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Entrepreneurial Orientation And Work Engagement As Mediators In The Relationship Between Psychological Capital And Employee Performance In Indonesian MSMEs

Orientasi Kewirausahaan dan Keterlibatan Kerja sebagai Mediator dalam Hubungan antara Modal Psikologis dan Kinerja Karyawan di UMKM Indonesia

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Abstract

The purpose of this study is to examine the effect of psychological capital dimensions (self-efficacy, optimism, resilience, hope) on employee performance with the mediating role of entrepreneurial orientation and work engagement in Micro, Small and Medium Enterprises (MSMEs) to understand the processes of performance enhancement in resource-limited environments. The data were collected using a cross-sectional research design from 60 employes of MSMEs in West Sumatra, Indonesia and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with a double mediation analysis approach.This study aims to analyze the influence of psychological capital dimensions (self-efficacy, optimism, resilience, hope) on employee performance through the mediating role of entrepreneurial orientation and work engagement in MSMEs. This is to understand the process of performance improvement in resource-constrained settings. The data were collected by using a cross-sectional research design of 60 employes of MSMEs in West Sumatra, Indonesia. The data were analyzed using PLS-SEM with a double mediation analysis approach. Despite the limitations of this regional study due to the cross-sectional nature of the data and limited scope for generalization, the study provides practical implications for MSME managers to focus on fostering employees' psychological capital to encourage entrepreneurial behavior and work engagement. The novelty of this research is its contribution to the literature in terms of providing new insights into the dual mediation mechanisms linking psychological capital with performance in the context of SMEs in developing economies, providing a practical framework for human capital development.

Keywords: *Psychological Capital; Entrepreneurial Orientation; Work Engagement; Employee Performance; Msmes; Mediation Analysis; Indonesia*

Abstrak

Tujuan penelitian ini adalah untuk menguji pengaruh dimensi modal psikologis (efikasi diri, optimisme, ketahanan, harapan) terhadap kinerja karyawan dengan peran mediasi orientasi kewirausahaan dan keterlibatan kerja di Usaha Mikro, Kecil, dan Menengah (UMKM) untuk memahami proses peningkatan kinerja di lingkungan yang terbatas sumber daya. Data dikumpulkan menggunakan desain penelitian cross-sectional dari 60 karyawan UMKM di

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Sumatera Barat, Indonesia dan dianalisis menggunakan Partial Least Squares Structural Equation Modeling (PLS-SEM) dengan pendekatan analisis mediasi ganda. Penelitian ini bertujuan untuk menganalisis pengaruh dimensi modal psikologis (efikasi diri, optimisme, ketahanan, harapan) terhadap kinerja karyawan melalui peran mediasi orientasi kewirausahaan dan keterlibatan kerja di UMKM. Hal ini untuk memahami proses peningkatan kinerja dalam lingkungan yang terbatas sumber daya. Data dikumpulkan dengan menggunakan desain penelitian cross-sectional dari 60 karyawan UMKM di Sumatera Barat, Indonesia. Data dianalisis menggunakan PLS-SEM dengan pendekatan analisis mediasi ganda. Meskipun terdapat keterbatasan dalam studi regional ini karena sifat data yang bersifat cross-sectional dan ruang lingkup generalisasi yang terbatas, studi ini memberikan implikasi praktis bagi para manajer UMKM untuk fokus pada pengembangan modal psikologis karyawan guna mendorong perilaku kewirausahaan dan keterlibatan kerja. Kebaruan penelitian ini terletak pada kontribusinya terhadap literatur dalam hal memberikan wawasan baru tentang mekanisme mediasi ganda yang menghubungkan modal psikologis dengan kinerja dalam konteks UMKM di negara berkembang, serta menyediakan kerangka kerja praktis untuk pengembangan modal manusia.

Kata Kunci: Modal Psikologis; Orientasi Kewirausahaan; Keterlibatan Kerja; Kinerja Karyawan; UMKM; Analisis Mediasi; Indonesia

INTRODUCTION

The global economy's increasing volatility and uncertainty have highlighted the critical importance of psychological resources in driving employee performance, particularly in micro, small, and medium enterprises (MSMEs) where formal support systems are limited (Luthans et al., 2024). Psychological capital (PsyCap), comprising self-efficacy, hope, optimism, and resilience, has emerged as a crucial determinant of workplace outcomes, with meta-analytic evidence showing consistent positive relationships with performance across various contexts (Newm an et al., 2023).

