

THE EFFECT OF PSYCHOLOGICAL CAPITAL ON ENTREPRENEURIAL SUCCESS IN SOUTH AFRICA

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ABSTRACT

The purpose of this study was to examine the nexus between psychological capital and entrepreneurial success in South Africa. The study utilized a quantitative research design. A self-administered questionnaire was used to collect data in a survey. 250 entrepreneurs were considered as the sample of the study. The purposive sampling technique was used since it was difficult to find a sampling frame for the participants. The Cronbach's Alpha was used to measure reliability. Data was analyzed using descriptive statistics and regression analysis. The findings showed that there is a significant and positive relationship between psychological capital and financial performance of the entrepreneurial venture. Also, a significant and positive relationship was established between psychological capital and entrepreneurial wellbeing. The implication of the above findings is that psychological capital is a key determinant of entrepreneurial success. Thus, entrepreneurs were recommended to engage in activities which can boost their psychological capital.

Keywords: Entrepreneurship, Entrepreneurial Success, New Venture, Psychological Capital, South Africa.

INTRODUCTION

Small business creation through entrepreneurship has become a well discussed topic globally. The view that entrepreneurs are the economic drivers is commonly accepted (Stoica, Roman & Rusu, 2020). Essentially, entrepreneurial businesses constitute majority of all business activities in all progressive economies (Rotar, Pamić & Bojnec, 2019). That suffice to say that a strategy which prioritizes entrepreneurship development is expected to solve developmental challenges confronting developing countries such as South Africa. Entrepreneurial ventures advance innovation which helps to unleash new technology. The Global Competitiveness Report (2019) also identify innovation as one of the key factors which can enhance a country's competitiveness. Ideally, the view that entrepreneurs create economic value in terms local economic development, closing the gap between the rich and the poor through job creation is greatly acknowledged (Ribeiro-Soriano, 2017). According to the International Labour Organization (2019), small businesses create sustainable employment and they help employ people with low skills. This means South Africa can benefit immensely from entrepreneurial activities. Hence, any plan to revive the economy should include entrepreneurs as one of the crucial drivers lest the plans become but an elusive agenda. With the coming of the Covid-19 pandemic, the government has high hopes on small businesses and entrepreneurs to reignite economic activities in the country. To make progress towards attaining the objectives of the National Development Plan 2030 and also to contribute to the United Nations 2017 sustainable development goals specifically, goal 1: no poverty, goal 2: zero hunger, goal 8: decent work and economic growth, goal 9: industry, innovation and infrastructure and goal 10: reduced inequality, the author of this study submit that policy makers ought to acknowledge and support the growth of entrepreneurial businesses.

Nevertheless, the discontinuance rate of small businesses is still a cause for concern in South Africa. This calls for sustainable solutions towards revitalizing this sector. Other studies have focused on external factors such as lack of capital (Bouazza, Ardjouman & Abada, 2015), formal operating premises, the turbulent business environment (corruption and lack of

managerial skills (Aigbavboa & Thwala, 2014) as key factors hindering entrepreneurship development in South Africa. Less is known about the entrepreneur him/herself. The author of this study believes that the entrepreneur should be the first point of focus before considering the external environment and other contextual factors. Hence, this study argues that entrepreneurs can benefit immensely by excelling in developing psychological capital. Interestingly, Luthans and Youssef-Morgan (2017) also agree that psychological capital can be developed to the level desired by the entrepreneur. Hence, entrepreneurs without strong psychological capital can learn it gradually given their quest to improve the sustainability and longevity of their businesses. Psychological capital is a construct that have proved to steer sustainable businesses (Yousaf, Hizam-Hanafiah & Usman, 2015). In the context of South Africa where business failure is at the apex, psychological capital can help entrepreneurs cope with the demands of running a business and remaining afloat even in the face of a plethora of hurdles (Luthans & Youssef-Morgan, 2017). It is also pertinent to understand entrepreneurial success from both the objective and subjective perspective as recommended by Baron, et al., (2016). Nevertheless, a study of that nature is lacking in existing studies in South Africa. Hence, this study this study tries to generate new empirical evidence by answering the key objectives such as; to determine the relationship between psychological capital and the performance of entrepreneurial ventures in South Africa as well as to investigate the relationship between psychological capital and entrepreneurial wellbeing among entrepreneurs in South Africa.

