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## ROLE OF PSYCHOLOGICAL CAPITAL IN DEALING WITH THE BUSINESS CHALLENGES FACED BY ENTREPRENEURS

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### **Abstract**

Psychological capital (PsyCap) can be cited as “HERO”, comprising of four factors (Hope, Self-Efficacy, Resilience and Optimism) and has been gaining a lot of prominence in many of the social science studies particularly studies pertaining to leadership. (Juhdi, Hamid, Rizal, & Juhdi, 2015) found that there exists a relation between entrepreneurial success and psychological capital. The present study reports the results of a survey conducted among successful Indian entrepreneurs. This paper explains about the various challenges faced by entrepreneurs and their psychological capital in dealing with the challenges. A self-administered questionnaire was distributed to 209 entrepreneurs with more than 5 years of entrepreneurial experience, working in different sectors in India. The survey explored the role of PsyCap in entrepreneurs in dealing with their early and current business challenges. The results show that successful entrepreneurs tend to have an above average level of PsyCap and Optimism and Self-Efficacy plays a more significant role as compared to Hope and Resilience for an entrepreneur to be successful. It was also found that women entrepreneurs have a higher level of PsyCap as compared to men entrepreneurs.

**Key words:** Psychological capacities, challenges, Hope, Self-efficacy, Resilience, Optimism

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### **Introduction**

Entrepreneurs take the risk of investing money and other resources because they expect positive results. The confidence of getting positive results not only makes them to invest continuously in the development of the business but also provokes resilience. Depending on

the psychological capacity, entrepreneurs has the capability to start a new venture, even though existing venture fails.

Psychological Capital can be defined as a “core psychological factor of positivity in general, and [positive organizational behavior] criteria meeting states in particular, that go beyond human and social capital to gain a competitive advantage through investment/development of ‘who you are’” (Lorenz, Beer, Pütz, & Heinitz, 2016). Psychological capital is denoted as “HERO”(Brockorny & Youssef-Morgan, 2019), which indicates that what individuals want to accomplish with psychological resources, as contrast to what they are supposed to accomplish without psychological resources. This abbreviation indicates four positive cognitive resources, which contains psychological capacities: Hope, Efficacy, Resilience, and Optimism. Social capital includes situational awareness, presence, clarity, and empathy (SPACE) are crucial elements for an entrepreneur, specifically in accomplishments like relationship with customers, suppliers, employees, and networks (Robert, Al-, & People, n.d.).

Luthans, and his fellow workers introduced the idea of psychological capacity to apprehend the psychological capacity of an individual which can be developed, measured, and exploited for discrete or organisational efficiency (Roche, Haar, & Luthans, 2014). The PsyCap concept is based on the resource-based perception in terms of highlighting associations between the strategic resources and organizational success within management theory.

**Hope:** Hope is the first aspect of PsyCap which leads to the overall establishment. Hope can be defined as a state which contains two key elements, pathways and agency. It is a very robust characteristic that is shown which positively relates to the individual performance (Juhdi et al., 2015). It is the belief of one’s potential to work continuously regarding goals and identify different approaches to accomplish them, even in tough situations. (Roche et al., 2014) indicate in related research that individuals with a high learning goal-orientation may be more likely to view stressors in the workplace as threats with potential positive results, rather than overcoming obstacles. One of the key activities in which entrepreneurs engage during the lifespan of a business venture is setting goals and creating plans to achieve them. Individuals with high hopes will switch tactics when met with difficulties. It is therefore necessary to improve resilience and persistence. The extent of optimism of individuals protects them from feelings of weakness, uncontrollability, and unpredictability.

**Self-efficacy:** As an independent variable, Self-efficacy has been researched in the bounds of entrepreneurship and has been identified as having a positive relationship to risk bearing,

entrepreneurial objectives, entrepreneurial discovery, and new venture creation (Baluku, Kikooma, Bantu, & Otto, 2018). At every stage of entrepreneurial process, entrepreneurs face challenges and the capacity to believe in one's ability to achieve success despite of devastating odds being faced is important to an entrepreneur's ability for starting the new businesses (Venkataraman, 1997). The word efficacy can be defined as 'the belief of an individual about their ability to collect the psychological resources, motivation or actions that are required for successfully accomplishing a specific task in a definite framework'.