However, the mechanisms through which psychological capital translates into performance remain understudied, particularly in MSME environments where employees often function as intrapreneurs, requiring both entrepreneurial mindsets and high levels of engagement (Chen & Liu, 2024). Recent research suggests that psychological capital may operate through intermediate psychological states and behaviors rather than directly influencing performance outcomes (Wang et al., 2024).

There are many factors that affect employee performance, such as the work environment and management support (Diamantidis & Chatzoglou, 2018), intrinsic work motivation (Yadewani, 2024), organizational justice, and support from the organization (Alhempi et al., 2026). However, the success of these contextual factors in boosting performance really depends on how employees personally respond to and incorporate that support into their work behavior.

Entrepreneurial orientation at the individual level has gained attention as a key mediating mechanism, representing employees' propensity to act entrepreneurially within their organizations through innovation, proactivity, and risk-taking (Miller, 2023). Simultaneously, work engagement characterized by vigor, dedication, and absorption has been identified as a critical motivational

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state linking personal resources to performance outcomes (Schaufeli & Bakker, 2024). Pentingnya orientasi kewirausahaan ini sejalan dengan berbagai studi empiris terdahulu yang membuktikan dampaknya yang kuat terhadap performa bisnis.(Sefnedi et al., 2022; Yadewani, 2022)

In the Indonesian context, where MSMEs contribute significantly to economic development while operating under resource constraints, understanding how psychological capital enhances performance through entrepreneurial orientation and work engagement becomes particularly relevant (Ministry of Cooperatives and SMEs, 2023). The collectivistic culture and hierarchical structures characteristic of Indonesian organizations may influence how these mediating mechanisms operate compared to Western contexts (Hofstede Insights, 2024).

This study addresses three critical research questions: (1) How does psychological capital influence entrepreneurial orientation and work engagement in MSME employees? (2) Do entrepreneurial orientation and work engagement mediate the relationship between psychological capital and employee performance? (3) Which mediating pathway (entrepreneurial orientation or work engagement) is more influential in the Indonesian MSME context?

Literature Review and Theoretical Development

Theoretical Foundation

Psychological Capital Theory

Psychological capital represents a higher-order construct comprising four psychological resources: self-efficacy (confidence in ability to succeed), hope (goal-directed energy and pathways), optimism (positive attribution about future success), and resilience (capacity to bounce back from adversity) (Luthans et al., 2007). Unlike fixed personality traits, psychological capital is state-like and developable through targeted interventions (Luthans & Youssef-Morgan, 2024). Recent meta-analyses demonstrate robust relationships between psychological capital and various organizational outcomes, with performance correlations ranging from $r = 0.35$ to $r = 0.42$ across different cultural contexts (Peterson et al., 2023). However, these relationships may be mediated by behavioral and motivational mechanisms rather than operating directly.

Individual Entrepreneurial Orientation

Individual entrepreneurial orientation (IEO) refers to employees' tendency to behave entrepreneurially within their work context, characterized by innovativeness, proactiveness, and calculated risk-taking (Covin & Wales, 2024). Unlike organizational entrepreneurial orientation, IEO focuses on individual-level entrepreneurial behaviors that contribute to organizational innovation and adaptability.

Research in MSME contexts reveals that employees with higher entrepreneurial orientation demonstrate superior performance through increased innovation, opportunity recognition, and adaptive behaviors (Santos et al., 2024). The psychological resources comprising psychological capital may provide the foundation for entrepreneurial behavior by enhancing confidence, goal pursuit, positive thinking, and resilience in face of setbacks.

Work Engagement Theory

Work engagement, defined as a positive, fulfilling work-related state characterized by vigor, dedication, and absorption, represents a key motivational construct linking personal resources to performance outcomes (Schaufeli et al., 2002). The Job Demands-Resources model suggests that personal resources, including psychological capital, serve as antecedents to work engagement (Bakker & Demerouti, 2024).

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Contemporary research emphasizes engagement as a mediating mechanism through which positive psychological states influence performance outcomes (Rodriguez & Martinez, 2023). In MSME contexts, where employees often have diverse responsibilities and limited formal support, work engagement may be particularly crucial for sustained performance.

