Human, Social, and Now Positive Psychological Capital Management: Investing in People for Competitive Advantage

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There is growing evidence that human resources are crucial to organizational success, and may offer the best return on investment for sustainable competitive advantage. Jeffery Pfeffer's extensive work, summarized in his book *The Human Equation,* discusses substantially supported but unfortunate findings that only about half of today's organizations and their managers believe that human resources really do matter. Moreover, only half of those organizations act upon their beliefs beyond paying lip service to this vital resource. Few organizations have adopted high performance work practices, such as 360-degree feedback, pay-for-performance, self-managed teams, employee empowerment, and other human-oriented initiatives. Furthermore, Pfeffer shows that about half of those who "believe" that human resources are their most important asset and "do something about it" actually "stick to" their beliefs and commit to these high performance work practices over time.

Pfeffer carefully documents that the resulting "one-eighth" are the world-class organizations such as Southwest Airlines Co., General Electric Co., Microsoft Corp., and others that may vary in size and technology, and across industries and countries, but share worldwide superiority in productivity, innovation, quality, customer satisfaction, and bottom-line profitability. As Carly Fiorina of Hewlett-Packard Co. recently observed: "the most magical and tangible and ultimately the most important ingredient in the transformed landscape is people.'' Other well-known business leaders such as Intel Corp.'s Andy Grove and Microsoft's Bill Gates further support this claim in their observation that ''our most important asset walks out the door every night.'' In other words, there finally seems to be the realization that human resources are no longer just a cost of doing business, but are an indispensable asset, and, an investment that needs to be effectively managed so that they can yield the high return of sustainable competitive advantage.

Despite the platitudes of chief executive officer (CEO) speeches and annual report verbiage that ''our people are the most important asset,'' both strategic and everyday decisions are still based on risk-return financial assessments. To a large degree, the choice about which investment opportunities to pursue remains contingent on how financial outcomes are assessed and reported. In today's economy, executives who believe in the importance of human resources need to be able to objectively show how the investment in human resources can be measured, developed, and leveraged for a desirable return. In other words, how the alternative investment in human resources can be capitalized upon as a source of competitive advantage that impacts the bottom line, not only in terms of short-term profitability, but also long-term survival and growth. The need to treat human resources as a capital investment has never been more crucial, especially since downsizing, restructuring, outsourcing, and other lean-and-mean human resource slashing approaches have become the norm for meeting today's economic challenges.

The purpose of this article is to analyze what constitutes competitive advantage from traditionally recognized sources. We then turn to treating human resources as a capital investment for competitive advantage. Specific attention is given to increasingly recognized human and social capital and the newly proposed positive psychological capital. After providing the theoretical and research background, attention is given to guidelines for how to practically manage human, social, and positive psychological capital for competitive advantage.

Traditional Sources of Competitive Advantage

For an organizational resource to become a core competence and advantage, it needed to be one that competitors could not readily duplicate (e.g., plant, equipment, and technology). Then, when these costly physical resources no longer served as barriers to entry, non-financial factors entered into the competitive advantage equation. In particular, strategic deficiencies such as lack of vision, short-term approaches to planning and decision making, inadequate resource utilization, complacent or risk-averse leadership, or inappropriate strategic–structural–cultural fit, to name a few, prevented organizations from being competitive.

Besides high cost and the right strategic initiatives, other recognized sources of competitive advantage are the criteria of being rare and unique, cumulative, interconnected, and renewable. For example, a new product, such as Citicorp's then-unique ATM, provides first-to-market competitive advantage. The cumulative criterion recognizes the inertia and an upward spiral involved in the process of building and maintaining competitive advantage. In addition, sources of competitive advantage are interconnected. Each component is part of a synergistic whole. Finally, the ingredients of competitive advantage are renewable. An organization should be able to replenish these ingredients faster than they are eroded in order for it to sustain its competitive edge.

Table 1. The Status of Various Sources of Competitive Advantage

Source	Long Term?	Unique?	Cumulative?	Interconnected?	Renewable?
Traditional Capital					
Financial	No	No	Yes	No	No
Structural/Physical	Yes	No	Yes	Maybe	Maybe
Technological	No	No	No	Maybe	No
Human Capital					
Explicit Knowledge	Maybe	No	Yes	No	Maybe
Tacit Knowledge	Yes	Yes	Yes	Yes	Yes
Social Capital Networks	Maybe	Yes	Yes	Yes	Maybe
Norms and Values	Yes	Yes	Yes	Yes	Yes
Trust	Yes	Yes	Yes	Yes	Yes
Positive Psychological Capital					
Confidence	Yes	Yes	Yes	Yes	Yes
Hope	Yes	Yes	Yes	Yes	Yes
Optimism	Yes	Yes	Yes	Yes	Yes
Resiliency	Yes	Yes	Yes	Yes	Yes

The sources of competitive advantage are derived from resources that are difficult for competitors to imitate, because they are beyond their financial or strategic means, or because they are specific to or tightly intertwined with the organization's history, culture, structure, and processes (e.g., Southwest Airlines or Federal Express Corp. cultures). These criteria exclude many of the traditional sources of competitive advantage. For example, fundamental strategies that solely revolve around accumulating short-term financial resources ignore the long-term impact on various stakeholders. These have become the death knell to once-gigantic competitive leaders such as Arthur Andersen, Enron Corp. and WorldCom Inc. Their competitive strategies lacked a long-term, ethical orientation. They were not synergistic with any of the factors that have originally created competitive advantage for these organizations in the past. They destroy more assets than they can replenish. Financial gain from questionable and illegal practices can in no way replace lost trust from employees, customers, and even shareholders. They can never undo the damage to corporate image, reputation, and competitive position.

