

A Review on Relationship Between Entrepreneurial and Psychological Capital Focusing on Indian Start-Ups

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Abstract

Positive psychology in general, and psychological capital in particular are recent concepts which are surging within the organizational studies. Psychological capital makes the workplace environment conducive to work and explains the core reason behind human behaviour and entrepreneur's success or failure, but this knowledge has not been systematically integrated to date. This review coalesces the proliferating body of psychological capital, explaining the positive relationship between psychological capital and newly formed ventures. The review suggests that the success of an entrepreneur depends upon his psychological capital which is human oriented strength that goes beyond the traditional forms of capital. Positive psychological capital plays a crucial role in not only starting the new venture but also in facing the short run failures which are generally inevitable in today's globalized work environment. Exploring and investing in the field of positive psychological capital can be beneficial for developing nations like India. Based on analysis of current scenario of startup ecosystem in India, it is proposed that psychological capital is one such factor that can influence entrepreneurial success and business venture initiatives. The proposed theory forms scope for future investigation. Further, practical implications for industry, academia, government and researchers are discussed.

Keywords: *Entrepreneurial Capital, Entrepreneurship, Psychological capital, Startups.*

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Introduction

Evidence supports positive relationship between human oriented psychological strengths and entrepreneurial success (Przepiorka, 2017; Baluku et al., 2016; Machmud and Ahmen, 2019; Hmieleski and Carr, 2008; Drnovsek et al., 2012). The current paper strengthens the existing literature by examining the contribution of entrepreneurs' psychological capital in promoting the entrepreneurial behaviour among the start-ups. Past studies have identified human capital, economic capital and social capital as antecedents of entrepreneurial success. The current review identifies psychological capital as a new antecedent that can be a value addition to the existing knowledge. Entrepreneurial success remains the root cause for any country's economic growth and development (OECD, 2018). It results in creation of new jobs, reduction in unemployment rate, increase in GDP, improvement in technology and innovation leading to modernisation and improvement in skills and knowledge of workers (Przepiorka, 2017; Baluku et al., 2016). Entrepreneurs have focused almost exclusively on the external factors that they possess leaving the essential internal psychological factors aside (OECD, 2017). In current review the focus is on the internal human oriented strengths. Considering Indian context and after critically analysing the present day startup position in India, it is proposed that low level of psychological capital can be one of the possible reasons behind less number of people taking initiative to start a new business venture and become entrepreneurs in spite of available resources. Unlike prior trait studies entrepreneurial psychological capital tends to focus on state – like developable characteristics. Further, the theoretical and practical implications for researchers, entrepreneurs and other entities to develop psychological capital and promote entrepreneurship are discussed

Background

The term 'Entrepreneurship' as defined in Merriam-Webster online dictionary relates to organising, managing and assuming the risks of a business enterprise. Different authors have focussed on different aspects of entrepreneurship while defining it. Some researchers define it as creation of a new firm (Hart, 2003) while others define it as a venture undertaking innovative activity (Schumpeter, 1961). Entrepreneur has been defined as the person who manages and coordinates production function and undertakes the risks involved in the business (Schumpeter, 1961). Entrepreneurship is not only related to starting of new firms but to existing businesses also (Shane and Venkataraman, 2000). The term is not confined to undertaking a business activity by an individual but also includes 'Corporate Entrepreneurship' (Antoncic and Hisrich, 2001).

Entrepreneurial Ecosystem in India

By 2020, India is expected to experience a drastic increase in the youth population which will increase the unemployment rate within the country. According to the OECD (2017) survey, India is currently unable to absorb even half of the new entrants. More than 30% youth are currently unemployed (OECD, 2017). But it is also expected that India can generate 150-200 million jobs by 2020 if India's small- medium enterprises will perform and contribute the way they did in the past. India has one of the largest startup ecosystem which includes approximately 4750 start-ups. Though there are number of successful India based start-ups' which tends to set example for others such as Paytm, Snapdeal, OLA cab, Zomato, Flipkart, Inmobi etc. still they comprise of hardly 10% of start-ups' whereas 90% tends to fail (IBV, 2016).