**Resilience:** "The developable capacity to rebound or bounce back from adversity, conflict, and failure or even positive events, progress, and increased responsibility" is called as Resilience (Roche et al., 2014). Because of the personal hubris, the entrepreneur can overlook the signs of failure and continue in a sense of rejection (Yousaf, Hizam-Hanafiah, & Usman, 2015). Resilience involves reactive as well as proactive responses to setbacks, negative events, or other disturbing incidents. These incidents are frequently disturbing that they can also create obstacles for individuals to overcome their potential (Bockorny & Youssef-Morgan, 2019).

**Optimism:** Optimism is a concept that is often used by entrepreneurs. (Seligman, 2018) describes optimism as the process of making individuals to incorporate the characteristics of positive events. It focuses on accomplishing and achieving the goal, which has been described as key component in entrepreneurship. There exists a difference between perception of endless evaluations or opportunities and realistic optimism. Realistic optimism is the understanding of what can and cannot be accomplished in any given circumstance in a positive light. The entrepreneur sees catastrophe as an exterior incident and will be more interested to take-over potential new business opportunities after witnessing the business failure (Yousaf et al., 2015). This helps entrepreneurs in escaping from hypothetically severe adverse end results of an unsuccessful business and focusing more on the optimistic results of failure with the interest to start another new project. Entrepreneurs use psychological resources from starting of the entrepreneurial process. The confidence levels and the ability to start new venture has to be known which can be calculated using the psychological capacity of entrepreneurs. If the PsyCap of entrepreneurs is very high, they have the potential to deal with the challenges in an effective way. There have been limited studies that have determined the level of Psychological capital with respect to Entrepreneurs. This study helps to determine the psychological capital of various entrepreneurs and in which aspect they are strong, i.e. Hope, Efficacy, Resilience & Optimism. Most of the studies have considered Psychological Capital as a moderating variable, however in this study it is treated as an Independent

variable. Most of the studies on Psychological Capital have been done on employees and very limited studies have been done on Entrepreneurs. Very limited studies have chosen to study the Psychological Capital of Indian entrepreneurs. In the studies revolving around Psychological Capital of Entrepreneurs almost none of the studies have chosen successful entrepreneurs (i.e. those who have established businesses for over 5 years) as their sample.

The main objective of the study is to identify the early challenges and current challenges faced by successful Indian entrepreneurs and the role played by their Psychological capital in overcoming their challenges.

### **Objectives of the Study**

1. To determine the early challenges and current challenges faced by successful Indian Entrepreneurs.
2. To know the level of Psychological Capital of successful Indian entrepreneurs.
3. To determine the extent of Hope, Efficacy, Resilience and Optimism of successful Indian entrepreneurs.
4. To analyse the role of Psychological capital of entrepreneurs in dealing with their challenges.

### **Literature Review**

(Rhoads, 2016) conducted a study on Psychological Capital and Overcoming New Venture Failure which focuses on the capability of entrepreneurs that own the complex construct of PsyCap to use a failure in a constructive way to develop the upcoming new business opportunities. This paper provides a model which portrays the relationships between psychological capital, failure and each of the four individual components of PsyCap, and the potential to emerge positively from failure and to seek future business opportunities.

(Yousaf et al., 2015) conducted a study on how psychological capital is useful for entrepreneurs in the business growth and performance. As psychological capital is theoretically and empirically (in the study conducted) positively related with desirable attitudes, performance and desirable behaviour and negatively related with undesirable attitudes and undesirable behaviour. It is therefore convincing to accept that PsyCap sharing with variance of resilience, optimism hope, and self-efficacy is a strong analyst of growth and performance objectives of entrepreneurs.

(Tresita, Vincent, & Devi, 2018) proposed a study to explore the relationship between the entrepreneurial success and psychological capital among MSME entrepreneurs in Coimbatore

using correlation technique. The results revealed the perception that entrepreneurs did not differ based on their gender towards their entrepreneurial success and significant differences were found based on their generation. Both gender of entrepreneurs are aware of their role to be played to achieve success. Based on the primary objective of the paper, it was found to be high and the majority of entrepreneurs were rated to have entrepreneurial success.