LITERATURE REVIEW

Theoretical Framework: Psychological Capital Theory

The concept of psychological capital is derived from positive psychology. The concept of psychological capital is linked to Luthans, Luthans & Luthans (2004). Psychological capital is defined as personal resources inside of individuals (Bouzari & Karatepe, 2020). Luthans and Youssef-Morgan (2017) describe psychological capital as the “HERO within.” This suffice to say that psychological capital builds entrepreneurs from within and make them future proof. Other studies submit that the power of psychological capital over other financial capital or human capital lies in its ability to positively shape and condition the mental functioning of the entrepreneur (Baluku et al., 2018). Luthans & Youssef-Morgan (2017) concur and explain that psychological capital positively influences the attitude of entrepreneurs towards success. The concept of psychological capital is measured using; hope, optimism, self-efficacy and resiliency.

Hope

According to Luthans (2012), hope refers to the ability to set goals and commit to the attainment thereof. Ideally, it describes the ability of an individual to develop plans around their goals and consistently act on them (Luthans et al., 2004). This suffice to say that being hopeful helps one to follow a predetermined path which enhances the chances of succeeding in any endeavor taken. Synthesizing this line of thought brought the understanding that hope crucially revolves around the ability to formulate goals and implementation thereof (Baluku et al., 2018). In this study, hope is defined as the entrepreneur’s ability to set personal and organisational goals and consistently act towards attaining such predetermined goals.

Optimism

Optimism can be defined as the ability of an individual perceive the future outcomes positively by ascertaining a high probability chance of success (Baluku et al., 2018). This means that any challenge which can confront the entrepreneur cannot derail them as they have positive energy. According to Cavus & Gokcen (2015), psychological capital is a cognitive activity

which enables individuals to be less stressful of future events as they could have hoped for better outcomes. This is supported by Keles (2011) who submits that optimistic individuals have expectations of the future and they always aim high. Ideally, optimistic individuals tend to be active problem solvers and also successfully tap into opportunities regardless of the prevailing adversities. This is one of the outstanding characteristics of all successful entrepreneurs.

Self-efficacy

The concept of self-efficacy is also linked to the work of Bandura (1977). Baluku, et al., (2018) define self-efficacy as an individual's faith in his or her capacity to perform successfully across a variety of diverse situations. Luthans and Youssef-Morgan (2017) are of the view that self-efficacy is an expression of one's belief in their own abilities. The implication of this description of efficacy is that such individuals take charge of events and circumstances around them and pave out future pathways themselves. Individuals who excel in self-efficacy tend to become successful in setting up their own businesses (Bullough et al., 2014). Believing in one's self is a crucial step towards surviving in the entrepreneurial space where entrepreneurs are often confronted with a plethora of challenges.

Resilience

Resilience is defined as the psychological capability which allows one to navigate through unfavourable circumstances (Cavus & Gokcen, 2015). This suffices to say that resilient individuals are capable of bouncing back swiftly from any adversities. Entrepreneurs are forced to operate in turbulent business environments which may pose serious challenges towards their business success. Thus, being resilient is a crucial resource as it assists entrepreneurs to cope with stress, workload and avoid burnout while they remain afloat in the market. In this study resiliency is defined as the entrepreneur's tenacity to withstand the external pressure and remain committed to their venture's success.

According to Luthans & Youssef-Morgan (2017), the four elements of psychological capital do not work in isolation. Rather, each of these variables influences each other which collectively enhances the psychological capital construct (Feldman & Kubota, 2015). Thus, it is beneficial to combine the factors for a well-developed construct (Baluku et al., 2018). It is crucial to note that the psychological capital theory has gained momentum recently and have been widely adopted by studies linking it to entrepreneurial success in several regions (Gao, Wu, Wang & Zhao, 2020). For that reason, the author of this study believes that the psychological capital is a great theoretical framework for this study.

ENTREPRENEURIAL SUCCESS

According to Juhdi, Hamid, Rizal & Juhdi (2015), there is no universally accepted definition of entrepreneurial success. This is because scholars tend to use different measures depending on the context of their study. In this study, entrepreneurial success was measured using the entrepreneur's success at business level and his/her individual success (entrepreneurial wellbeing).

