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# Positive psychological capital: Beyond human and social capital

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## Abstract:

With the rising recognition of human resources as a competitive advantage in today's global economy, human capital and, more recently, social capital are being touted in both theory, research, and practice. To date, however, positive psychological capital has been virtually ignored by both business academics and practitioners. "Who I am" is every bit as important as "what I know" and "who I know." By eschewing a preoccupation with personal shortcomings and dysfunctions and focusing instead on personal strengths and good qualities, today's leaders and their associates can develop confidence, hope, optimism, and resilience, thereby improving both individual and organizational performance.

**F**or years, business academics and practitioners have operated in the belief that sustained competitive advantage could accrue from a variety of industry-level entry barriers, such as technological supremacy, patent protections, and government regulations. However, technological change and diffusion, rapid innovation, and deregulation have eroded these widely recognized barriers. In today's environment, which requires flexibility, innovation, and speed-to-market, effectively developing and managing employees' knowledge, experiences, skills, and expertise—collectively defined as "human capital"—has become a key success factor for sustained organizational performance.

Traditionally, economic capital (both financial and tangible assets such as plant and equipment) has received all the attention. But enlightened managers today recognize the importance not only of tangible assets, data, and physical resources, but also of this intangible human capital (sometimes called intellectual capital)—"human" referring to the people working at all levels of the organization, and the economic term "capital" referring to the resources withdrawn from consumption that are invested for future anticipated returns. Bill Gates has been known to comment that the most important assets in his company walk out the door every night. In other words, he recognizes that the collective knowledge, skills, and abilities of his employees represent a distinctive competency that has created value and set Microsoft apart from its competitors.

The value created when human capital is aligned with corporate strategy and fully engaged in making the enterprise effective has been researched extensively by Harter, Schmidt, and Hayes (2002) and others and found to have a significant positive impact on performance outcomes. Regardless of the recent downturn in the equity market, the past two decades have seen the market-to-book-value ratio of the S&P 500 go

from about 1:1 to around 5:1. Oxman (2002) and others have attributed this increase to the development of new models of company value that include human capital measurements to better account for a corporation's true worth.

In a recent study of *Fortune* 500 and Europe 500 executives by the Conference Board (2002), 86 percent of the participants said the main motivation for human capital measurement was to improve the company's bottom line. But isolating the specific contribution

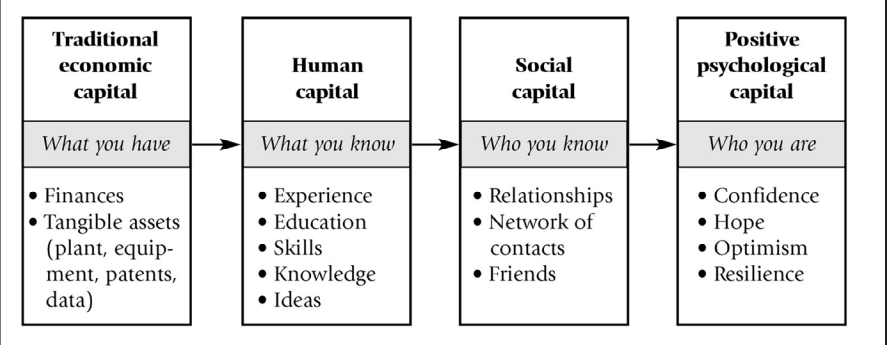
of human capital can be difficult. In the old economy, performance could be linked to a certain level of output or production. In the new economy, where value is increasingly derived from intangible sources, measurement has become more challenging. Dzinkowski (2000) has recommended such methods as market-to-book ratio, Tobin's q, and a sophisticated calculated intangible value (CIV) technique for measuring the specific impact of human capital on corporate performance. No matter which method is used, it does seem consistent with the resource-based theory of the firm that human capital can provide a company with an asset that is valuable, rare, and difficult to replicate—and therefore a source of sustained competitive advantage.

The cousin of human capital is considerably more subtle or intangible and difficult to measure. Specifically, *social capital* refers to resources of trust, relationships, and contact networks. As shown in **Figure 1**, human capital is simply "what you know," whereas social capital is "who you know."

