crucial and that effective and systematic psychological capital intervention will provide a solid foundation for the improvement of labor productivity.

Keywords: Psychological capital, entrepreneurial orientation, startup company, labour productivity.

1. Introduction

During the course of economic development of developing countries, the private sector has increasingly played an important role not only in the contribution rates to the nations’ GDP, to the budget revenue of the governments but also in creating jobs for a large labour force, partly contributed to reducing the strain that unemployment pressure is weighing on their economies. For the recent years in Vietnam, many corporations and large companies in the private sector have established, grown strongly and made great contributions to their national economic growth and development.

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Nevertheless, the role of small and medium enterprises (SMEs) in this sector is not to be disregarded.

The development of SMEs, especially of small businesses, shares a common characteristic, that is a rapid “explosion” in a period during which the economy is growing and elements of the business environment are favourable. However, when the economy recesses or faces major instabilities, a large number of these small businesses are likely to go bankrupt and withdraw from the market. This phenomenon reveals the vulnerability of SMEs but the underlying causes still requires further research. Many international and Vietnam’s studies have shown that the failure of SMEs derived from their difficulties in accessing capital and financial resources, as well as the lack of practical supporting policies by the government, and many other related reasons. However, one of the possible underlying cause, which many researchers have highly agreed on, is the difficulties in managing costs and employees’ work performance due to the pressure of improving productivity to save costs in order to maximise profits in a fiercely competitive environment with very little capital investment, especially in the first few years of the businesses’ lifespan.

A startup or start-up is a company or project initiated by an entrepreneur to seek, effectively develop, and validate a scalable business model. Hence, the concepts of startup and entrepreneurship are very similar. However, there are a few differences. Entrepreneurship refers to all newly formed businesses, including self-employment and businesses that never aim to grow big or become registered, whereas startup refers to the newly formed businesses that aim to grow beyond sole trading, have employees, and intend to grow larger. Thus, startups face high levels of uncertainty and have high failure rates, however, a small number of companies which go on to be successful will have high potential to become big and influential. Some startups become “unicorns” i.e. private owned startup companies valued at over 1 billion US dollars. For the purposes of this paper, the two terms will be used interchangeably.

### Table 1. A number of differences between start-up and entrepreneurship (Source: Mandela Schumacher-Hodge)

<table>
<thead>
<tr>
<th>Innovation</th>
<th>Start-up</th>
<th>Entrepreneurship</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>Mandatory</td>
<td>Not mandatory</td>
</tr>
<tr>
<td><strong>Profitability</strong></td>
<td>Develop into “unicorns” valued at 1 billion US dollars or over</td>
<td>Benefits for the founder individuals</td>
</tr>
<tr>
<td><strong>Growth</strong></td>
<td>Usually at capital loss in the early days and need a long time to start making profit</td>
<td>Usually can make profit in the early days</td>
</tr>
<tr>
<td><strong>Capital sources</strong></td>
<td>Self-capitalised or receive capital from “Angel Investors” or Adventure Capital Fund (ACF)</td>
<td>Self-calling for capital or acquire from traditional sources</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td>Often the unique selling point of the products or services</td>
<td>Not mandatory</td>
</tr>
</tbody>
</table>

Many years ago, a number of psychologists became increasingly concerned that their field had put too much emphasis on the negative and there were few studies related to the positive aspects that motivate people. In the search for paranormal solutions for mental illness and abnormal behaviours, both psychologists and experimentalists have ignored most of the advantages of developing and helping those who are mentally healthy to achieve higher productivity. This field commonly ignored the factors that contributed to personal development and instead focused on what made an individual fail.
The beginning of a more positive approach emerged in 1998 when the President of the American Psychological Association for that year, Martin Seligman, challenged the field to better understand what truly underlies the nature of human being, instead of just focusing on what happens around human beings. Indeed, what Seligman is calling for is a more balanced approach to studying what constitutes the nature of human activities and behaviours.