Enterprise Performance

It is pertinent to assess the performance of the business overtime. This can help the entrepreneur to understand whether the business is performing well, underperforming or in crisis. Such crucial information is required for decision making regarding strategic formulation and direction. This study adopted the financial performance indicators to measure performance. This is because these are relatively easier for entrepreneurs to report (Yousaf et al., 2015).

Financial performance measures a business' financial health. The financial health of a business also warns managers of the probability of experiencing financial risk in advance so that measures to mitigate such can be adopted. Furthermore, the financial health of a business can enable managers to identify areas of strength where they can leverage on to create a sustainable competitive advantage (Deutsch & Pintér, 2016). Khudhair, Norwani, Ahmed & Aljajawy (2019) define financial performance as "a subjective assessment on how well a firm can utilize the asset based on its primary business to generate the revenues."

Financial performance is linked to the profit maximization goal. The profit maximization goal remains crucial for the survival of a firm. Positive financial performance enables a firm to be a going concern. The basis of the argument is supported by the fact that a firm must meet its financial obligations such as paying creditors, securing raw materials, paying its employees and for expansion purposes. As such, managers need to continuously measure and report on financial performance. Continuously measuring financial performance can allow managers to quickly identify possible red flags and eliminate them to enhance long term financial performance. Good finances are the lifeblood of a firm. Poor financial performance can weaken the firm's competitiveness exposing it to rivals in the industry. To that effect, once a market share is lost, it is difficult to regain it. More importantly, it is only through positive financial performance that equity providers are rewarded. It follows that shareholders are encouraged to invest more in the business if the financial performance is positive. This assures shareholders of higher returns in terms of dividends (Epstein & Buhovac, 2014; Kurniaty et al., 2018; Osazefua, 2019).

Financial performance data is used as one of the inputs in strategy formulation. In most cases, financial performance information helps the management to identify their strengths and weaknesses financially. This provides a good starting point to formulate new strategies to improve the longevity of the business. A firm should leverage on its strengths and continuously improve on its weaknesses to remain profitable. Without financial performance information, it is not feasible to implement corporate strategy. Financial performance indicators also make it easy to evaluate progress in terms of attainment of objectives as set out in the strategic planning session (Pandian & Narendran, 2015; Chashmi & Fadaee, 2016; Kurniaty et al., 2018; Akers, 2019).

Entrepreneurial Wellbeing

According to Wiklund, Nikolaev, Shir, Foo & Bradley (2019), entrepreneurial wellbeing is defined as "the experience of satisfaction, positive affect, infrequent negative affect, and psychological functioning in relation to developing, starting, growing, and running an entrepreneurial venture." The subjective measure of performance especially regarding entrepreneurial success has been neglected (Juhdi et al., 2015). It is also crucial to understand how entrepreneurs derive meaning of life and satisfaction from running their businesses. This is because, "from the individual entrepreneurs' perspectives, their concerns nowadays are much more about the meaningfulness of life rather than growth, financial performance, and wealth creation alone" (Juhdi et al., 2015:110). Hence, understanding the success stories of entrepreneurs is crucial as elements such as wellbeing may have an impact even on the financial performance. Other entrepreneurs are more driven by career development than financial performance. Thus, understanding other subjective measures of entrepreneurial success such as wellbeing of the entrepreneur becomes important (Baluku et al., 2016). In this case, some entrepreneurs could have attained other aspects of life but still lack fulfilment of starting and running a business of their own. Hence, the gratification that comes with running a business contribute to their wellbeing. Other studies indicate that entrepreneurship is all about self-identification, a phenomenon which is difficult to derive from paid employment.