(Tresita et al., 2018) conducted a study which aims to investigate whether gender differences in PsyCap had any influence on job involvement. The preliminary study explored the relationship between positive psychological capital and job involvement among 100 male and 32 female officers of armed forces. The most positive and optimistic result of this study is that it is possible to develop PsyCap among individuals, thereby providing opportunities to develop and enhance their level to the required quality of standards.

(Tresita et al., 2018) did a research on the role of social capital, human capital, and psychological capital in micro entrepreneurship in China. The contributions of this study contains establishing frontier conditions for the theories to explain how an entrepreneur can overcome lack of resources to develop businesses within a relational society. To address the issue, the research involved a personal survey of 164 entrepreneurs, who receive small business loans from regional banks in Zhejiang Province, which is one among the most entrepreneurial province in China. The results shows that psychological capital plays a crucial regulating role in other resource distribution, strengthening the positive effects of education in growth of the revenue while defending negative effects initiated by large network demands and strong ties. Furthermore, entrepreneurs can replace business advice networks with psychological capital in order to make development, a significant discovery in the context where resources are limited, economic activity leads to be entrenched in social relationships, and the economy is still experiencing alterations to a market-based system.

(Kalyan, 2018) proposed a study on psychological capital and entrepreneurial stress. Because of the intrinsic uncertainty involved in crafting a new business, entrepreneurs are especially under stress. This article suggests the central construct of psychological capital (consisting of hope, self-efficacy, optimism, and resilience) that can enhance our understanding of how individuals experience stress. Eliminating the stress in the workplace, which is faced by entrepreneurs and their founding employees is not feasible, or even an organizational outcome that is expected. Assisting entrepreneurs and their staff in managing the stress efficiently, is a crucial objective for effective management of human resource. This is the time to identify the latent influence of emerging psychological capital in managing stress as a positive resource.

(Baluku et al., 2018) did a research on Psychological capital and entrepreneurial outcomes in East Africa which also studies about the moderating role of social competences of owners of micro-enterprises. The outcomes were reliable with the expectations made in the paper, highlighting the applicability of both social competence and psychological capital to entrepreneurial outcomes. They encourage entrepreneurs to burgeon in spite of the demands and challenges of their job. The abstract resources which are encapsulated in the personal characteristics of entrepreneurs promote decision making, opportunity recognition, and networking, handling the stress, business negotiations, connecting resources and dealing with various investors; which are significant entrepreneurial tasks that leads to success.

(Toor, S. R., Ofori, 2008) conducted a survey on role of Psychological capital in leader effectiveness. The survey analysed the PsyCap's association with various forms of leadership and leadership outcomes. This study provides the proof that PsyCap is positively correlated with leadership outcomes and transformational leadership, especially efficiency of leadership. Once organizational leaders are capable of leading and exhibiting the positive psychological capacities, it is easier for lower-level organizational members to follow the suit.

(Bockorny & Youssef-Morgan, 2019) did a research on entrepreneurs' courage, psychological capital and life satisfaction. Positive psychological resources like courage, as well as optimism, confidence, hope, and resilience (which are jointly denoted as psychological capital), is valuable for entrepreneurs. This research examines the relationship between entrepreneurs' psychological capital, courage, and life satisfaction. Courage is measured using the 12-item Courage Measure. PsyCap was measured using the 12-item Psychological Capital Questionnaire. They consists of race, age, gender, experience, degree, work education, and entrepreneurial experience as the control variables because of their systematic relationship with the study variables in the entrepreneurship context.

(Roche et al., 2014) did a research on Psychological capital and Role of mindfulness on the well-being of leaders. In the extremely complex and highly competitive global economy, organizational leaders are facing unprecedented challenges at all levels. Even though, few entrepreneurs seem to be handling the stress in a better way than others. Using the four samples of CEOs/presidents/top, middle, and junior managers, along with 107 entrepreneurs, and using the Structural Equation Modelling they tested the mediating effect of their psychological capital and the direct effect that their level of mindfulness (heightened awareness) may have on their mental well-being. The recent finding of this study has

appeared as a potential useful addition to leaders' psychological defence techniques make a proactive, positive contribution to their emotional welfare.

