Psychological Capital: Key to Understanding Entrepreneurial Stress?

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Abstract: Workplace stress has reached epidemic proportions, costing billions of dollars each year. Entrepreneurs are particularly subject to stress due to the inherent uncertainty involved in creating a new business. This article proposes the core construct of psychological capital (comprised of self-efficacy, hope, optimism, and resilience) may enhance our understanding of how individuals perceive stress. Moreover, the malleable nature of psychological capital offers opportunity for entrepreneurs to strengthen their own psychological capital and that of their employees. After providing the theoretical background of psychological capital and a discussion of proposed linkages to workplace stress, practical strategies for stress management within the entrepreneurial environment are provided.

Executive Summary: The World Health Organization has named workplace stress as a “worldwide epidemic” with no end in sight, as the pace and scope of change experienced by individuals continues to increase at a phenomenal rate. The pervasive effect of workplace stress is estimated to cost U.S. employers nearly $300 billion each year in absenteeism, turnover, reduced productivity, and medical costs, and a recent study noted 20% of payroll of a typical company goes toward dealing with stress-related problems (Riga, 2006). While individuals working in established organizations clearly face a myriad of challenges, those involved in the process of creating and establishing a new business venture arguably face even greater stress, due to the inherent uncertainties and pressures involved. Comparative studies illustrate how entrepreneurs often experience higher levels of workplace stress than managers (Buttner, 1992; Harris, Salstone, & Fraboni, 1999) and the founders’ ability to cope with stress can be a key factor in determining business sustainability (e.g., Brown & Salamon, 1987).

Extensive research has focused on identifying stressors (e.g., Colligan & Higgins, 2006), coping mechanisms, (e.g, Nelson & Sutton, 1990; Pearlin, 1982)
and ways that both individuals and organizations can manage workplace stress (e.g., Kram & Hall, 1989). Despite these efforts, a remedy to the worldwide stress epidemic remains elusive. Drawing from both positive psychology and positive organizational behavior, this article asserts psychological capital may be a key factor in understanding individual variances in stress. Consistent with the focus on entrepreneurial cognitions (Mitchell et al., 2002), recognition of psychological capital as a key cognitive resource may help us to better understand how individuals respond to stressors in the entrepreneurial environment. Further, human resource development (HRD) strategies aimed at managing the components of psychological capital may prove critical for reducing stress and enhancing the performance of both the entrepreneur and employees.

**The Emerging Positive Approach**

As organizations seek ways to help employees navigate the ever-changing work environment, recognition of the unique needs and strengths of those individual employees appears fundamental. The emerging positive organizational behavior approach (Luthans, 2002) offers that perspective and serves as a guiding framework for this article. Positive organizational behavior (POB) has been defined as “the study and application of positively oriented human resource strengths and psychological capacities that can be measured, developed, and effectively managed for performance improvement” (Luthans, 2002b:59). To be included as part of POB, the following criteria must be met: (1) positive, strengths-based, and relatively unique to the field of organizational behavior; (2) theory and research-based with valid measures; and (3) state-like and open to development and performance management.

To date, the positive psychological capacities associated with POB include self-efficacy, optimism, hope, and resilience. Combined, these capacities represent what has been termed psychological capital or PsyCap (see Luthans, Avolio, et al., 2007). This psychological capital has been defined as “an individual’s positive psychological state of development and is characterized by: (1) having confidence (self-efficacy) to take on and put in the necessary effort to succeed at challenging tasks; (2) making a positive attribution (optimism) about succeeding now and in the future; (3) persevering toward goals and, when necessary, redirecting paths to goals (hope) in order to succeed; and (4) when beset by problems and adversity, sustaining and bouncing back and even beyond (resilience) to attain success”. This operational definition differentiates the core construct of PsyCap from the widely recognized aspects of human capital (i.e., what you know in terms of knowledge, skills, abilities, and experience) and social capital (i.e., who you know, including your network of relationships) to a focus on who you are (Luthans, Avolio, et al., 2007). Research has supported the synergistic and higher order factor of PsyCap and demonstrates that PsyCap is open to human resource development for the return of performance improvement and competitive advantage (e.g., Avey et al., 2007; Luthans, et al., 2006; 2007).