Fred Luthans, an active psychologist at the University of Nebraska, cautiously proposed to explain "capital" in a psychological form that reflects a positive approach to "people at work". Early in the twentieth century, the term "capital" was explained with a positive psychological approach in mind. Luthans attempted to classify capital into four essential categories and demonstrated its value to people at work and to research development. These include "traditional economic capital" which is understood as "what you have" (Luthans, Luthans & Luthans, 2004) [1], "human capital" or "what you know" (Luthans, Luthans & Luthans, 2004) [1], "social capital" or "know" (Putnam, 1993) [2], "positive psychological capital" or "who you are" (Luthans & Youssef, 2004) [3].

Psychological capital (PsyCap) is one of the most influential items of positive psychology as it relates to the industries and organisations. Recently it has been credited as one of the approaches originated from positive organisational behaviour. Positive organisational behaviour plays an important role in developing a conceptual and ideological foundation of positive structures for psychological capital. Such positive structures include hope, optimism, self-recovery and resilience (Luthans & Youssef, 2004) [3]. These structures are not psychologically personal. They help us to approach scientifically and can be effectively measured, developed and managed to improve productivity in today's workplace (Luthans, 2002a) [4].

The topic aims to identify the factors that constitute the competence of entrepreneurs as well as the relationship between them and the performance of businesses. The results from this study are used for business support and consultancy organizations and training institutions to design training programs appropriate to start-up training practice in Vietnam.

2. Theoretical framework

2.1. Psychological capital

Theory

Psychological capital (PsyCap) is a considerably developing new concept, introduced by Luthans, that stemmed from positive psychology and positive organisational behavior. It is studied and applied in effective assessment, development and management to improve performance (Luthans, 2002b) [5]. The concept of psychological capital is one of the important factors in human resources that can solve a number of organisational problems (Fitzenz, 2000) [6].

Psychological capital far exceeds human capital. It is not entirely explicit knowledge, skills and abilities that can be built through educational and training programmes, or even through practical experience. PsyCap is not equivalent to the underlying knowledge of an organisation that managers and employees build over time through immersing themselves in socialisation processes (Hitt and Ireland, 2002; Hitt et al., 2001). In other words, psychological capital is not simply a person's knowledge.

Psychological capital is built upon the psychological state of human beings and is therefore studied in an open manner. Many personality traits have been shown to be related to the workplace performance, including the Big Five personality scale, mental cognitive abilities. On the other hand, PsyCap is a set of states that can be readily altered or developed and have been shown to be significantly augmented through relatively brief stimulating methods
In general, psychological capital has brought about new perspectives and approaches to human resources in many different ways. Firstly, psychological capital differs from human capital. It is not the knowledge, skills and abilities acquired through educational and training programs or work experience. It is neither the knowledge gained through spending a lot of time or an entire process practicing. Simply put, psychological capital is not a readily conceivable aspect of a human being.

Components of Psychological Capital

Luthans et al. (2007) [8] developed a new scale for the concept of Psychological capital, in which psychological capital is considered as a secondary concept consists of four components: Self-efficacy/Confidence, Hope, Optimism, and Resilience.

Self-efficacy/Confidence: Self-confidence is defined based on the theory of social awareness by Bandura (1986, 1997) [9] [10]. According to Stajkovic and Luthans (1998) [11], confidence is an individual's belief in his or her ability to concentrate resources and take the necessary actions to accomplish specific goals. According to Luthans et al. (2007) [8], confidence in psychological capital relates to the following five behaviors: (1) setting high objectives, (2) being open to difficult tasks, (3) self-motivating, (4) strive to accomplish goals, (5) overcoming difficulties persistently. Confidence makes the work experience more comfortable. Employees have an environment to demonstrate their competence, therefore a higher level of organisational commitment; engagement with their work and duties are increased, thereby business outcome is improved. This underlies to the first hypotheses of our study:

H1a. Confidence has a positive impact on Business Outcome

H2a. Confidence has a positive impact on Business Orientation

Hope: Hope is defined, based on the theory and research of the psychologist C. Rick Snyder, as a positive motivation based on interaction between success-driven factors, including: goal orientation and ways to achieve goals. A direct relationship between the employees’ psychology and positive organisational outcome in the context of varying different industries; They noted that the hope of managers had a significant relationship with financial activities of the businesses, staff satisfaction and long-term work commitment, thereby promoting business activities. However, only in recent years has its importance been studied in specific settings. Therefore, our study proposed the following hypotheses to be examined in this paper:

H1b. Hope has a positive impact on Business Outcome

H2b. Hope has a positive impact on Business Orientation

Optimism: Optimism has been defined as having a positive acknowledgement of success right at the moment and in the future. People who do not try to control external factors are more likely to integrate themselves into positive events and benefit from it. They believe that they need to work hard to achieve good things. Optimists, on the other hand, believe that good things will happen to them. When the managers and their employees encounter real-world situations, they need to be sensitive in distinguishing between the ongoing facts and the subjective personal perspectives, to see the source of the problem, to limit the negative feelings about unfortunate things that may be beyond their control. By that, they know how to manage their emotions including the feelings of guilt or shame, which can devastate optimism. These negative emotions paralyse an employee's ability to evaluate a situation and limit their ability to learn after each problem. These emotions can also lead to stagnation and complacency, affecting the employees’ and the organisations’ future. It is conceivable from what have been discussed that optimistic emotions convey a better future. (Luthans et al.,
Hence, the following hypotheses have been drawn from the above arguments:

**H1c.** Optimism has a positive impact on Business Outcome

**H2c.** Optimism has a positive impact on Business Orientation

**Resilience:** Research has shown a link between perseverance, work commitment and organisational commitment, as well as a positive connection between perseverance and the feeling of happiness at work (Youssef & Luthans, 2007) [3]. Resilience has also been shown to have a reverse relationship with organisational commitment (Etebarian, Tavakoli and Abzari, 2012) [12]. According to the findings, hope is positively correlated with organisational commitment, on the other hand, perseverance is negatively correlated with organisational commitment, whereas confidence and optimism had no significant correlation with the organisational commitment, which impacts on business outcome. Therefore, the hypotheses of the last factor in psychological capital are proposed as follows:

**H1d.** Resilience has a positive impact on Business Outcome.

**H2d.** Resilience has a positive impact on Business Orientation.

Thus, psychological capital is characterised based on four important factors summarised below:

1. The confidence (or the confidence ability) to conceive and make the necessary efforts to succeed in challenging tasks;
2. The hope (desire, ambition or expectation) that brings perseverance and helps with changing direction when needed to achieve the objectives for success;
3. The ability to withstand difficulties, to face problems and adversities, to hold on and recover or even overcome difficulties to achieve success;
4. The optimism to believe that success will certainly come about.

2.2. Business Outcome of start-up companies

Entrepreneurs are distinctive from each other in terms of their personal characteristics and their feel about the business environment. Their start-up activities will therefore be different. Researchers believe that the individual characteristics related to entrepreneurship capacity and the business environment are closely related to the performance outcome of the business. There are many different perspectives on measuring the performance outcome of newly established businesses but generally, the researchers agree on measurement by the following criteria groups: financial and non-financial outcomes of the business.

The non-financial indicators represent non-financial outcomes. They include: satisfaction of the business owner with the development of the organisation, a sense of customer satisfaction, a sense of staff satisfaction, good relationships with suppliers, building a connected working environment, products or services accepted in the market, and building an image of the business (Chandler and Hanks, 1993) [13]. The financial indicators measuring business results in this study will include: sales growth, profits growth, a significant increase in market share, resource usage efficiency and the rates of return on investment (Hoque, 2004) [14].

Perez and Canino (2009) [15] argued that the first few years after a business is formed is the most difficult period: facing a high interest rate when it comes to borrowing investment capital and costs. fixed costs are still high, market share is still limited thus the measures of financial efficiency remain low yet it cannot be concluded that this newly formed enterprise has failed. Therefore it is necessary to measure business performance outcome using non-financial criteria. The two authors proposed that the measurement should emphasise indicators such as employee and customer satisfaction. Other researchers have added other non-financial factors that measure outcome such as a sense of business success and growth, prospects for
future growth, and fulfillment of the initial goals of the entrepreneur.

Based on the findings of Perez and Canino, our study mainly approaches the measurement via non-financial factors. Some highlighted factors include:

- **Capital**: No enterprise can perform production and business activities without capital. Capital is extremely important, directly determines the business activities. Capital in businesses comes from three main sources: equity capital, government budget capital and loan capital, which can be classified into: fixed capital and working capital. The proportions of these capital depend on the nature of each business. For state-owned businesses, capital is primarily allocated for by the government budget, whereas for private enterprises equity and loan capital are the main sources.