(Juhdi et al., 2015) examined a study on entrepreneurial success and Psychological capital which is a multiple mediated relationship. Therefore, the impact on entrepreneurial variables of service orientation and business orientation were also evaluated. Respondents were the owner-managers of Malaysian small and medium sized enterprises (service SMEs). SPSS Macro's implementation of bootstrapping technique found that entrepreneurial learning intensity and entrepreneurial work engagement were simultaneously significant multi-mediators, but entrepreneurial work engagement has high impact than the entrepreneurial learning intensity on the relationship between entrepreneurial success and psychological capital. This study theoretically and statistically proved that the psychological capital is the most crucial personal psychological resource for all the owners of small and medium-sized enterprises to have the ability to become successful entrepreneurs.

(Kerr, Kerr, & Xu, 2018) conducted a survey on Personality traits of Entrepreneurs, which explains about the characteristics of entrepreneurs. They first considered the baseline attributes like self-efficacy, innovativeness, locus of control, then achievements, risk handling, goals and aspirations of entrepreneurs. They found the gaps between the theory of personality traits and how to measure those using empirical tools. After the study, they concluded that it requires development of theoretical constructs and measurement procedures.

(DasGupta, 2018) proposed a study on Micro entrepreneurship development and Quality of Life improvement. The study covers the issues like problems in entrepreneurship, factors responsible for participating in entrepreneurship, quality of life and its dimensions, measurement of quality of life. The research mainly focuses on MSMEs. Micro entrepreneurs, irrespective of the gender, literacy rate, and wealth, can accelerate their Quality of Living individually as well as their connected community.

### **Hypotheses**

H1: There is no significant difference between the Psychological capital of the entrepreneurs and the way they deal with the early challenges in their business.

H2: There is no significant difference between the Psychological Capital of men and women entrepreneurs

H3: There is no significant association between the average psychological capital of Indian entrepreneurs and their number of years of entrepreneurial venture

## Research Methodology

The research methodology used for this study is empirical research. The quantitative study proposes and tests hypotheses relating to entrepreneurs and their level of PsyCap. Primary data was collected from the respondents using survey method with the help of structured questionnaire. The scale used to measure PsyCap was Compound Psychological Capital Scale comprising of 12 items (CPC-12) (Lorenz et al., 2016) Information from secondary sources like journals, research papers, magazines, would also be considered for the study. The process of selecting a portion of the population to represent the entire population is known as sampling. To survey the successful entrepreneurs, the sampling technique that was adopted was stratified sampling. A self-administered questionnaire was distributed to 209 entrepreneurs with more than 5 years of entrepreneurial experience, working in different sectors. Of the 209 respondents in the sample, 56 respondents were female and 153 respondents were male. The collected data was analysed using the SPSS software and few statistical techniques like Independent Sample T-Test, One-way ANOVA and Correlation Analysis.

## Results & Discussions

**Table 1: Gender Profile of the Entrepreneurs surveyed**

Gender Profile	Frequency	Percent	Cumulative Percent
Female	56	26.8	26.8
Male	153	73.2	100.0
Total	209	100.0	

From the sample size of 209 respondents, 153 respondents (73.2percentage) were male and 56 respondents (26.8percentage) were female. Majority of the entrepreneurs surveyed were males.

**Table 2: Years of Experience of the Entrepreneurs surveyed**

Years of Experience	Frequency	Percent	Cumulative Percent
1-5 years	98	46.9	46.9
5-10 years	36	17.2	64.1
10-15 years	33	15.8	79.9
15-20 years	7	3.3	83.3



>20 years	35	16.7	100.0
Total	209	100.0	

From the results, we can analyse that around 47 percentage of respondents are at the stage of developing their business. 17 percentage of respondents are having experience of 5-10 years, followed by 17 percentage of respondents are having experience of >20 years and around 16 percentage of respondents are having 10-15 years of experience and 3 percentage respondents have experience of 15-20 years. Hence, majority of entrepreneurs have up to 5 years of experience, followed by entrepreneurs having experience of 5-10 years, >20 years, 10-15 years of experience and least respondents have experience of 15-20 years in the sample study.

