

## How Self-Efficacy and Optimism affect U.S. Microbusinesses

We examine the effect of Optimism and Self-Efficacy on the relative performance of microbusinesses in the U.S. Using a survey data and Smart PLS we use a simple model to compare the effects of each attribute on performance. The data were collected for microbusinesses in the U.S. The results show that Self efficacy is far more important to the small firm than optimism is. In fact, it appears that optimism alone may have a negative impact on performance.

Key Words: Optimism, Self-efficacy, microbusiness, entrepreneur

### Introduction

Several studies suggest both are important in small and medium size businesses, but little work has been done to investigate the role of these attributes play in microbusiness. The interplay between optimism, self-efficacy, and microbusiness success is a critical area of study that has implications for entrepreneurship, particularly among vulnerable populations. Optimism, defined as a general expectation for positive outcomes, can significantly influence an entrepreneur's approach to challenges and opportunities. Research indicates that optimistic individuals are more likely to engage in innovative practices and recover from setbacks, which is essential for the sustainability of microbusinesses which is the setting for the study we will conduct (Amore, Garofalo, & Martin-Sanchez, 2022). Furthermore, self-efficacy—the belief in one's ability to execute tasks effectively—serves as a vital psychological resource that can enhance motivation and performance in entrepreneurial endeavors (Mardiana & Heriningsih, 2016). Microbusinesses, often characterized by limited resources and personnel, require a unique blend of optimism and self-efficacy to navigate the challenges they face. Studies have shown that individuals with higher self-efficacy are more likely to pursue entrepreneurial opportunities and persist in the face of adversity, thereby increasing their chances of success (Portento, Borboran, & Paredes, 2022). Additionally, interventions aimed at enhancing these psychological traits have demonstrated positive outcomes, suggesting that training programs can effectively foster an entrepreneurial mindset among aspiring microbusiness owners (Iseselo, Mosha, Killewo, Sekei, & Outwater, 2019). This study aims to explore the relationship between optimism, self-efficacy, and the success of microbusinesses, focusing on how these constructs interact to influence entrepreneurial outcomes. By examining these dynamics, we hope to provide insights that can inform training programs and support mechanisms for microentrepreneurs, ultimately contributing to their success and sustainability in the competitive business landscape.

### Literature Review

The relationship between optimism, self-efficacy, and entrepreneurial success has garnered significant attention in recent academic literature. This literature review synthesizes findings from various studies to elucidate how these psychological constructs predict entrepreneurial outcomes. Optimism is often characterized as a