Entrepreneurial qualities and risk taking aptitude existed among various Indian communities such as marwaries, gujaraties, parsi etc. since ages. The relationship between entrepreneur's inner strengths (motivation) and entrepreneurial activities is well reflected in the famous 1960s' "Kakinada experiment". The famous "Kakinada experiment" in the districts of Kakinada, Bombay and Hyderabad by Prof. McClelland in 1960's suggests behavioural training (Motivation & achievement) can develop start-up initiatives in India even among uneducated and backward masses. In late 1960's behavioural training programs among potential entrepreneurs became the key feature of "Entrepreneur Development program" initiated by Gujarat Industrial Corporation. Looking at the success of Gujarat program such programs were initiated by the various Indian states such as Jammu & Kashmir, Hyderabad, Patna, Delhi, Maharashtra, Bhopal etc. For promoting such entrepreneurial development based training programs, Government of India encouraged Technical Consultancy Organisation by providing them financial support through various apex institutes such as ICICI bank, Industrial Financial Corporation of India, State Bank of India, Industrial Development Bank of India etc.

Entrepreneurs in India, a developing economy, do not have scarcity of Financial, Human and Social Capital. Adequate support to enhance availability of Financial and Social Capital for the entrepreneurs is being provided by the Government of India by launching 'startup India' action plan this was started recently in January 2016, and it later to provide for various benefits available to startups that include simplification of regulatory compliance procedures by allowing for self-certification and removing the requirement of inspection in case of 6 labour laws and 3 environmental laws that will reduce regulatory burden and lead to ease of doing business, providing handholding support to startups by

operationalization of ‘Startup India Hub’, which provides a platform to startups to connect with other stakeholders of startup ecosystem leading to improvement in Social Capital. It also provides a learning platform to make startups aware about all the necessary steps to be taken for starting a new venture, providing legal support by fast track examination of patents at low cost, relaxing norms of prior experience/turnover for public procurement from startups, and exemption from requirement of submitting Earnest Money Deposit while filling Government Tenders. This ensuring winding up of startups in case of insolvency in 90 days, providing funding support by creating a Fund of Funds of an amount of Rs. 10000 crore, increasing flow of credit to startups by creating Credit Guarantee Fund of INR 500 crore, providing tax exemption on profits earned by startups for a period of 3 years, capital gains and premium on issue of shares and setting up more incubators, research parks and innovation centres to promote startups and new upcoming entrepreneurs (DIPP, 2016).

India also has a talented, educated, knowledgeable and skilled pool of people who are currently unemployed which contributes to human capital available to organisations. 10% of persons who are more than 15 years old and have graduate and post graduate qualification were unemployed in the year 2015-16 which amounts to around 3.7 million (Labour Bureau, 2016; ORGI, 2011). However, despite the availability of all required resources and the support being provided by Government, a small number of people have developed the courage to start a new venture and assume the risks and uncertainties involved in it. Only 1749 startups have come forward to establish a new business venture since the launch of ‘startup India’ initiative till 17th August, 2017.

The number of startups that fail and are not able to survive for a long period of time is also quite large in India. In a recent survey undertaken by IBM Institute for Business Value in collaboration with Oxford Economics in India in 2016, it was found that 90% of the startups fail in the first 5 years of incorporation and are not able to survive for a long period of time. (IBV, 2016)

Psychological Capital and Startup Eco-system

Traditional studies focus on trait-like cognitive models like big five personality traits. Past studies have identified human capital (such as skills, knowledge etc.), economic capital (such as resources, funds etc.) and social capital (such as links and networking) as antecedents of start-ups’ success. The current review identifies psychological capital (Such as hope, resilience etc.) as a new antecedent that can be a value addition to the existing knowledge. Starting a business is not an easy task, it demands huge time and energy. An

entrepreneur requires financial (funds), human (knowledge and skills) and social capital (network and connections among people) for success of a business (Dunn and Holtz-Eakin, 2000; Davidsson and Honig 2003; Unger et al. 2011). The Human capital gained recognition after the famous Hawthorne experiment by Elton Mayo. However, with time, the needs of an organization have changed especially with globalisation and after various unfortunate events like world crises in 2007-2008, Euro zone crises in 2009-2010 etc. The present day scenario poses a big challenge in front of developing nations particularly India where in spite of favourable policies adopted by Government to nurture startup ecosystem, initiatives from entrepreneurs' end is not seen. Luthans (2002) felt that the field of Organisational Behaviour has become stagnant and the traditional literature of human resource management is not sufficient to explain the reason behind such behaviour. The psychological states can affect entrepreneurs' perception towards entrepreneurial activities.