Mediating Mechanisms

Psychological Capital and Entrepreneurial Orientation

The relationship between psychological capital and entrepreneurial orientation is theoretically grounded in social cognitive theory, which emphasizes the role of personal resources in shaping behavioral patterns (Bandura, 2001). Each component of psychological capital may contribute uniquely to entrepreneurial behavior: Self-efficacy enhances confidence in pursuing innovative solutions and taking calculated risks. Hope provides goal-directed energy and alternative pathways thinking crucial for entrepreneurial action. Optimism supports positive expectations about entrepreneurial outcomes despite uncertainty. Resilience enables recovery from entrepreneurial setbacks and continued pursuit of opportunities

Recent empirical studies support these theoretical links, with Li and Zhang (2023) finding that psychological capital significantly predicted individual entrepreneurial orientation ($\beta = 0.58$, $p < 0.001$) in Chinese SMEs.

Psychological Capital and Work Engagement

The Conservation of Resources theory provides theoretical foundation for the psychological capital-engagement relationship, suggesting that individuals with greater psychological resources are more likely to engage fully in their work (Hobfoll, 2024). The broaden-and-build theory further suggests that positive psychological states create upward spirals of engagement and performance (Fredrickson, 2023). Meta-analytic evidence confirms strong relationships between psychological capital and work engagement ($\rho = 0.65$, 95% CI [0.58, 0.71]), with effects remaining consistent across cultural contexts (Kim & Park, 2024).

Dual Mediation Model

We propose a dual mediation model where entrepreneurial orientation and work engagement serve as parallel mediators linking psychological capital to performance. This model suggests that psychological capital enhances performance through two distinct pathways:

1. Entrepreneurial Pathway: Psychological capital → Entrepreneurial orientation → Performance
2. Engagement Pathway: Psychological capital → Work engagement → Performance

These pathways may operate simultaneously, with their relative importance varying across contexts and individuals.

Hypothesis Development

Based on theoretical frameworks and empirical evidence, we propose the following hypotheses:

Direct Effects:

H1: Psychological capital positively influences entrepreneurial orientation
H2: Psychological capital positively influences work engagement
H3: Entrepreneurial orientation positively influences employee performance
H4: Work engagement positively influences employee performance
H5: Psychological capital positively influences employee performance

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Mediation Effects:

H6: Entrepreneurial orientation mediates the relationship between psychological capital and employee performance

H7: Work engagement mediates the relationship between psychological capital and employee performance

H8: The dual mediation model (through both entrepreneurial orientation and work engagement) explains significant variance in the psychological capital-performance relationship

Methodology

Research Design and Context

This study employed a quantitative cross-sectional design using the same dataset from West Sumatra, Indonesia, but reanalyzing variables to examine psychological capital, entrepreneurial orientation, and work engagement relationships. The Minangkabau cultural context provides unique insights into how psychological resources operate in collectivistic, high-context cultures.

Sample and Data Collection

The sample consisted of 60 MSME employees, recruited through stratified random sampling across industry sectors and organizational sizes. Data collection utilized validated online surveys with established psychometric instruments adapted for the Indonesian context.

Measurement Instruments

Psychological Capital (α = 0.92)

Measured using a composite scale derived from items originally measuring self-efficacy, optimism, and resilience constructs in the original dataset. We created a higher-order construct by combining:

- Self-efficacy items (4 items, α = 0.87)
- Optimism indicators derived from achievement orientation items (3 items, α = 0.83)
- Resilience proxies from risk-taking propensity items (reverse-coded safety orientation, 3 items, α = 0.81)

Individual Entrepreneurial Orientation (α = 0.89)

Developed from original risk-taking propensity and achievement orientation items, focusing on:

- Innovativeness: "I actively seek new ways to improve work processes" (α = 0.85)
- Proactiveness: "I anticipate problems and take preventive action" (α = 0.82)
- Risk-taking: "I pursue opportunities despite uncertain outcomes" (α = 0.88)

Work Engagement (α = 0.91)

Constructed from items originally measuring performance and motivation, adapted to reflect:

- Vigor: Energy and effort at work (3 items, α = 0.86)
- Dedication: Involvement and commitment (3 items, α = 0.89)
- Absorption: Concentration and focus (2 items, α = 0.83)

Employee Performance (α = 0.93)

Utilized the same performance measures from the original study, encompassing task performance, contextual performance, and overall effectiveness (3 items).

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Control Variables

Included demographic variables (age, gender, education, tenure) and organizational characteristics (size, sector) as controls.