**Table 3: Company size of the Entrepreneurs surveyed**

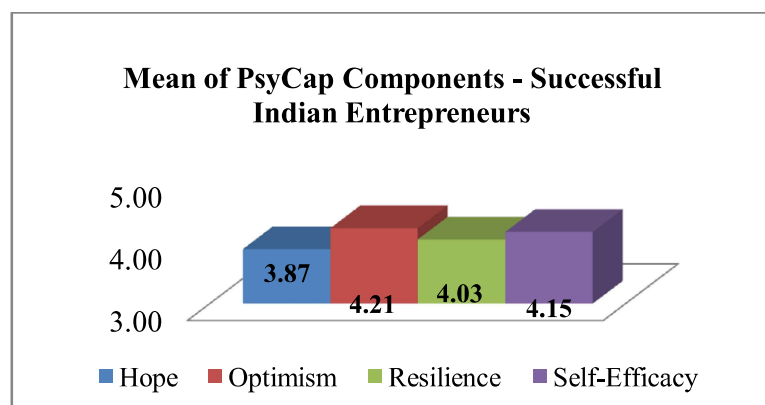
Company size	Frequency	Percent	Cumulative Percent
Micro (0-9 employees)	156	74.6	74.6
Small (10-49 employees)	23	11.0	85.6
Medium (50-249 employees)	16	7.7	93.3
Large (250+ employees)	14	6.7	100.0
Total	209	100.0	

From the sample, 74.6 percentage of micro enterprises, 11 percentage of small enterprises, 7.7 percentage of medium enterprises, and 6.7 percentage of large enterprises.

**Average level of PsyCap of successful Indian entrepreneurs**

The average level of PsyCap of Entrepreneurs is 4.06. This represents a high level of Psychological capital of the Entrepreneurs in Bangalore. Higher Psychological capital in the entrepreneurs can result in higher levels of Self-Efficacy, Resilience, Hope and Optimism in the business they are doing. It makes them face any challenge more confidently.

**Graph 1: Mean of Psychological Components in Successful Indian Entrepreneurs**

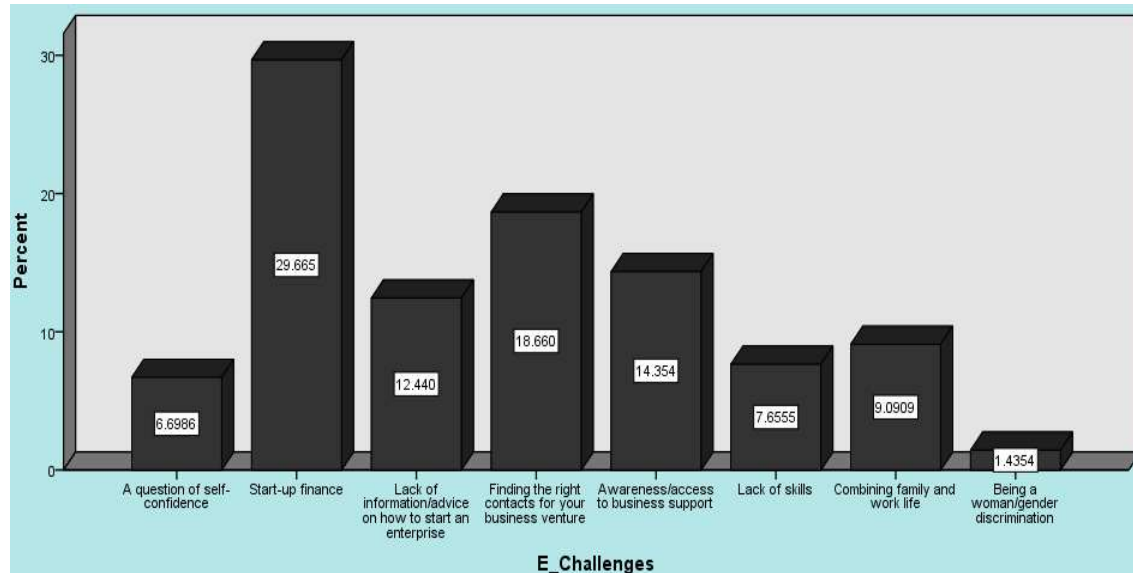


From the above graph, it can be seen that Optimism and Self-Efficacy are the most prominently seen components of PsyCap in successful Indian entrepreneurs, following which is Resilience & Hope.