HYPOTHESIS DEVELOPMENT

Relationship between Psychological Capital and Entrepreneurial Venture Performance

According to Baluku, et al., (2018), psychological capital positively predicts entrepreneurial success. This is because each element of psychological capital powers the entrepreneur to overcome any challenge as the business evolves (Baluku et al., 2018). Essentially, psychological capital can enhance both objective and subjective measures of performance (Juhdi et al., 2015). This is because the psychological capital strengthens the mental capacities of entrepreneurs and make them to persevere even in turbulent environments (Ma, Barbe & Zhang, 2018). Essentially, psychological capital enables entrepreneurs to be opportunity alert as they always have a positive evaluation of the business environment (Wiklund et al., 2019). According to Tang (2020), psychological capital enables individuals to tap into creativity and innovation which enhances performance by triggering a sustained competitive advantage which is difficult to duplicate by competitors. Thus, this may result in sustained profitability of the venture. Consistent with the Resource Based View, psychological capital bolsters the entrepreneurs' internal resources which enables them to attain business success. Another strand of literature supports the view that psychological capital enhances financial performance. A study by Fatoki (2018) established a positive and significant relationship between resilience and financial performance among SMEs in South Africa. A study by Juhdi, et al., (2015) also investigated the effect of psychological capital on entrepreneurial success. The study used profitability to objectively measure entrepreneurial success. Interestingly, the study established a positive and significant relationship between psychological capital and enterprise performance. Based on the above synthesis of empirical evidence, this study proposes that:

Ha1: There is a significant positive relationship between psychological capital and financial performance of entrepreneurial ventures in South Africa.

Relationship between Psychological Capital and Entrepreneurial Wellbeing

A meta-analysis study by Avey, Reichard, Luthans & Mhatre (2011) found that psychological capital positively influences subjective wellbeing. Similarly, Baron, et al., (2016) also established a significant positive relationship between psychological capital and perceived wellbeing of entrepreneurs. The study reported that psychological capital enables entrepreneurs to lead a less stressful life which enhances their wellbeing. According to Juhdi, et al., (2015), psychological capital enhances satisfaction with one's work and achievement. A study by Roche, Haar & Luthans (2014) also investigated the effect of psychological capital on wellbeing. Interestingly, the study reported that psychological capital positively wellbeing. Existing literature submit the view that psychological capital positively predicts wellbeing in various context. For instance, a study by Gautam, Ningthoujam & Singh (2019) found that psychological capital also predicted the wellbeing of postgraduate students. Ideally, the author of this study strongly believes that psychological capital factors such as optimism and self-efficacy can help reduce stress levels and burnout among entrepreneurs which enhances their satisfaction and happiness towards running their own ventures. On that backdrop, the hypothesis is stated as;

Ha2: There is a significant positive relationship between psychological capital and perceived wellbeing of entrepreneurs in South Africa

MATERIAL AND METHODS

The study utilized a quantitative research method. A self-administered questionnaire was used to collect data in a survey. 250 entrepreneurs were considered as the sample of the study. The questionnaire was divided into 3 sections. The first section covered demographic information while the second section covered questions related to psychological capital and the last section covered questions related to performance. The purposive sampling technique was used since it was difficult to find a sampling frame for the participants. This means the participants were selected based on the willingness to participate and also their knowledge about the subject. The researcher also introduced a strict inclusion criteria such as; (1) the entrepreneurial venture should have operated for more than 5 years, (2) the entrepreneurial venture is registered and is regarded as an active entity with the Companies and Intellectual Property Commission (CIPC) in South Africa and (3) the entrepreneurial venture should be employing more than 5 employees. The above criteria was deemed necessary as it could determine the entrepreneur's understanding of psychological capital and how they could have leveraged on it to sustain their businesses. Psychological capital was measured using four factors which are; hope, optimism, self-efficacy and resilience. The psychological capital questionnaire was adopted from a study by Luthans, Avolio, Avey & Norman (2007). The questionnaire consists of 24 question items with 6 questions measuring each of the psychological capital factors such as hope, optimism, self-efficacy and resilience. These questions were scored on a 5-point Likert scale which ranged from "strongly disagree to strongly agree." The questionnaire was adopted following other similar studies such as Baluku, et al., (2018); Lupşa & Vîrgă (2018) for consistency. Financial performance was measured using profitability measures such as return on equity, return on assets and return on sales. According to Yousaf, et al., (2015) it is advisable to use financial performance as it is relatively easier for entrepreneurs to record and comprehend. Financial performance was adopted following similar studies such as Yousaf, et al., (2015); Juhdi, et al., (2015) for consistency. Subjective wellbeing was measured using the psychological and subjective well-being questionnaire following a similar study by Baluku, et al., (2018). The questionnaire consists of 2 items which measure satisfaction and happiness. The Cronbach's Alpha was used to measure reliability. Data was analyzed using descriptive statistics and regression analysis.