Data Analysis Strategy

Analysis employed PLS-SEM using SmartPLS 4.0 with specific focus on mediation analysis:

1. Measurement Model Assessment: Evaluated reliability, convergent validity, and discriminant validity
2. Structural Model Analysis: Examined path coefficients and model fit
3. Mediation Analysis: Used bootstrapping (5,000 samples) to test indirect effects
4. Comparative Analysis: Assessed relative strength of mediation pathways
5. Robustness Checks: Conducted alternative model comparisons and sensitivity analyses

Results

Descriptive Statistics and Correlations

Table 1
Descriptive Statistics and Correlation Matrix

Variable	M	SD	1	2	3	4
1. Psychological Capital	5.44	0.81	(0.89)			
2. Entrepreneurial Orientation	5.31	0.95	0.72***	(0.91)		
3. Work Engagement	5.67	0.78	0.68***	0.59***	(0.93)	
4. Employee Performance	5.78	0.94	0.61***	0.73***	0.64***	(0.95)

*Note: Diagonal values in parentheses represent Cronbach's alpha; ***p < 0.001*

Measurement Model Assessment

All constructs demonstrated excellent psychometric properties:

- **Reliability:** Cronbach's α ranged from 0.89 to 0.95; Composite reliability from 0.92 to 0.96
- **Convergent Validity:** AVE values ranged from 0.72 to 0.87, all exceeding 0.50 threshold
- **Discriminant Validity:** Fornell-Larcker criterion and HTMT ratios confirmed discriminant validity

Structural Model Results

Direct Effects Analysis

Table 2
Structural Model Path Coefficients

Hypothesis	Path	β	t-value	p-value	95% CI	R^2	Decision
H1	PsyCap → EO	0.743	12.456	<0.001	[0.625, 0.861]	0.552	Supported
H2	PsyCap → Engagement	0.681	9.834	<0.001	[0.544, 0.818]	0.464	Supported
H3	EO → Performance	0.524	4.782	<0.01	[0.307, 0.741]		Supported
H4	Engagement → Performance	0.387	3.215	<0.05	[0.148, 0.626]		Supported

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Hypothesis	Path	β	t-value	p-value	95% CI	R^2	Decision
H5	PsyCap → Performance	0.189	1.823	0.069	[-0.014, 0.392]	0.823	Not Supported

Note: PsyCap = Psychological Capital; EO = Entrepreneurial Orientation

Mediation Analysis Results

Table 3
Indirect Effects and Mediation Analysis

Mediation Path	Indirect Effect	95% CI	Mediation Type	% of Total Effect
PsyCap → EO → Performance	0.389***	[0.198, 0.589]	Full Mediation	67.2%
PsyCap → Engagement → Performance	0.264**	[0.087, 0.448]	Full Mediation	32.8%
Total Indirect Effect	0.653***	[0.412, 0.894]		100%

*Note: **p < 0.01, ***p < 0.001*

Model Comparison and Robustness Checks

Alternative Model Testing

We tested three alternative models:

1. Direct Model: PsyCap → Performance (R^2 = 0.372)
2. Single Mediation Model 1: PsyCap → EO → Performance (R^2 = 0.647)
3. Single Mediation Model 2: PsyCap → Engagement → Performance (R^2 = 0.521)
4. Full Dual Mediation Model: Current model (R^2 = 0.823)

The full dual mediation model demonstrated superior explanatory power and model fit.

Multi-Group Analysis

Gender Differences:

Male employees: Stronger EO → Performance path (βmale = 0.612 vs. βfemale = 0.421, p < 0.05)

Female employees: Stronger Engagement → Performance path (βfemale = 0.456 vs. βmale = 0.298, p < 0.05)

Tenure Differences:

Experienced employees (>4 years): Stronger PsyCap → EO relationship (β = 0.789 vs. 0.681, p < 0.05)

Newer employees (<4 years): Stronger PsyCap → Engagement relationship (β = 0.743 vs. 0.612, p < 0.05)

Additional Analyses

Importance-Performance Matrix Analysis

IPMA results revealed:

Entrepreneurial Orientation: High importance (0.524) and high performance (5.31)

Work Engagement: Moderate importance (0.387) but highest performance (5.67)
Psychological Capital: Moderate direct importance (0.189) but highest total effect (0.842)

Predictive Relevance

Stone-Geisser Q^2 values confirmed predictive relevance:

Q^2 Entrepreneurial Orientation = 0.389
Q^2 Work Engagement = 0.312
Q^2 Employee Performance = 0.564

Discussion

Theoretical Implications

Dual Mediation Mechanisms

Our findings provide strong support for the dual mediation model, revealing that psychological capital operates through both entrepreneurial orientation and work engagement to influence performance. The model's high explanatory power (R^2 = 0.823) suggests that these mediating mechanisms capture the primary pathways through which psychological resources translate into performance outcomes.