As we strive to better understand the “people side” of entrepreneurship, recognition of psychological capital can prove valuable. As more fully outlined below, each component of PsyCap (self-efficacy, optimism, hope, and resilience) may impact an individual’s ability to
address workplace challenges. Even more critical for HRD, each element of PsyCap has also been demonstrated to be malleable due to its state-like properties (Bandura, 2000; Masten & Reed, 2002; Seligman, 1998; Snyder, 2000), indicating opportunity for training and development. Recent research also demonstrates a positive link between psychological capital and well-being (Avey, et al, 2009). This article urges examination of the relationship between psychological capital and stress in newer, smaller firms. Such exploration may indicate new ways to support entrepreneurs and their employees so that they can not only survive, but perhaps even thrive, within the increasingly demanding and stressful workplace.

Workplace Stress

A variety of factors are deemed contributors to the worldwide ‘workplace stress epidemic’, ranging from technological change and globalization pressures to toxic work environments and managerial bullying (Colligan & Higgins, 2006). While definitions of stress are equally varied, the classic definition: "stress occurs when an individual perceives that the demands of an external situation are beyond his or her perceived ability to cope with them" offered by preeminent stress researcher Richard S. Lazarus (1966) is arguably concise and relevant. Stress is a factor in everyone’s life, and can result in positive outcomes such as increased creativity (Le Fevre, et al., 2003; Seyle, 1974). Yet occupational stress management has been identified as a key challenge in the 21st century. The Wall Street Journal reported that one third of people surveyed considered quitting their jobs because of stress, and 14% actually did. Health problems, increased accidents, and burnout are associated with stressful work environments (Bernard & Krupat, 1994; Maudgalya et al., 2006) and job-related stress is linked to reduced levels of individual performance (Jamal, 1990); decreased organizational effectiveness (Motowildo et al., 1986) and soaring organizational health care costs (Manning, et al., 1996). Rapid changes in business technology and work procedures, heightened levels of job insecurity, economic downturns, and ever demanding customers make today’s workplace arguably far more stress-laden than just a decade ago. Studies at both Princeton (1997) and Yale (1997) indicate that a significant percentage of workers report they feel “quite a bit or extremely stressed at work” and the overwhelming majority believe workers now have more on-the-job stress than a generation ago. The notoriously long hours and hard work needed to launch a company can take an incredible toll. Seven day work weeks are often the norm, and many small business owners take little, if any, vacation time away from the business, making them vulnerable to burnout (e.g., Fenn, 2001). Reducing the detrimental impact and cost of occupational stress is now a major concern for both organizations and national economies (Le Fevre & Kolt, 2006; Sullivan & Bhagat, 1992). This article argues that psychological capital may provide both better understanding, as well as practical guidelines, for managing this stress epidemic.

Psychological Capital: Providing Strength for Stress

In their seminal publication, “Stress, Appraisal, and Coping”, Lazarus and Folkman (1984) argue that people suffer stress when they believe they lack the resources to deal with difficult events. They also noted the complex interaction between individuals and their surroundings.
Especially emphasized was the important role of cognitive processes and intervening variables (such as appraisal and coping) that may appear as “hidden factors” but which affect the outcome of potentially stressful events. Other researchers have encouraged consideration of additional factors that impact perceived stress, including personality dimensions (Costa & McCrae, 1990). A recent meta-analysis suggests such individual differences may help clarify how individuals perceive stressors as either a “challenge” or “hindrance” (Podsakoff, LePine & LePine, 2007). In their two-dimensional stressor framework, Podsakoff and colleagues (2007) found challenge stressors (such as high workload, time pressures, considerable responsibility) to be positively related to job satisfaction and commitment, while hindrance stressors (such as organizational politics and role ambiguity) had a negative relationship with job satisfaction and were positively linked to turnover intentions. They argue that job-related stress may be associated with both negative and positive work outcomes, and call for further research needed to explore how individual differences influence the way people perceive and react to workplace stress. This article addresses that call for exploration and asserts the positive psychological capacities of self-efficacy, optimism, hope, and resilience (which comprise the composite PsyCap construct) are also key factors to an enhanced understanding of how people discern, and respond to, workplace stress. Psychological capital may, in fact, be one of the critical resources that Lazarus and Folkman (1984) said were needed for individuals to cope with stressful events and conditions at work.