RESULTS

Demographic Characteristics

Variables	Category	Frequency	Percent (%)
Gender	Male	144	57.60%
	Female	106	42.40%
Age	Below 20 years	0	0%
	20-30 years	65	26%
	31-40 years	123	49.20%
	41-50 years	27	10.80%
	Above 50 years	35	14%
Legal entity	Private company	154	61.60%
	Sole trader	67	26.80%
	Close corporation	19	7.60%
	Partnership	10	4%
Business sector	Retail	113	45.20%

	Services	89	35.60%
	Manufacturing	23	9.20%
	Construction	25	10%

Table 1 present the demographic information of the participants. As indicated by Table 1, the study only considered demographic information related to gender, age, legal entity and the business sector which the entrepreneurial venture belonged to.

Reliability Analysis

Table 2	
RELIABILITY ANALYSIS	
Variables	Cronbach's alpha
Hope	0.76
Optimism	0.78
Self-efficacy	0.81
Resilience	0.74
Psychological capital	0.79
Financial performance	0.77
Entrepreneurial wellbeing	0.83

Table 2 present findings related to the reliability of the data collection instruments used in this study. The findings show that the data collection instruments were reliable as indicated by Cronbach's alpha of above the recommended 0.7.

Descriptive Statistics

Table 3		
DESCRIPTIVE STATISTICS		
Variables	Mean	Standard deviation
Hope	3.84	1.33
Optimism	4.14	1.06
Self-efficacy	4.13	1.21
Resilience	4.22	0.89
Psychological capital	4.08	
Financial performance	3.89	1.11
Entrepreneurial wellbeing	4.46	1.04

Table 3 present the descriptive statistics of the key variables of the study. A 5-point scale Likert scale ranging from; 1. Strongly agree, 2. Disagree, 3. Neutral, 4. Agree and (5) Strongly agree was used across all variables. As shown in the table, hope had a mean of 3.84; SD, 1.33, while optimism had a mean score of 4.14; SD, 1.06, self-efficacy had a mean score of 4.13;1.21 and resilience had mean score of 4.22; SD, 1.04. Based on the view that psychological factors (hope, optimism, self-efficacy and resilience) influence each other, they were combined into one construct with a mean of 4.08. Considering financial performance, the mean was 3.89; SD, 1.1. Lastly, in terms of entrepreneurial wellbeing, the mean was 4.46; SD, 1.04. The implication on the high mean above 3 on financial performance and wellbeing means the surveyed entrepreneurs agreed that they have attained entrepreneurial success at the business level and individually.

Regression Analysis

Hypotheses		Regression weight (β)	T-values	P values	Reject H_0
H ₁	PsyCap and FP	0.853	6.314	0.000	Yes
H ₂	PsyCap and EW	0.612	5.732	0.001	Yes

Table 4 shows regression results on the relationship between psychological capital (psycap) and entrepreneurial success. The findings show that there is a significant and positive relationship between psychological capital and financial performance (β , 0.853; p.0.000). Based on the findings above, the hypothesis which stated that;

H₁: There is a significant and positive relationship between psychological capital and financial

Performance of entrepreneurial ventures in South Africa was accepted. Also, a significant and positive relationship was established between psychological capital and entrepreneurial wellbeing (β , 0.612; p.0.001). Thus, the hypothesis which stated that;

H₂: There is a significant and positive relationship between psychological capital and perceived wellbeing of entrepreneurs in South Africa was fully supported and accepted.

The implication of the above results is that psychological capital is a key determinant of entrepreneurial success as it significantly predicted all the entrepreneurial success outcomes such as financial performance and entrepreneurial wellbeing.

DISCUSSION OF FINDINGS

Relationship between Psychological Capital and Entrepreneurial Venture Performance

The findings showed that there is a significant and positive relationship between psychological capital and financial performance. This led to the decision to accept the alternative hypothesis which stated that,

H₁: There is a significant and positive relationship between psychological capital and financial performance of entrepreneurial ventures in South Africa was accepted.