Social capital can be used both inside a firm ("Whom can I turn to for help in solving this problem?") and outside it ("Who can advise me on finding the best price and quality in making this purchasing decision?"). Some suggested ways to measure and evaluate social capital involve the size, structure, and composition of networks. In a recent comprehensive review of the research literature, Adler and Kwon (2002) found that social capital has a positive impact both on HR areas, such as career success, turnover, executive compensation, and job search help, and on organizational areas, such as inter-unit resource exchange, entrepreneurship, supplier relations, regional production networks, and intercompany learning.

Like human capital, the recognition of and investment in social capital seems vital to the success and competitive advantage of organizations both today and tomorrow. However, we propose that the time has now come to go beyond both these types of assets and embrace what we term "positive psychological capital."

**Figure 1. Expanding capital for competitive advantage**



## The meaning and capacities of positive psychological capital

**A**lthough the term "psychological capital" has been mentioned briefly in various works on economics, investment, and sociology, we draw on the emerging positive psychology movement for our definition. Very briefly, positive psychology got its start just a few years ago when research psychologist Martin Seligman challenged the field to change from a preoccupation with what is wrong and dysfunctional with people to what is right and good about them. Specifically, it focuses on strengths rather than weaknesses, health and vitality rather than illness and pathology. In his recent book on *Authentic Happiness*, Seligman (2002) first asked the question of whether there is psychological capital, and if so, what it is and how we get it. He answered the question by suggesting that "when we are engaged (absorbed in flow), perhaps we are investing, building psychological capital for our future."

Applied to the workplace, this "flow" can be restated in terms of personal and organizational goal alignment and job fit. As shown in Figure 1, we maintain that psychological capital lies beyond human and social capital and basically consists of "who you are" rather than what or who you know. Specifically, we are referring to the four positive psychological capacities of confidence, hope, optimism, and resilience—four states that have also been used by Stajkovic (2003) in his core confidence factor for work motivation.

Drawn from positive psychology and, more recently, what we have termed "positive organizational behavior," or POB, such capacities are measurable, open to development, and can be managed for more effective work performance, according to Luthans (2002a, b). The following paragraphs briefly summarize these four states as they apply to today's workplace and contribute to positive psychological capital, with a return of improved performance such as higher productivity,

better customer service, and more employee retention.

**1. Confidence.** Stajkovic and Luthans (1998b) define confidence (or self-efficacy) as the “individual’s conviction... about his or her abilities to mobilize the motivation, cognitive resources, and courses of action needed to successfully execute a specific task within a given context.” Beginning with the considerable theory and research of wellknown psychologist Albert Bandura, confidence as a positive psychological capital capacity has been demonstrated to have a strong positive relationship to work-related performance. Moreover, Bandura (1997) and others have clearly shown through research and subsequent application in the workplace how confidence can be developed.

**2. Hope.** Though not as theoretically rich or as widely researched or applied to the workplace as confidence, hope can nonetheless make an important contribution to positive psychological capital. Commonly used in everyday language, Snyder et al. (1991) define it precisely as “a positive motivational state that is based on an interactively derived sense of successful (a) agency (goal-oriented energy) and (b) pathways (planning to meet goals).” Although on the surface hope appears very similar to the other positive capacities, considerable theoretical and measurement analyses demonstrate its conceptual independence and discriminant validity. In particular, the pathways or “waypower” dimension of hope as defined here makes an important differentiation with the common use of the term and the other psychological capital capacities. There is considerable evidence of its positive impact on academic and athletic performance. However, only a few direct and indirect studies—including Adams et al. (2003) and Peterson and Luthans (2003)—have examined its impact on workplace performance. Nevertheless, these workplace studies are promising.