### **Early Challenges faced by successful Indian Entrepreneurs:**

The results of the survey have identified some of the early business challenges faced by successful Indian Entrepreneurs which are as shown below:

**Graph 2: Early Business Challenges faced by Indian Entrepreneurs**

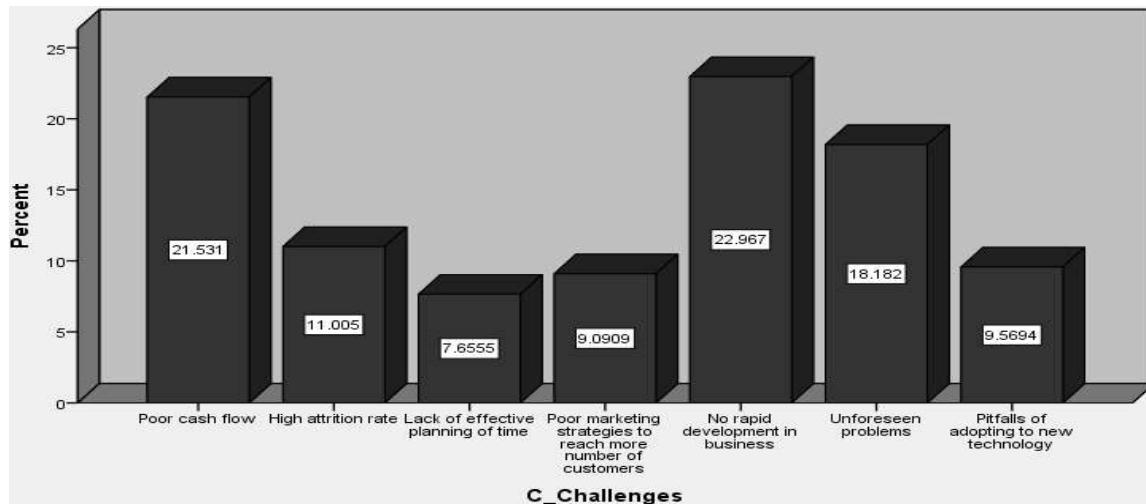


From the graph we can interpret that major business challenge for the entrepreneurs is the start-up finance. Second major business challenge faced by them was identifying the right contacts for their business, awareness/access for support of the business respectively. To start a business, the proper knowledge about the business what we are going to start, how to start the business, etc., is also required, which is one of the challenges for entrepreneurs in the early stages. Next comes balancing the work-life and family-life, followed by lack of skills required for the business, self-confidence to continue their business and whether they can handle it or not and also the gender discrimination was one of the major challenge particularly faced by the women entrepreneurs.

### **Current Challenges faced by successful Indian Entrepreneurs:**

The results of the survey have identified some of the current business challenges faced by successful Indian Entrepreneurs which are as shown below:

**Graph 3: Current Business Challenges faced by Indian Entrepreneurs**



From the above graph we can interpret that even though the business is established or well established, they face the challenges. The major challenge is the lack of rapid growth in the business, and then comes poor cash flow, followed by unforeseen problems. High attrition rate, Pitfalls in adopting new technology, poor marketing strategies, and lack of effective planning stands in next places.

**Inferential Statistics:**

Through an extensive literature review a set of variables were identified which were then subjected to Reliability Analysis. Reliability Test was done to measure the scale reliability with the help of Cronbach alpha which is a coefficient of reliability and is used for measuring the internal consistency among the scale items. The alpha coefficient for the 12 items is 0.754, suggesting that the items have relatively high internal consistency. (Note that a reliability coefficient of .7 or higher is considered “acceptable” in social science research).

