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RESEARCH ARTICLE

HOW SELF-EFFICACY AND OPTIMISM AFFECT U.S. MICROBUSINESSES

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Abstract

We examine the effect of Optimism and Self-Efficacy on the relative performance of microbusinesses in the U.S. Using 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.

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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, Moshia, 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 positive outlook towards future events, which can significantly influence entrepreneurial behavior and success. Research indicates

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

Our hypotheses are:

H1: Optimism is positively related to relative performance

H2: Self efficacy is positively related to relative performance

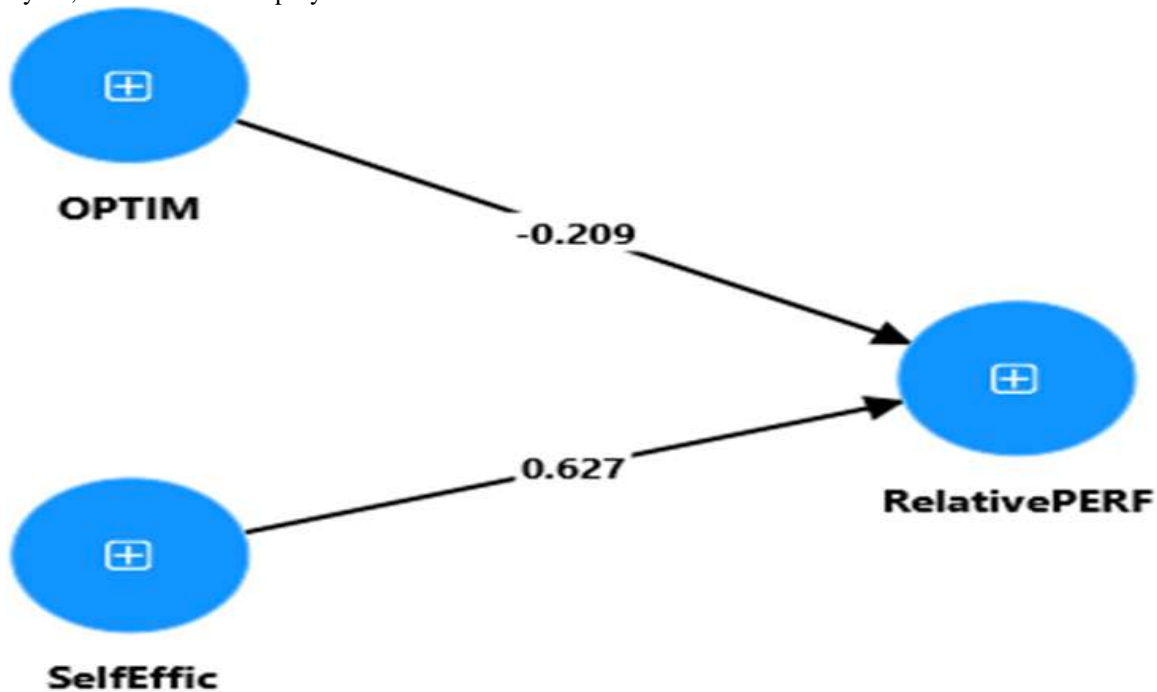
H3: Self efficacy will have a greater positive effect on performance than optimism will

Method:-

The abridged scales for optimism and self-efficacy have been pivotal in understanding their roles in various contexts, particularly in entrepreneurship. This literature review synthesizes key findings from recent studies that highlight the significance of these constructs and their measurement in predicting entrepreneurial outcomes. Optimism, often defined as a general expectation that good things will happen, has been shown to influence entrepreneurial behavior and success. Hasan et al., argue that positive psychological capital, which includes optimism, enhances organizational performance in family businesses (Hasan et al., 2020). The implications of optimism extend beyond individual behavior; it also shapes the strategic decisions made by entrepreneurs, as optimistic individuals are more likely to pursue ambitious goals and take calculated risks (Crane & Crane, 2007). Self-efficacy, defined as the belief in one's capabilities to execute necessary actions, is another critical factor influencing entrepreneurial success. Hmieleski and Baron highlight that self-efficacy is a robust predictor of firm performance, particularly when combined with moderate optimism (Hmieleski & Baron, 2008). Their findings suggest that while high self-efficacy generally correlates with positive outcomes, it can lead to negative performance in highly dynamic environments if not tempered with realistic optimism (Eniola, 2020). This nuanced understanding of self-efficacy underscores the importance of measuring it accurately, as it can vary significantly based on context and individual experiences. The measurement of optimism and self-efficacy has evolved, with

various scales being developed and validated. Optimism fosters resilience and innovation, while self-efficacy enhances the belief in one's capabilities to achieve goals. Together, these constructs form a robust framework for predicting entrepreneurial outcomes, highlighting the need for accurate measurement and understanding of their interplay in various contexts.

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



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

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

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

	OPTIM	RelativePERF	SelfEffic
OPTIM			
RelativePERF	0.067		
SelfEffic	0.268	0.617	

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

Conclusion:-

The results were somewhat surprising. Optimism does not appear to have a positive relationship with performance in a microbusiness. Our H1 hypothesis was not supported. Self efficacy does have a positive relationship with performance providing support for H2 and H3. Several studies have considered and shown optimism to play an important role in entrepreneurial behavior, however, it may be that microbusinesses simply don't have the same relationship with optimism. The microbusiness is often one to four individuals with a leader who must make significant contributions in personal resources to the business. Self efficacy appears to be the most important factor

in predicting success. This is a positive perception of your ability to get things done. The workload and stress on individuals with small businesses that rely on them to survive may wear on their optimistic outlook, at the same time the confidence they have in their own ability grows. One important contribution of this finding is that self-efficacy may be easier to promote than optimism. Self-efficacy comes with learning and applying new skills. New skill can be learned on a regular basis and as a owner becomes more adept at learning and adapting to new situations their view of their own abilities will continue to help their small firm perform.

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