- **People**: People are the determinant for all activities within a business. In these day where higher amount of gray matter are put into products, the employees’ level of expertise has a great influence on the performance outcomes of the business. This is especially applicable to the managers. They are the labour who indirectly perform production but are very important because they run and direct the business, directly determining the success or failure of the business. In fact, each business has a unique organisational management structure, and the level of expertise of employees has significant impact on the business production efficiency. Highly skilled workers will produce high quality products with reduced time and materials, hence increasing the efficiency of business production. Therefore, in the human factor, expertise level is crucial to the business. It is thus important for businesses to have meticulous planning from recruitment to training and developing expertise for employees, especially the managers team.

- **Technological expertise**: Technology directly affect every aspect of production and business activities. Enterprises that apply more advanced technology in their activities will have a competitive advantage. Today the role of technology is highly appreciated by businesses. In order to improve the efficiency of production and business activities, enterprises have to constantly invest in this field, especially in research and development.

- **Enterprise management**: This factor plays an important role in the business production activities. Enterprise management focuses on identifying the right direction for businesses in an increasingly unstable business environment. Quality of the business strategies is the first and foremost factor that determines the success or failure of a business. The team of managers, especially senior executives who lead businesses with their qualities and talents, play the key important role. Their influence determines the success of a business. The outcome and efficiency of enterprise management depend largely on the expertise level of the management team as well as the organisational structure of the management system, also the identification of roles, responsibilities, and authority of each division, individual and establishing relationships between the departments within that organisational structure.

- **Information communication and processing system**: Information is considered as a commodity, a business object; and the market economy is now considered to be an informationalised economy. In order to succeed in the context of increasingly intense international competition, businesses need more accurate information about the demand and supply within markets, about available technology, about clients and competitors, etc.. Additionally, businesses need information on the experience of success or failure of other businesses within the region and internationally. They also need to be aware of changes in the economic policies from their governments and other relevant countries.

### 2.3. Business orientation

Researchers have previously suggested that there are several organisational processes that determine the development strategies. They have
a pattern or method that can be defined. Aspects of a company's strategic planning process can be considered covering the entire scope of an organisation's operational area related to planning, decision making and strategy management. Such processes also include many aspects of the culture, shared value system and vision of a company. In an effort to identify variables related to organisational models and strategic decision-making processes, many researchers have focused on portraying the aspects of strategy formation. For example, Miller and Friesen (1978) [16] identified 11 aspects of the strategy formation process, including adaptability, analysis, integration, risk taking, and market innovation. In his study of the structural effects on decision-making processes, Fredrickson (1986) [17] proposed aspects such as proactivity, rationality, comprehensiveness, risk taking and decisiveness.

Research of the business orientation showed similarities to the business management concept which reflects the processes, methodology and organisational manners employed to conduct business. Miller (1983) [18] proposed that a business company is one of the "engaging in product market innovation, committing to risk-taking, and being the first to launch" proactive "initiatives, beat competitors". Accordingly, he used the aspects "innovation", "risk" and "proactivity" to describe and test the entrepreneurship factor. Many researchers have used a number of methods that are based on the original concept of Miller (1983) [18] studied the performance of businesses in a competitive and moderate environment. In their study of 161 small producers, "business strategies" were measured using the ranking scale of levels of creativity, adventure and proactivity.

Besides, there are two important aspects of business orientation, the first one being competitiveness in proactively generating innovative ideas to "beat the competitors" (Miller, 1983) [18] of a business. The second important component of Business Orientation is the trend towards independent operation. Newly established companies must take the specific necessary actions to kick start new projects. Bureaucracy and conservatism do not favour business growth. Indeed, this development requires proactive decision making by strong leaders or creative individuals. Burgelman (1983) [19] identified that, in the case of adventurous firms, "the motivation of enterprise lies in the strategic innovation of individuals at the management level". Aspects of ownership, innovation, risk, proactivity and competitiveness need to be clarified.