**Table 4: Reliability Test**

Reliability Statistics	
Cronbach's Alpha	N of Items
.754	12

**Hypotheses Testing**

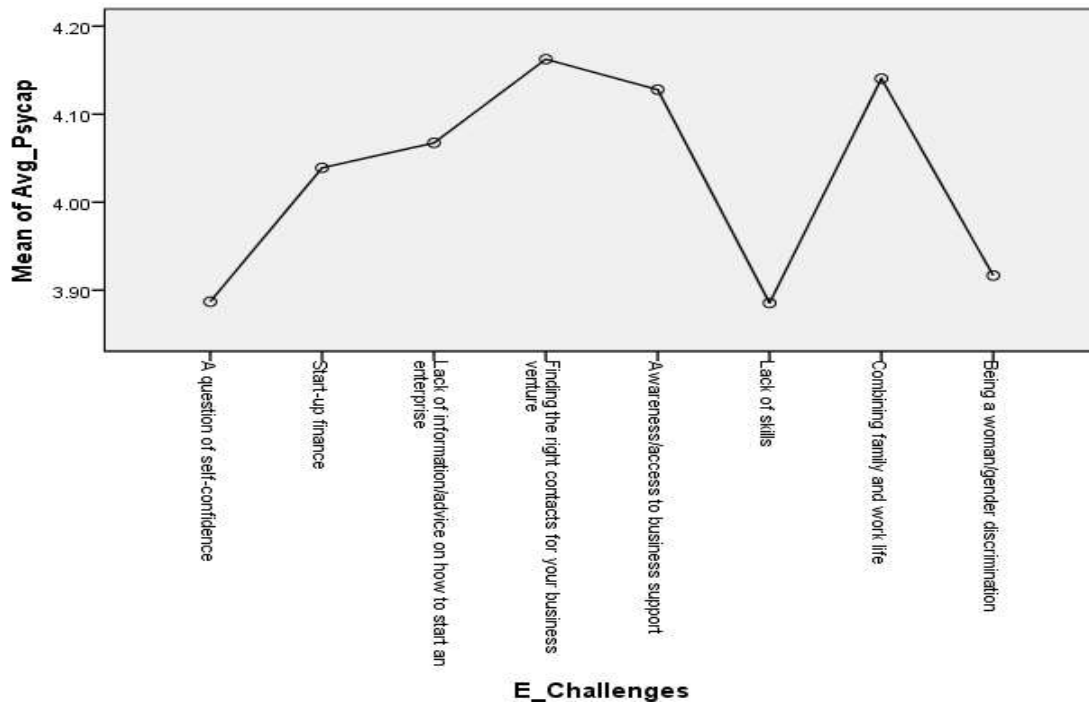
H0: There is no significant difference between the Psychological capital of the entrepreneurs and the way they deal with the early challenges in their business.

H1: There is no significant difference between the Psychological capital of the entrepreneurs and the way they deal with the early challenges in their business.

**Table 5: One-way ANOVA showing the significant difference between the average psychological capital of the entrepreneurs and their early business challenges**

Particulars	Sum of Squares	DF	Mean Square	F	Sig.
Between Groups	1.664	7	.238	1.779	.043
Within Groups	26.860	201	.134		
Total	28.524	208			

**Graph 4: Mean Response of Psychological capacities of Entrepreneurs with respect to the early challenges faced by him in his business**



From the above graph, it can be seen that at 5percentage significance level ( $p\text{-value} < 0.05$ ), the Mean response of Psychological capital of the entrepreneurs is highest while networking with people in order to find the right contacts for their business venture and while balancing their work and family life. However, psychological capital tends to be the lowest while there is gender discrimination particularly for women, and when they lack confidence in

themselves and their skills. Hence, at 5percentage significance level, it can be concluded that there is a significant difference between the Psychological capital of the entrepreneurs and the way they deal with their early challenges in his business. Hence H0 is rejected.