49 positive outlook towards future events, which can significantly influence entrepreneurial  
50 behavior and success. Research indicates that optimistic entrepreneurs are more likely  
51 to engage in risk-taking and innovative behaviors, which are crucial for entrepreneurial  
52 success, and entrepreneurial optimism is a human trait that can be influenced by  
53 external motivations and is supported by the psychological capital of entrepreneurs,  
54 which includes self-efficacy, hope, and resilience (Ma, Khan, Fayyaz, Hameed, & Ullah,  
55 2024). This aligns with the findings of Hoe and Janssen, who emphasize that  
56 psychological capital, encompassing optimism, plays a vital role in overcoming  
57 business failures and contributes to entrepreneurial resilience (Hoe & Janssen, 2022).  
58 Furthermore, the positive psychological state fostered by optimism can enhance an  
59 entrepreneur's ability to recognize and seize opportunities, thereby improving their  
60 overall performance. Self-efficacy, defined as an individual's belief in their ability to  
61 execute tasks necessary for success, is another critical predictor of entrepreneurial  
62 outcomes. Wardana et al. highlight that entrepreneurial self-efficacy is essential for  
63 vocational students, as it shapes their intentions and behaviors towards  
64 entrepreneurship (Wardana, Purnama, Anam, & Maula, 2020). Similarly, One study  
65 shows that self-efficacy correlates positively with entrepreneurial performance among  
66 college students, suggesting that higher self-efficacy leads to improved entrepreneurial  
67 capabilities and outcomes (Ke, Shi, Ma, & Tan, 2020). Valdez-Juárez further reinforces  
68 this notion by indicating that self-efficacy significantly influences entrepreneurial  
69 behavior and intentions, particularly among university-going women (Valdez-Juárez,  
70 2024). This suggests that self-efficacy not only affects individual performance but also  
71 plays a crucial role in shaping entrepreneurial intentions. The interplay between  
72 optimism and self-efficacy is particularly noteworthy. Both constructs contribute to what  
73 is termed "psychological capital," which has been shown to enhance entrepreneurial  
74 performance. Tang discusses how psychological capital, which includes self-efficacy  
75 and optimism, is positively related to improved performance in entrepreneurial roles  
76 (Tang, 2020). This is echoed by the findings of Fresé and Gielnik, who argue that  
77 personality dimensions such as self-efficacy and optimism are highly associated with  
78 entrepreneurship and business success (Fresé & Gielnik, 2014). The combination of  
79 these traits fosters a mindset conducive to innovation and resilience, essential  
80 components for navigating the challenges of entrepreneurship. Moreover, the literature  
81 suggests that personality traits, including optimism and self-efficacy, can serve as  
82 catalysts for entrepreneurial success. Ngah's research indicates that individual  
83 characteristics significantly influence entrepreneurial outcomes, underscoring the  
84 importance of personality traits in predicting success (Ngah, 2024). This is further  
85 supported by the work of Obschonka et al., which found that entrepreneurs with higher  
86 levels of self-efficacy and optimism reported stronger entrepreneurial skills and  
87 competence, leading to better success rates (Obschonka, Silbereisen, & Schmitt-  
88 Rodermund, 2011). In conclusion, existing studies consistently highlight the predictive  
89 power of optimism and self-efficacy in determining entrepreneurial success. Optimism  
90 fosters a positive outlook that encourages risk-taking and innovation, while self-efficacy  
91 enhances individuals' belief in their capabilities, leading to improved performance.  
92 Together, these constructs form a robust psychological foundation that supports  
93 entrepreneurial endeavors, ultimately contributing to greater success in the field. Our

94 research question is: Which is more important for entrepreneurial success; personal  
95 optimism or personal self efficacy?  
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97 Our hypotheses are:

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99 H1: Optimism is positively related to relative performance

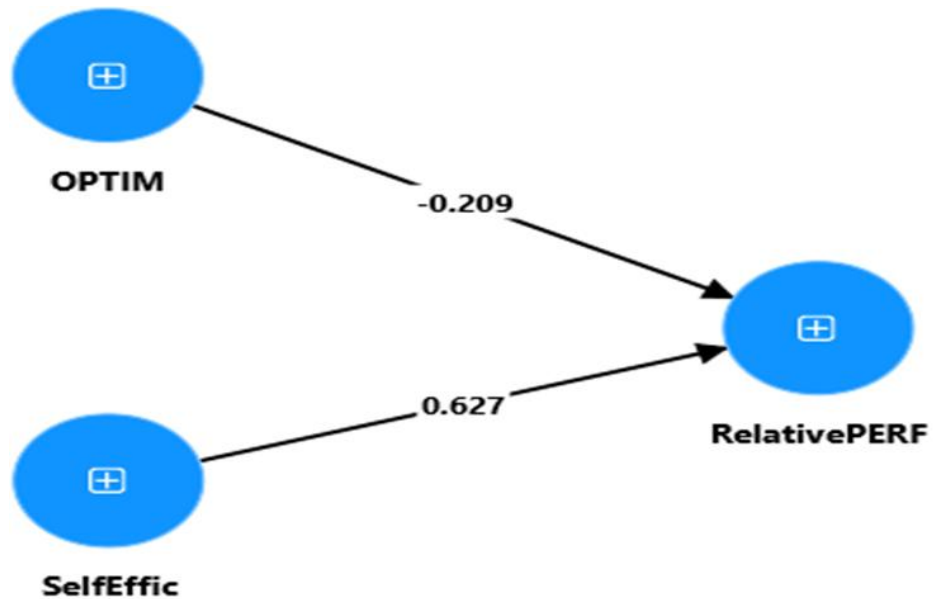
100 H2: Self efficacy is positively related to relative performance