The dominance of the entrepreneurial orientation pathway (67.2% of mediation effect) challenges traditional emphasis on engagement as the primary mediator of personal resource-performance relationships. This finding suggests that in MSME contexts, entrepreneurial behaviors may be more critical than motivational states for translating psychological resources into performance.

Context-Specific Mediation Patterns

The stronger entrepreneurial orientation pathway in Indonesian MSMEs may reflect several contextual factors:

1. Resource Constraints: MSMEs' limited resources may require more entrepreneurial, innovative approaches to achieve performance
2. Environmental Uncertainty: Dynamic MSME environments may reward entrepreneurial behaviors more than traditional engagement
3. Cultural Adaptation: In collectivistic cultures, entrepreneurial orientation may represent culturally appropriate ways to express individual psychological resources

Psychological Capital as Foundational Resource

The strong relationships between psychological capital and both mediators ($\beta = 0.743$ for EO, $\beta = 0.681$ for engagement) confirm its role as a foundational psychological resource. However, the non-significant direct effect on performance ($\beta = 0.189$, $p = 0.069$) suggests that psychological capital requires behavioral and motivational translation to influence performance outcomes.

Practical Implications

Psychological Capital Development Programs

Organizations should implement systematic psychological capital development programs focusing on:

Self-Efficacy Building: Skills training, mastery experiences, and modeling programs to enhance confidence Hope Enhancement: Goal-setting workshops and pathway thinking development Optimism Training: Positive psychology interventions and cognitive restructuring techniques Resilience Building: Stress management, coping strategies, and adversity training

Entrepreneurial Orientation Cultivation

Given the strong mediation effect through entrepreneurial orientation, MSMEs should:

Innovation Support: Create safe spaces for experimentation and learning from failures Proactivity Rewards: Recognize and reward anticipatory behaviors and initiative-taking Calculated Risk-Taking: Provide frameworks for appropriate risk assessment and management

Work Engagement Enhancement

While secondary to entrepreneurial orientation, work engagement remains important:

Job Crafting: Allow employees to modify their roles to increase meaning and engagement Resource Provision: Ensure adequate resources to support vigorous work performance Recognition Systems: Implement feedback and recognition programs to maintain dedication.

Cultural Considerations

The Indonesian context reveals important cultural nuances:

Collective Entrepreneurship: Entrepreneurial behaviors should be framed as benefiting the group/organization rather than individual advancement Hierarchical Respect: Proactive behaviors should respect traditional authority structures while encouraging innovation Social Harmony: Balance individual entrepreneurial expression with cultural values of harmony and cooperation

Limitations and Future Research

Methodological Limitations

1. Cross-Sectional Design: Limits causal inferences; longitudinal studies needed
2. Sample Size: While adequate for PLS-SEM, larger samples would enable more complex analyses
3. Single Source: Self-report measures may introduce common method bias
4. Geographic Limitation: West Sumatra focus limits broader generalizability

Future Research Directions

Longitudinal Studies: Examine how psychological capital development influences entrepreneurial orientation and engagement over time

Cross-Cultural Validation: Test the dual mediation model across different cultural contexts to assess universality

Intervention Studies: Develop and test psychological capital interventions measuring effects on mediators and performance

Micro-Level Processes: Use experience sampling methods to examine daily fluctuations in psychological capital and mediating mechanisms

Boundary Conditions: Investigate moderators such as organizational culture, industry type, and leadership style

Conclusion

This study provides novel insights into the mechanisms through which psychological capital influences employee performance in MSMEs, revealing dual mediation pathways through entrepreneurial orientation and work engagement. The dominance of the entrepreneurial orientation pathway challenges conventional wisdom about engagement as the primary mediator, suggesting that entrepreneurial behaviors may be more crucial than motivational states in resource-constrained MSME environments.

The findings contribute to positive organizational behavior literature by demonstrating that psychological capital operates through multiple behavioral and motivational mechanisms rather

than directly influencing performance. For practitioners, the results suggest that psychological capital development programs should be coupled with entrepreneurial mindset cultivation and engagement enhancement strategies.

The study's cultural context highlights the importance of considering cultural factors in understanding psychological resource-performance relationships. The Indonesian MSME context appears to favor entrepreneurial expression of psychological resources, potentially reflecting cultural adaptations to resource constraints and environmental uncertainty.

Future research should continue exploring these mediation mechanisms across different contexts while examining the temporal dynamics of psychological capital development and its behavioral and motivational consequences. Such research will be crucial for developing effective human capital development strategies in the critical MSME sector.

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