Lazarus (2003a) did caution researchers against placing false distinction between “positive” and “negative” human characteristics, arguing “you can’t separate them and make good sense” (2003a: 94). In his critique of positive psychology, Lazarus further asserts that stress and loss are inevitable aspects of life that often play a key role in developing the individual strengths needed to not only survive, but flourish. He argues tremendous value could be gained by more fully understanding how individuals might transcend some of those harsh realities, thus, reiterating his claim that to ignore stress and coping in favor of more “positive” human aspects would be shortsighted. However, as he challenges researchers to be cognizant of the need for strong measures and a balanced perspective, Lazarus (2003) also specifically identifies self-efficacy, optimism, hope, and resilience as relevant avenues of exploration for enhanced understanding of how humans adapt and cope. So while Lazarus may have expressed initial reservations regarding the positive psychology approach, the components of psychological capital address those same cognitive capacities he suggests as instrumental in coping with stress. More importantly in terms of human resource development, psychological capital has been demonstrated to be open to further development. This offers entrepreneurs the opportunity to help their employees (and themselves) build the critical resources demanded in today’s stress-filled workplace. Each component of that critical resource, psychological capital, is more fully described below.

**Self-efficacy** is based on Bandura’s (1997) social cognitive theory and defined as “an individual’s conviction about his or her abilities to mobilize the motivation, cognitive resources, and courses of action necessary to successfully execute a specific task within a given context” (Stajkovic & Luthans, 1998, p. 66). Efficacy beliefs impact how events are viewed, with people of low efficacy easily convinced that efforts to address difficult challenges are futile, while those with higher levels of self-efficacy are more likely to perceive challenges as surmountable given sufficient competencies and effort (Bandura, 2007). Self-efficacy perceptions appear central to
the intentions to launch a new venture (e.g., De Noble et al., 1999; Chen et al., 1998) and influence the leadership and performance of business ventures (Chandler & Jansen, 1992, 1997). Self-efficacy has been strongly linked with work performance (e.g., Bandura & Locke, 2003; Stajkovic & Luthans, 1998) and several approaches have been found successful in developing self-efficacy, including mastery experiences, modeling, social persuasion, and physiological/psychological arousal (Bandura, 2000). Consistent with Lazarus, Bandura (2007) argues that most human stress is governed by beliefs about our coping efficacy. For example, Matsui and Onglatco (1992) found perceptions of work overload to be impacted by perceived self-efficacy, with those women possessing a lower sense of efficacy to be more stressed by heavy work demands and responsibilities. Links between self-efficacy and workplace stress have also been demonstrated in recent studies, including workers in Hong Kong and Beijing (Siu et al., 2005) and female entrepreneurs (Hanzel, 1996).

Optimism, as included in psychological capital, is both realistic (Schneider, 2001) and flexible (Peterson, 2000). Seligman (1998) defines an optimistic explanatory style as one that attributes positive events to personal, permanent, and pervasive causes, and negative events to external, temporary, and situation-specific ones. Optimism as a facet of PsyCap is associated with a positive outcome outlook, but is not an unchecked process without realistic evaluation (Luthans, et al., 2007). Like self-efficacy, optimism has been shown to be amenable to development, using methods such as Schneider’s (2001) three step-process that includes leniency for the past, appreciation for the present, and opportunity-seeing for the future. For example, as individuals deal with inevitable challenges on the job, they need to be sensitive in distinguishing facts from perception and allow themselves the benefit of the doubt for misfortunes that were conceivably beyond their control. Schneider (2001) demonstrates that the utility of holding onto feelings of guilt or shame must be carefully assessed by workers, as those negative feelings could potentially limit their ability to appreciate and learn from the positives of a situation as well as hinder future risk-taking. In their analysis of “portfolio workers” (self-employed individuals who work for multiple clients), Totterdell, Wood and Wall (2006) found optimism to be a key moderating factor in the relationship between job characteristics and job strain. Those portfolio workers with higher levels of optimism were considered by Totterdell et al. (2006) to “be endowed with added protection” in the workplace (p. 80).

Hope is commonly used in every day language, but within the context of positive psychology, has a specific meaning with substantial theoretical support. Hope is defined as a “positive motivational state that is based on an interactively derived sense of successful (1) agency (goal-directed energy) and (2) pathways (planning to meet goals)” (Snyder, Irving, & Anderson, 1991, p. 287). Hope thus consists of both willpower (individuals’ agency, or determination to achieve their goals) and waypower thinking (being able to devise alternative pathways and contingency plans to achieve a goal when obstacles or blockages are faced). Research suggests that managers with higher levels of hope have correspondingly higher work unit performance as well as increased retention rates and more satisfied employees (Peterson & Luthans, 2002) and connections between hope, job satisfaction and organizational commitment are evident (e.g., Youssef & Luthans, 2007). In related research, Podsakoff and colleagues (2007) suggest that individuals with a high learning goal-orientation may be more likely to view workplace stressors as challenges with potential positive outcomes, rather than
defeating hindrances. Workplace hope training efforts are just beginning to emerge, with encouraging results (Luthans, Avey et al., 2006; 2007). Helping individuals focus on goal design, pathways generation, and overcoming obstacles can potentially help influence their perceptions of challenges versus hindrances in stress management.