101 H3: Self efficacy will have a greater positive effect on performance than optimism will  
102

103 Method

104  
105 The abridged scales for optimism and self-efficacy have been pivotal in understanding  
106 their roles in various contexts, particularly in entrepreneurship. This literature review  
107 synthesizes key findings from recent studies that highlight the significance of these  
108 constructs and their measurement in predicting entrepreneurial outcomes. Optimism,  
109 often defined as a general expectation that good things will happen, has been shown to  
110 influence entrepreneurial behavior and success. Hasan et al., argue that positive  
111 psychological capital, which includes optimism, enhances organizational performance  
112 in family businesses (Hasan et al., 2020). The implications of optimism extend beyond  
113 individual behavior; it also shapes the strategic decisions made by entrepreneurs, as  
114 optimistic individuals are more likely to pursue ambitious goals and take calculated  
115 risks (Crane & Crane, 2007). Self-efficacy, defined as the belief in one's capabilities to  
116 execute necessary actions, is another critical factor influencing entrepreneurial  
117 success. Hmieleski and Baron highlight that self-efficacy is a robust predictor of firm  
118 performance, particularly when combined with moderate optimism (Hmieleski & Baron,  
119 2008). Their findings suggest that while high self-efficacy generally correlates with  
120 positive outcomes, it can lead to negative performance in highly dynamic environments  
121 if not tempered with realistic optimism (Eniola, 2020). This nuanced understanding of  
122 self-efficacy underscores the importance of measuring it accurately, as it can vary  
123 significantly based on context and individual experiences. The measurement of  
124 optimism and self-efficacy has evolved, with various scales being developed and  
125 validated. Optimism fosters resilience and innovation, while self-efficacy enhances the  
126 belief in one's capabilities to achieve goals. Together, these constructs form a robust  
127 framework for predicting entrepreneurial outcomes, highlighting the need for accurate  
128 measurement and understanding of their interplay in various contexts.  
129

130 Our sample was drawn from a database owned by a commercial survey company. The  
131 database contained a set of small business owners. We received valid and complete  
132 responses. We were able to contact two of these respondents by phone and confirm their  
133 information. We remained blind to the remaining respondents. 64 percent of these businesses  
134 had been open for more than 2 yrs. The size of the respondent's organization were; 63% had 1-  
135 4 employees, and 37% 5-20 employees.



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138 The paths in our model were both significant with Optimism having a negative path  
 139 coefficient.

	<b>Cronbach's alpha</b>	<b>Composite reliability (rho_c)</b>	<b>Average variance extracted (AVE)</b>
<b>OPTIM</b>	0.909	0.915	0.784
<b>SelfEffic</b>	0.897	0.924	0.708

140

141 All of our multi-item constructs exhibited acceptable reliability with composite reliability  
 142 the acceptable minimum of .7 (Cronbach, 1951)

	<b>OPTIM</b>	<b>RelativePERF</b>	<b>SelfEffic</b>
<b>OPTIM</b>			
<b>RelativePERF</b>	0.067		
<b>SelfEffic</b>	0.268	0.617	

143

144 Our inter-construct correlations were all below .70 which is considered demonstration of  
 145 discriminant validity.(Henseler, Ringle, & Sarstedt, 2015)

146

147 Conclusion

148 The results were somewhat surprising. Optimism does not appear to have a positive  
 149 relationship with performance in a microbusiness. Our H1 hypothesis was not  
 150 supported. Self efficacy does have a positive relationship with performance providing  
 151 support for H2 and H3. Several studies have considered and shown optimism to play  
 152 an important role in entrepreneurial behavior, however, it may be that microbusinesses  
 153 simply don't have the same relationship with optimism. The microbusiness is often one

154 to four individuals with a leader who must make significant contributions in personal  
155 resources to the business. Self efficacy appears to be the most important factor in  
156 predicting success. This is a positive perception of your ability to get things done. The  
157 workload and stress on individuals with small businesses that rely on them to survive  
158 may wear on their optimistic outlook, at the same time the confidence they have in their  
159 own ability grows. One important contribution of this finding is that self-efficacy may be  
160 easier to promote than optimism. Self-efficacy comes with learning and applying new  
161 skills. New skill can be learned on a regular basis and as a owner becomes more adept  
162 at learning and adapting to new situations their view of their own abilities will continue to  
163 help their small firm perform.

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