**H0: There is no significant difference between the Psychological capital of the entrepreneurs and the way he deals with the current challenges in his business.**

**H1: There is a significant difference between the Psychological capital of the entrepreneurs and the way he deals with the current challenges in his business.**

**Table 6: One-way ANOVA showing the significant difference between the average psychological capacities of the entrepreneurs and their current business challenges**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.171	6	.195	1.441	.201
Within Groups	27.354	202	.135		
Total	28.524	208			

From the above table, it can be seen that at 5percentage significance level ( $p\text{-value} < 0.05$ ), there is no significant difference between the psychological capital of entrepreneurs and the way they deal with their current business challenges. Hence H0 is accepted.

Based on the above two hypotheses, it can be inferred that Indian entrepreneurs use more of their Psychological Capital during the early stages of establishing their businesses and as the time progresses their use of Psychological Capital in running the business tends to decline (Wang, Tsai, Tsai, Huang, & de la Cruz, 2018).

**H0: There is no significant difference between the Psychological Capital of men and women entrepreneurs**

**H1: There is a significant difference between the Psychological Capital of men and women entrepreneurs**

**Table 7: Independent Samples T-Test**

Average PsyCap of Indian Entrepreneurs	Levene's Test for Equality of		T-Test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95percentage Confidence Interval of the	
								Lower	Upper
Equal variances assumed	.779	.378	1.99	207	.048	.11410	.0574	.00087	.22732
Equal variances not assumed			2.26	128.72	.026	.11410	.0506	.01404	.21415

**Table 8: Group Statistics**

	Gender	N	Mean	Std. Deviation	Std. Error Mean
Average PsyCap	Female	56	4.1473	.29559	.03950
	Male	153	4.0332	.39056	.03157

From the above independent sample test, the significance value for Levene's Test for Equality of variances is 0.378 which is greater than the threshold value of 0.05, hence equal variances are assumed. It can also be found that at 5percentage significance level, the 2-tailed significance value for equal variances assumed is 0.048 which is less than 0.05 and hence there is a significant difference between the average psychological capacities of entrepreneurs and their gender.

From the above table, it can be analyzed that the psychological capital of women entrepreneurs is higher than the psychological capital of men entrepreneurs, as the mean PsyCap value of women entrepreneurs is **4.1473**, and for men entrepreneurs it is **4.0332**.

**H0: There is no significant association between the average psychological capital of Indian entrepreneurs and their number of years of entrepreneurial venture.**

**H1: There is a significant association between the average psychological capital of Indian entrepreneurs and their number of years of entrepreneurial venture.**

**Table 9: Correlation between the Indian entrepreneurs' number of years of entrepreneurial venture and their average Psychological Capital**

Correlations		Years of Experience	Average Psycap
Years of entrepreneurial venture	Pearson Correlation	1	-.183**
	Sig. (2-tailed)		.008
	N	209	209
Average PsyCap	Pearson Correlation	-.183**	1
	Sig. (2-tailed)	.008	
	N	209	209
**. Correlation is significant at the 0.01 level (2-tailed).			

From the above correlation table, it can be found that at 5percentage significant level (p-value <0.05), there is a significant negative association between psychological capacities of entrepreneurs and their number of years of entrepreneurial venture. Hence it can be said that the psychological capital of entrepreneurs tends to be high in their early years as entrepreneurs and tends to reduce as the years progresses.

### **Conclusion**

Successful Indian entrepreneurs have a high Psychological Capital which enables them to face the early business challenges while starting a new venture, however as the time progresses the need for Psychological capital to face the Business challenges tends to decline as the business would have reached the maturity stage and the problems require more of strategic thinking rather than an individual's Psychological Capital. This finding was further supported when the results indicated that the use of PsyCap by entrepreneurs in the initial years of entrepreneurial venture was much higher as compared to later years which indicates that as time progresses the well-established entrepreneurs depend less on their PsyCap &

more on their Strategic thinking. Among successful Indian entrepreneurs, it was found that the most prominently seen component of PsyCap was Optimism following which was Self-Efficacy. It can be inferred that both Optimism and Self-Efficacy are highly essential for an individual to become a successful entrepreneur. It was also found Women entrepreneurs tend to have higher PsyCap as compared to Men entrepreneurs. However, the major challenge that women entrepreneur tends to face in the beginning stages of their entrepreneurial venture is Gender Discrimination which tends to reduce their PsyCap.

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