Resilience, the “developable capacity to rebound or bounce back from adversity, conflict, failure, or even positive events, progress and increased responsibility” (Luthans, 2002a, p. 702) is arguably key to navigating a turbulent and demanding workplace, and essential for successful entrepreneurs. Career consultants urge individuals to be prepared for “wrenches in one’s career plan” and develop the ability to adjust, bounce back, and make transitions (Trunk, 2007).

While once believed to be a rare dispositional trait (Block, 1961), there is now considerable evidence that resilience is state-like and open to development (e.g., Coutu, 2002; Reivich & Shatte, 2002). Various methods have proven successful in building resilience, including use of positive emotions (Tugade & Fredrickson, 2004), altering the perceived level of risk or personal assets (Masten, 2001), and generally fostering self-enhancement and development. It is important to note that resilient people are characterized by a staunch view of reality (Coutu, 2002). Resiliency development efforts are similarly grounded in realistic assessments of setbacks and creation of viable coping strategies for those setbacks.

Research indicates resilient individuals are likely better equipped to deal with the stressors in a constantly changing workplace environment, as they are open to new experiences, flexible to changing demands, and show more emotional stability when faced with adversity (Tugade & Fredrickson, 2004). Emerging research also demonstrates a positive link between resilience and employee performance (Luthans, Avolio, et al., 2005; 2007); job satisfaction, organizational commitment, and work happiness (Youssef & Luthans, 2007). While empirical research measuring the impact of resiliency in new ventures is still limited, there are countless anecdotal stories describing how stressful experiences and initial defeat often fail to dissuade entrepreneurs from realizing their business dream.

Psychological Capital as a Core Construct

Each component of psychological capital, as described above, has been shown to have conceptual independence (Bandura, 1997; Luthans & Jensen, 2002; Luthans, Youssef & Avolio, 2007; Snyder, 2000, 2002) and empirically-based discriminant validity (Bryant & Cvengros, 2004; Carifio & Rhodes, 2002; Luthans, Avolio et al., 2007; Magaletta & Oliver, 1999; Youssef & Luthans, 2007). However, this research also indicates these four factors (self-efficacy, optimism, hope, and resilience) have a common underlying linkage representing a core second order positive resource called psychological capital (Luthans, Avolio et al., 2007).

Hobfoll (2002) provides conceptual support for this finding of psychological capital as a core construct through psychological resources theory that posits that some psychological constructs are best understood as representing a core, underlying construct. For example, such a theoretical view is also evident in other multidimensional organizational behavior construct models such as Judge and Bono’s (2001) core self evaluations or Spreitzer’s (1995) multi-factor empowerment construct. Law and colleagues (1998) have also prescribed the definition and application of multidimensional constructs that are proposed to fit the description of positive
psychological capital. For example, Bandura (2007) asserts that our daily realities are fraught with difficulties (i.e., stressors) and an optimistic, hopeful, and resilient sense of efficacy is needed for well-being. Importantly, psychological capital as a core construct comprised of the shared variance of each of the four components has been empirically found to predict performance and satisfaction better than any of the individual components (Avey, et al., 2009; Luthans, Avolio et al., 2007). Thus, the core construct of psychological capital is proposed as a key variable for explanation of how individuals in new organizations may vary in their perception of, and response to, workplace stress:

Research Proposition 1: Individuals’ psychological capital is negatively correlated to their perceived stress.

Research Proposition 2: The core construct of psychological capital will have a stronger relationship with perceived stress than any one of the four individual components (self-efficacy, optimism, hope, resilience).

So What? Managing Entrepreneurial Stress by Building Psychological Capital

What real value can be attained if future research determines that psychological capital is (as proposed) linked to perceived entrepreneurial stress? New businesses often lack the resources for employee assistance programs and other stress management programs commonly found in larger organizations. So entrepreneurs are often advised to manage their stress levels using physical tactics (such as eating a healthy diet) and behavioral tactics (such as relaxation techniques). Meta-analyses indicate that cognitive-behavioral approaches, which seek to change an individual’s cognitions and reinforce active coping skills, may be the most effective approach in reducing anxiety symptoms, enhancing coping strategies, and improving the perceived quality of work life (Van der Hek & Plomp, 1997; Van der Klink et al., 2001). Entrepreneurs (as well as service agencies who seek to support entrepreneurship) who recognize psychological capital as an important individual difference that can be developed through the cognitive-behavioral approaches demonstrated in PsyCap training interventions (e.g., Luthans, Avey et al., 2006; Luthans, Avey & Patera, 2007) may have an important new tool in their stress management toolkit.