It is worth noting that with the given tangible resources, some startups succeed while others fail and surprisingly, within those who fail, some “bounce back” and shine while others quit (Rhoads, 2016, Headd, 2003). One theory that explains this, is the presence of psychological capital which influences entrepreneurial behaviour and performance. Psychological capital also known as PsyCap refers to the micro concept which includes cognitive human oriented positive strengths within an individual. It is a strength that can be learned, developed, and measured (Luthans, 2002; Luthans and Youssef, 2004). Psychological capital being state-like is open

PsyCap refers to, “an individual's positive psychological state of development and is characterized by having confidence (self-efficacy) to take on and putting necessary efforts in order to succeed at the challenging tasks, having a positive outlook (optimism) about succeeding now and in the future, persevering towards goal (hope) and when beset by problems, adversity and beyond, having the required courage and fortitude to tackle and return back (resilience)” (Luthans and Youssef, 2004). Several researchers have attempted to study and investigate PsyCap both conceptually and empirically (Youssef-Morgan and Luthans, 2013). The four components of PsyCap have been investigated individually and collectively to explain its impact on employees' performance (Luthans et al., 2007; Luthans and Youssef, 2007).

Components of Psychological Capital

Psychological capital comprises of four components namely hope, efficacy, optimism and resilience. Hope is considered as a bi-dimensional construct which is also

referred to “empowering way of thinking” (Snyder, 2002). It consist of two components namely agency (willpower) and pathways (Snyder, 2000). “Agency” refers to the individual’s desire to fulfil the goal which is fostered by the individual’s inner motivation that encourages him, also known as the “willpower” and “Pathways” is the capacity to proactively generate alternative paths to accomplish the goals in the given circumstances (Snyder, 2000). According to Stajkovic and Luthans (1998), Self-efficacy in the workplace is “one’s confidence about one’s abilities to mobilize the motivation needed to successfully execute the given task in the given organization context”. Efficacy is subdivided in two parts: self-efficacy and general efficacy. The specific self-efficacy as defined in Psycap is based on social cognitive theory of Bandura (1997). Initial traces of Optimism can be seen in the work of Peale (1956). Learned Optimism is based on the Explanatory style (Seligman, 1998) which explains how individuals treat any event depending upon their outlook that could vary from highly optimistic to highly pessimistic, though majority falls somewhere in the middle of the continuum (Carver et al., 2010). Over a period of time individuals tend to show variations in their level of optimism (Segerstrom, 2007).

Literature supports the Seligman’s explanatory style which includes stable/temporary, global/specific and internal/external explanation to describe a particular event (Seligman & Schulman, 1986). Optimism could be either “big” such as “Poverty will be removed” or “little” such as “I will do regular exercise”. (Peterson, 2000). Resilience is the ability within an individual to maintain stability in their functioning at psychological and emotional level over the period of time after the failure (Leipold and Greve, 2009). Success without failure reduces knowledge and learning. Business start-ups often goes through a number of bad phases before they become successful. Many entrepreneurs fail in the initial few years and are not able to survive for a long period of time (Rhoads, 2016; Headd, 2003). Resilience refers to the human oriented strength that help an individual or entrepreneur to “bounce back” from an unfortunate event towards a positive change. The Resilience has its roots in child psychopathology and partly can also be seen in the work of Masten (2001). Though resilience is mainly studied in the clinical studies but recently with emergence of positive psychology in the workplace it has gained the interest of many OB scholars.

Relationship between Psychological Capital and Entrepreneurial Capital

Entrepreneurs’ PsyCap refers to the entrepreneurs who possess high level of human oriented strengths that result in an entrepreneur’s success. Both empirical (Przepiorka, 2017; Baluku et al., 2016; Hmieleski and Carr, 2008; Drnovšek et al., 2012; Juhdi and