**3. Optimism.** Because of the theory and research of Seligman, optimism is perhaps more closely associated with overall positive psychology than the other constructs. Like hope, optimism is a commonly used term, but Seligman’s (2002) definition draws from attribution theory in terms of two crucial dimensions of one’s explanatory style of good and bad events: permanence and pervasiveness. Specifically, optimists interpret bad events as being only temporary (“I’m exhausted”), while pessimists interpret bad events as being permanent (“I’m all washed up”). The opposite is true for good events, for which the optimist makes a permanent attribution (“I’m talented”) and the pessimist a temporary attribution (“I tried very hard on this one”). Whereas permanence has to do with time, pervasiveness has to do with space. For bad events, optimists make specific attributions (“I had a problem

with this computer program”), while pessimists make universal attributions (“I’m just computer illiterate”); again, the opposite is true for good events (an optimist is “a computer whiz,” while a pessimist “does know Excel”). Seligman (1998) provides some evidence of the positive impact of measured optimism on desirable workplace outcomes, reporting salespersons’ high performance and retention at the Metropolitan Life Insurance Company.

*The four positive psychological capacities of confidence, hope, optimism, and resilience are measurable, open to development, and can be managed for more effective work performance.*

**4. Resilience.** Though a mainstay of positive psychology coming mostly out of child psychopathology, resilience has received scant attention in organizational behavior and HRM research. Yet this capacity to “bounce back” from adversity or even dramatic positive changes is particularly relevant in today’s turbulent business environment. At first, resilience was thought to be quite rare in people, but now, says Masten (2001), there is evidence that it can come “from the everyday magic of ordinary, normative human resources” and “has profound implications for promoting competence and human capital in individuals and society.” According to Coutu (2002), the common themes/profiles of resilient people are now recognized to be (a) a staunch acceptance of reality, (b) a deep belief, often buttressed by strongly held values, that life is meaningful, and (c) an uncanny ability to improvise and adapt to significant change. Except for its application to stress resistance, only surface attempts have been made to use resilience to advocate how leaders, associates, and overall organizations can bounce back from hard times. However, the rich theory and extensive research from clinical and positive psychology suggest that it too, like its three counterparts, can contribute to positive psychological capital with a return of desired performance outcomes.

## Developing positive psychological capital

**L**ike human and social capital, positive psychological capital can be invested in and managed. Unlike traditional financial capital and tangible assets, this can be done at relatively little monetary cost. Because the positive psychological capacities outlined above are states (rather than fixed traits), they are open to development, and all have proven guidelines for their enhancement. For example, as drawn from the work of Bandura (1997), an effective confidence-building development program could use the following approaches (in order of importance):

**1. Mastery experiences or performance attainments.** This is potentially the most powerful approach for developing confidence because it entails direct information about success. However, accomplishments do not directly build confidence. Both situational processing, such as the complexity of the task, and cognitive processing, such as the perception of one's ability, will affect its development. Bandura also points out that mastery experiences gained through perseverance and learning ability form a strong and lasting sense of confidence, but confidence built from successes that come easily will not be characterized by much perseverance or stability when difficulties arise.

**2. Vicarious experiences or modeling.** Just as individuals do not need to experience reinforced personal behaviors directly in order to learn—they can vicariously learn by observing and modeling relevant others who are reinforced—the same is true of acquiring confidence for psychological capital. As noted by Bandura (1999), “If people see others like themselves succeed by sustained effort, they come to believe that they, too, have the capacity to succeed. Conversely, observing the failure of others instills doubts about one's own ability to master similar activities.” The more similar the model (age, sex, physical characteristics, education, status, experience) and the more relevant the task being performed, the more effect there will be on developing confidence as psychological capital. This vicarious modeling is particularly important for those with little direct experience and as a very practical strategy to enhance confidence through training and development programs.

**3. Social persuasion.** Respected, competent individuals can help develop confidence as psychological capital in employees by persuading them that they “have what it takes”—although this is not as powerful an approach as the previous two, and can sometimes be oversimplified as a “can-do” attitude. On the other side of the coin, there is no question of the powerful impact unkind words and negative feedback

(“You can't do that”) can have in disabling and deflating confidence. Too often, a small negative comment or even nonverbal gesture can have a big impact on emotions and confidence. Unfortunately, giving positive feedback and pointing out strengths for successfully accomplishing a task is not processed with as much impact as the negative. However, by being genuine, providing objective information, and then taking followup actions to actually set up the developing employee for success rather than failure, social persuasion can become more effective.