PsyCap training interventions can be provided to the entrepreneur and/or employees by a facilitator in a traditional classroom environment or via web-based delivery (which is likely more feasible for those in a demanding new venture). These training interventions typically last from one to three hours depending on the number of participants and include activities designed to enhance the components of self-efficacy, optimism, hope, and resilience, as well as overall PsyCap (Luthans, Avey et al., 2006; Luthans, Avey & Patera, 2007; Luthans, Youssef & Avolio, 2007). For example, in the hope component, participants begin by delineating key goals they will use throughout the session. The facilitator then explains the need for (1) concrete end points to measure success; (2) an approach (rather than avoidance) framework which allows participants to work toward goal accomplishment as opposed to away from desired goals (e.g., move toward a quality target, rather than avoiding product rejects); and (3) using what Snyder (2000) calls a “stepping” method of identifying subgoals as a way to reap benefits of even small achievements. Then participants are instructed to generate multiple
pathways to the goal, and deliberate the realistic (and unrealistic) options identified. This is consistent with the stress coping approach described by Taylor et al. (1998), who describe mental simulation as providing a “window on the future” by enabling people to envision possibilities and craft plans for realizing those possibilities.

At the completion of this hope dimension of the training intervention, participants have taken ownership of a personally valuable and realistically challenging goal, are prepared for obstacles, and are ready to implement multiple contingency plans (i.e., alternate pathways to attain the goal). The facilitator and other participants serve as role models for the realistic optimism and efficacy-building processes which elicit these positive states and build the employee’s confidence to generate and implement plans to attain goals. As participants forecast “bad events” by anticipating potential obstacles (and then create alternative pathways to minimize their impact), the pessimist loses more options for expecting bad things to happen. The process of counteracting pessimism supports the development of realistic and optimistic expectations. Participants also have the opportunity to experience and model success, and social persuasion, arousal, and positive “self-talks” are used to further support efficacy and optimism development. Through visualization, participants gain “imaginal” task mastery experience to enhance their efficacy.

Finally, the PsyCap training intervention helps build resilience by having participants identify recent personal setbacks within their work domain, which might include major setbacks (such as losing a key customer) or more minor setbacks (such as missing a project deadline). After participants identify their immediate reactions to the identified setback, the facilitator elaborates on examples of a staunch view of reality and an ideal resilient process for framing a setback, consistent with the broaden and build positivity approach advocated by Fredrickson (2001). The realistic impact of the setback is then assessed by each participant, including what is in (and out of) their control, and options for taking action. Learned cognitive processes which perpetuate the development of both resiliency and realistic optimism are practiced by having participants anticipate and address additional setbacks.

The overall objective of the PsyCap intervention includes an integrated developmental strategy for all four PsyCap state-like capacities. While each component (self-efficacy, optimism, hope, and resilience) is intended to be affected by the design of the intervention, research to date indicates PsyCap is synergistic and the participants experience an overall result greater than the sum of the four components of the training (Luthans, Avey et al., 2006; Luthans, Avey & Patera, 2007). Future research is needed to more fully investigate possible links between such PsyCap training and stress reduction.

Conclusion

Research directed at entrepreneurial stress remains somewhat limited, often focused on family businesses and comparison of entrepreneurs and managers (e.g., Weigel & Weigel, 1990; Prottas & Thompson, 2006). The negative ramifications of entrepreneurial stress have been examined (Buttnner, 1992) and case studies offer insight into coping mechanisms (Akande, 1992). Eliminating workplace stress encountered by entrepreneurs and their founding employees is not a realistic, nor even desired, organizational outcome. However, helping entrepreneurs and their employees effectively manage stress is (and will continue to be) a
critical objective for effective human resource management. The proportion of U.S. workers reporting feeling “highly stressed” is definitely increasing (Speilberger & Vagg, 1999). A recent Gallup poll indicated 80 percent of workers report they feel stress on the job, and importantly about half say they need help in learning how to better manage that workplace stress. The time has come to recognize the potential power of developing psychological capital as a positive resource in managing stress. It is hoped that this article will stimulate the needed further theory building and research that will, in turn, help support those enterprising individuals who strive to create sustainable new ventures.

References


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