Hamid, 2015) and theoretical (Yousaf et al., 2015) evidence show that Positive PsyCap can foster an entrepreneur's success. In a study conducted in Uganda and Kenya using a sample of 228 self-employed entrepreneurs it was found that psychological capital contributes to the entrepreneurial outcomes (Baluku, Kikooma, Bantu and Otto, 2018). It is the positive human oriented strength that foster success after failure which remains inevitable in any business particularly in case of startups (Rhoads, 2016). In a study conducted in Poland, both potential entrepreneurs in pre-launch stage and actual entrepreneurs in post-launch stage were taken and examined and it was found that hope plays a crucial role in their success (Przepiorka, 2017). An entrepreneur with high PsyCap tends to show growth intention and performance (Yousaf et al., 2015). In another US based sample it was found that PsyCap fosters flexible thinking and strategic direction which leads to the growth of ventures (Drnovšek et al., 2012). Similar results in a sample from Malaysia confirmed the positive relation between entrepreneurs' PsyCap and their success. The presence of all the four constructs of PsyCap are important for the desired results (Juhdi and Hamid, 2015). In fact, only those students who possess high PsyCap show an intention to start a new venture (Contreras et al., 2017). Performance of new ventures is affected by entrepreneurs' PsyCap that is often left aside (Hmieleski and Carr, 2008). Also, from developing nations' perspective where startups play a crucial role it was seen that apart from tangible resources PsyCap plays an important role in influencing entrepreneurial behavior and success (Baluku et al., 2016).

Implications

This paper has theoretical as well as practical implications. In terms of theoretical implication, PsyCap should be considered as a key resource apart from traditional forms of capital while conceptualizing and developing any model or framework of entrepreneurship. The definition of resources should be comprehensive and exhaustive that includes both tangible and intangible resources within its domain (Juhdi and Hamid, 2015). Entrepreneurs should incorporate psychological aspect in SWOT analysis framework i.e. while undertaking SWOT analysis level of PsyCap should also be considered.

The practical implications are for entrepreneurs, Government and Policy makers, Career counsellors, Psychologists and Educational Institutions. Entrepreneurs should recognize that PsyCap is important for venture growth and success and work for developing and nurturing this trait by seeking opportunities to strengthen it and should make deliberate use of it while running business. They should view failure as a valuable resource and learn from the failure rather than quitting and treating it as an end. Government, Policymakers,

Educational Institutions, Psychologists and Career Counsellors should take initiatives aimed at developing PsyCap in potential and existing entrepreneurs by organizing training sessions and seminars, meeting entrepreneurs personally and developing their will power and confidence to start and successfully run a company and face adversities experienced while running the company. Government and Policymakers should include criteria of psychological testing of entrepreneurs while framing entrepreneurship support programs and policies. Educational Institutions and Universities should frame the content of syllabus of various courses in such a way so as to improve the PsyCap of students and increase their intention to become future entrepreneurs. They should also introduce entrepreneurship programs and courses for students (Rhoads, 2016; Prezepiorka, 2017; Baluku et al., 2016; Hmieleski and Carr, 2008; Contreras et al., 2017; Juhdi and Hamid, 2015; Drnovsek et al., 2012; Yousaf et al., 2015).

Conclusion and Scope for Future Research

This paper highlights the importance of PsyCap beyond traditional forms of capital viz. Financial, Human and Social Capital to foster entrepreneurship. Though tangible resources are necessary but the role of intangible resources is equally important and hence can not be ignored. The current review indicates how different components of PsyCap interact to promote entrepreneurial intention, entrepreneurial success and venture growth at different stages of entrepreneurial process. The theoretical and practical implications for researchers, entrepreneurs, Government and Policymakers, Psychologists, Career Counsellors, Universities and Educational Institutions to strengthen and nurture this trait among potential and existing entrepreneurs have been recommended. This is particularly relevant in the context of developing economies like India where individuals are not coming forward to establish a new venture despite being provided adequate support by the government. Further, it needs empirical justification and hence provides a foundation for future research. The role of PsyCap in entrepreneurial success and venture growth has been explained in this paper from a theoretical point of view which provides a conceptual framework. However, for more concrete steps and actions to foster entrepreneurial success and survival after venture's failure, empirical justification is needed. There is a need to measure the level of PsyCap of both potential and existing entrepreneurs to investigate the role of PsyCap in startup initiatives and entrepreneurial success. This is particularly relevant in the Indian context considering the low initiative being taken by people to start a new venture despite being provided adequate support by the Government and the availability of required resources for starting and running the business (DIPP, 2016; ORGI, 2011;

Labour Bureau, 2016). Also, considering the large number of startups that fail to survive for a long period of time in India (IBV, 2016), it is critical to empirically examine whether lack of PsyCap is the factor behind their failure which should be undertaken through future research.

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