**4. Physiological and psychological arousal.** People often rely on how they feel, physically and emotionally, in order to assess their capabilities. If these feelings are negative (fatigue, illness, anxiety, depression, stress), they will generally detract greatly from confidence. However, an important point to remember here is, unless faced with a serious illness, physical or psychological negativity may result in only a temporary loss of confidence, so one should avoid making a binding decision (quitting a job, turning down a career move) that is later regretted. By the same token, if one's physical and mental states are good, they do not necessarily contribute a great deal to one's confidence. On balance, however, excellent physical and mental condition can serve as a good point of departure to build confidence, even for psychological capital.

There is also considerable evidence that hope—in its willpower (agency) and waypower (pathways) definition—can be developed in employees and organizations. Drawn from the work of Snyder (2000) and Luthans and Jensen (2002), the following specific guidelines could be used to build hope for positive psychological capital:

1. Set and clarify organizational and personal goals that are specific and challenging. Include numbers, percentages, and target dates to help with goal specificity, and form difficult but not impossible stretch goals to help make the process challenging but doable. A word of caution, however: If your initial level of hope is very low, starting off with a relatively easy goal that is readily attainable may be preferable in order to achieve some degree of hope before moving on to more challenging goals.
2. Use what Snyder calls a “stepping method” to break your goals down into manageable substeps that will mark your progress and create the direct experience of at least small “wins” and successes.
3. Develop at least one alternative or contingency pathway to your goal with an accompanying action plan. Put as much thinking and effort into developing pathways and action plans for the goal as went into setting it.

4. Acknowledge your enjoyment in the process of working toward goals, and do not focus solely on the final attainment.
5. Be prepared and willing to persist in the face of obstacles and problems. Formulating pathways will help frame the realization that obstacles may appear and subsequently help spur persistence as problems emerge.
6. Be prepared and skillful in knowing when and which alternative pathways to choose when the original route to goal accomplishment is no longer feasible or productive. “What if” and scenario planning and training can help build such skills.
7. Be prepared and skilled in knowing when and how to “re-goal” to avoid the trap of false hope. You must recognize when persistence toward a goal is not feasible, regardless of the chosen path(s).

If the original goal is absolutely blocked, then recognize when and how to alter or change it. Rehearsals and experiential training can strengthen this re-goaling insight and skill. The guidelines for developing optimism and resilience are not as extensive or proven as those for confidence and hope, but there is still enough indirect evidence to be of value. In addition to Seligman’s work, there are specific optimism training programs in industry, such as the American Express Financial Advisors. Schulman (1999) offers some specific guidelines for building optimism that can be applied to enhance psychological capital:

- identifying self-defeating beliefs when faced with a challenge
- evaluating the accuracy of the beliefs
- once dysfunctional beliefs are discounted, replacing them with more constructive and accurate beliefs that have been developed

As for resilience, clinical practices and identified attributes of resilient individuals such as social competence, problemsolving skills, autonomy, and a sense of purpose and future can all be used for its enhancement as psychological capital. Specific resilience development programs for individuals and organizations are already beginning to emerge. Reivich and Shatte (2002) have identified skills that can be placed into two categories: “know thyself” skills and change skills. In all types of firms, Reivich and Shatte have conducted interactive, activity-based training programs to develop participants’ resilience skills:

- avoiding negative thinking traps when things go wrong
- testing the accuracy of beliefs about problems and how to find solutions that work
- remaining calm and focused when overwhelmed by emotion or stress.

**W**ith human capital now making an important contribution to competitive advantage for today’s organizations, the time has come to refine and advance social capital and the newly proposed positive psychological capital. “Who I am” can be just as important as “what I know” and “who I know.” The contributions that confidence, hope, optimism, and resilience can make to positive psychological capital deserve special attention. The practical guidelines proposed here show how these four dimensions—as well as others for the future—can be developed and managed to affect desired performance outcomes in productivity, customer service, and retention. In moving beyond human and social capital to positive psychological capital, the full force of the importance of the human factor can be better recognized and used in meeting the tremendous challenges faced by organizations now and in the future.

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