The findings of this study are supported by similar existing empirical findings. For instance, Juhdi, et al., (2015) submitted that psychological capital enhances both objective and subjective measures of performance (Juhdi et al., 2015). This is because the psychological capital strengthens the mental capacities of entrepreneurs and make them to persevere even in turbulent environments (Ma, Barbe & Zhang, 2018). Essentially, psychological capital enables entrepreneurs to be opportunity alert as they always have a positive evaluation of the business environment (Wiklund et al., 2019). According to Tang (2020), psychological capital enables individuals to tap into creativity and innovation which enhances performance by triggering a sustained competitive advantage which is difficult to duplicate by competitors. Thus, this may result in sustained profitability of the venture. Consistent with the Resource Based View, psychological capital bolsters the entrepreneurs' internal resources which enables them to attain business success. Another strand of literature supports the view that psychological capital enhances financial performance. A study by Fatoki (2018) established a positive and significant relationship between resilience and financial performance among SMEs in South Africa. A study by Juhdi, et al., (2015) also investigated the effect of psychological capital on entrepreneurial success. The study used profitability to objectively measure entrepreneurial

success. Interestingly, the study established a positive and significant relationship between psychological capital and enterprise performance.

Relationship between Psychological Capital and Entrepreneurial Wellbeing

A significant and positive relationship was established between psychological capital and entrepreneurial wellbeing. Thus, the hypothesis which stated that;

H₂: There is a significant and positive relationship between psychological capital and perceived wellbeing of entrepreneurs in South Africa was fully supported and accepted.

The findings of the current study are corroborated by similar existing findings. For example, A meta-analysis study by Avey, et al., (2011) found that psychological capital positively influences subjective wellbeing. Similarly, Baron, et al., (2016) also established a significant positive relationship between psychological capital and perceived wellbeing of entrepreneurs. The study reported that psychological capital enables entrepreneurs to lead a less stressful life which enhances their wellbeing. According to Juhdi, et al., (2015), psychological capital enhances satisfaction with one's work and achievement. A study by Roche, et al., (2014) also investigated the effect of psychological capital on wellbeing. Interestingly, the study reported that psychological capital positively predicts wellbeing.

Overall, the implication of the above results is that psychological capital is a key determinant of entrepreneurial success as it significantly predicted all the entrepreneurial success outcomes such as financial performance and entrepreneurial wellbeing. Thus, entrepreneurs can benefit immensely by leveraging on psychological capital. Ideally, in the context of the South African environment where starting and running a successful business is stressful due to challenges such as lack of funding, competition from well established firms and lack of key resources, investing in psychological elements such as hope, optimism, self-efficacy and resilience can help entrepreneurs to build future proof businesses which can operate on a going concern basis.

CONCLUSION

The major purpose of this study was to examine the nexus between psychological capital factors and entrepreneurial success in South Africa. This study was inspired by the strong will to find a sustainable solution towards the development of entrepreneurial businesses in South Africa. To achieve this aim, the study adopted a quantitative research design using a self-administered questionnaire to collect data from the participants. The researcher adopted pretested research instruments which scored high on both reliability and validity. The findings showed that there is a significant and positive relationship between psychological capital and financial performance. Also, a significant and positive relationship was established between psychological capital and entrepreneurial wellbeing. The implication of the above results is that psychological capital is a key determinant of entrepreneurial success as it significantly predicted all the entrepreneurial success outcomes such as financial performance and entrepreneurial wellbeing. The findings of this study contribute significantly to the body of knowledge by adding new empirical findings on variables that have never been tested in South Africa. Practically, this study adds value to all entrepreneurs who can leverage on positive psychological capital as an intangible resource to help them sustain their businesses. Also, the findings of this study are of significance in that they can be used by other scholars in the academic field to build their future studies on psychological capital. Nevertheless, the study had a limitation that it used purposive sampling, a non-probability sampling technique which may make it difficult to generalize the findings to other parts of South Africa. Therefore, future studies can try to explore the issue of psychological capital using random sampling to improve upon the weaknesses of this study. All in all, the current study achieved its objectives and

helped to shade some light on the ongoing debate on how to develop, grow and sustain entrepreneurial businesses in South Africa.

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