The importance of entrepreneurship for businesses’ strategy management has been widely accepted in studies about strategies. Miles and Snow (1978) [20] considered business problem to be the fundamental problem that all companies face, solutions of which identify the organisation's key elements, the market-product relationships, and their resource commitment. Strategic managers are interested in the effects of management processes, decisions and actions at the enterprise level. Previous theories and research have suggested that Business Orientation is an essential component of the organisation's success. Many believed that to succeed upon entrance to a market, enterprises must have a strong business orientation (Zahra, 1993) [21]. This hypothesis remains largely unjustified, according to the view of Zahra (1993) [21], who found that there was an "empirical document on the impact of entrepreneurship on the financial efficiency of a company".

Strategic management scholars are interested in the relationship between important variables, namely the organisational structure, processes and characteristics of the business environment) and productivity. To effectively model the productivity – business orientation relationship, the role of random variables are considered. Prophylactic theories showed that similarity or compatibility between important variables, such as environment, structure and strategy, is critical to achieving optimal performance (Miller, 1988) [22]. Factors such as industrial and environmental variables, or the structural and management manners of an existing company that affect business orientation will be adjusted based on the specific case study:
3. The relationship between psychological capital and the business orientation after starting up

3.1. The relationship model

Based on the theories and related studies discussed above, the authors propose a model of the relationship between psychological capital (PsyCap) and Business Orientation. The model is presented in the following figure:
Description:

- H1a. Confidence has a positive impact on Business Outcome
- H1b. Hope has a positive impact on Business Outcome
- H1c. Optimism has a positive impact on Business Outcome
- H1d. Resiliency has a positive impact on Business Outcome
- H2a. Confidence has an impact on Business Orientation
- H2b. Hope has a positive impact on Business Orientation
- H2c. Optimism has a positive impact on Business Orientation
- H2d. Resiliency has a positive impact on Business Orientation
- H3. Business orientation has a positive impact on Business Outcome

These concepts are also expressed through unidirectional concepts (or research concepts).

The influence of intervening variables in terms of demographic criteria also needs to be examined. These variables are categorized according to: (1) experience from the family's business tradition (divided into two groups of formerly business and non-business families); (2) business sectors (divided into five groups: agriculture, processing industries, services, and trade); (3) pre-startup work experience (divided into four groups: no past work experience, 5 years or less; 6 to 10 years, and over 10 years of experience); (4) ethnicity (Kinh and others); (5) firm size by labour (divided into four groups: under 50; 51 to 100; 101 to 150; and 150 or more employees); (6) active age of the enterprise (divided into two groups: less than 3 years and 3 years or more); (7) qualification level (divided into three groups: high school and below, undergraduate, and graduate); (8) specialisation fields (divided into four groups: technical, economical, business administration, and other sectors); (9) gender (male and female); and (10) the type of business (private enterprises, limited liability companies, and joint stock companies). Demographic variables are considered as control variables.

4. Conclusion

Effective and systematic psychological intervention will create a solid foundation to improve employees’ performance outcome by promoting positive work engagement such as job satisfaction, organisational commitment and work participation. Thereafter, employees’ welfare will accordingly be improved. In fact, some companies do not understand their employees’ problems and always focus on making profit, which creates an apparent gap between employees and their supervisors. Therefore, regarding these issues, researchers as well as HR professionals should stand on behalf of interested employees and propose a training module on psychological capital on the basis that this factor has a major positive impact on the business outcome that it is necessary to continue monitoring regularly to achieve optimal productivity.

To improve psychological capital, businesses are moving towards creating a working environment that encourages employees to thrive themselves through motivating and rewarding, not only for efficient performance but also for their Organizational Citizenship Behaviours (OCB). OCB emerged as the “Good Soldier Syndrome” in the early 80s and later became an individual arbitrary behaviour (Organ, 1988), not directly or clearly recognized under the merit system. Official and integrated bonuses promote organizational performance (Turker, 2008) [23].

From the above arguments on psychological capital, based on the current context of Vietnam and the world, the authors found that the intermediary role of employee engagement in the relationship between psychological capital and organisational commitment within the companies is genuinely crucial, however, there
is currently no relevant articles in Vietnam exploring the feasible perspectives that contribute to an innovative and practical view to help businesses taking the right approach to their problems, to improve the mental life of workers as well as to improve their indigenous capacity.

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