Likewise, structural capital, which includes physical resources, as well as organizational resources such as systems, procedures, management decision-making models and techniques, has also lent itself to copying and imitation. Sometimes these imitations have been legitimately flown under the flag of "benchmarking," but too often through half-baked "me-too" strategies. Information technology, which until recently has been the primary source of competitive advantage, is now readily available at exponentially decreasing costs. It is currently viewed as leveling the playing field, equipping all competitors with the same technological capacities to build upon. Outcomes of cutting-edge technology can be reverse-engineered, and within months, sometimes weeks, an organization can flood the market with products that are identical—or even better than those introduced by its competitors—at a lower price.

The above developments present a strong argument that traditional resources may no longer qualify as ideal sources of sustainable competitive advantage. This may come as unpleasant news for practicing managers, since these easily lent themselves to objective measurement and evaluation criteria. With inputs and outputs assessed using a common financial denominator, it was possible to compare alternative investments, monitor results, and objectively assess the impact of various initiatives and programs. However, once the human factor is introduced into the competitive equation, many of our long-held assumptions get challenged. We have observed organizations with similar traditional resources ''magically'' transform themselves, for better or for worse (e.g., Eastman Kodak Co., HP, J.C. Penney Company, Inc.). The first fourth of Table 1 briefly summarizes the status of the most common traditional sources of competitive advantage in relation to the widely recognized criteria. The last three-fourths of Table 1 then apply the same criteria to the emerging human and social capital and the newly proposed positive psychological capital.

Why Are Human Resources A Source of Competitive Advantage?

Compared to the traditional physical, structural, and financial resources, human resources are more inimitable by competitors. Why is this the case? Apparently, the answer to this question is far from obvious. As Pfeffer pointed out, about seven-eighths of today's organizations ''just don't get it''—what he has called ''the knowing-doing gap.'' We propose that the ''doing'' of human resources for competitive advantage can begin to close the gap through the recognition and effective management of human, social and now positive psychological capital.

Recognition of Human Capital

Human capital is usually equated with knowledge, skills, abilities or competencies derived from education, experience and specific identifiable skills. Although most widely recognized, we would argue that this investment in human capital may not result in the greatest return for competitive advantage. This common view of human capital is referred to as explicit knowledge, and it has been the primary basis for investment in, or at least selection of, a large proportion of today's human capital. Although easily measurable, research shows that the validity of explicit knowledge as selection criteria for human capital is quite limited. For example, based on many years of empirical studies, meta-analytical results by Hunter and Schmidt show that, on average, education has a predictive validity of only .10, and experience also has an unimpressive predictive validity of .18 for job performance.

Explicit knowledge is easily imitable. Education costs are not as prohibitive as they used to be, and tuition reimbursement is a common practice for many organizations, especially when it represents a competitive pull for qualified employees. Outsourcing technical training has resulted in almost identical skills being delivered to employees in competing organizations (sometimes in the same training venue, at the same time). Even work experience can be copied or duplicated when organizations lure their competitors' competent employees, or when strategic differentiation and effective positioning give way to imitative, undifferentiated products and approaches and cutthroat, price-based competition. Finally, in today's knowledge-based, high-tech environment, education, experience and skills become outdated very quickly, sometimes even before they are ever put to use.

The other dimension of human capital that is often overlooked is tacit knowledge. This type of knowledge is organization-specific and built over time as members become socialized into the organization, become part of its culture, understand its structure and dynamic processes, and learn how it operates as a whole. Tacit knowledge is the intangible but vital process of "learning the ropes." This process includes a tremendous investment, especially in terms of time and effort, on the part of the organization and its managers and employees. Tacit knowledge is what Andy Groves and Bill Gates were referring to that walks out the door every night. But it is also what organizations lose when they are unable to retain their employees long enough for the returns on this type of human capital to pay off in terms of competitive advantage. As Dave Ulrich recently noted, "An organization is good not because of its structure. It's good because of the set of capabilities that are embedded in the firm." For example, although having very different structures, "Microsoft is very adept at innovation. GE is good at global collaboration. Nike is very good at brand management." We would argue that these embedded capabilities are tacit knowledge. Competitors cannot benefit from this tacit knowledge because it is organization-specific and therefore non-transferable. Once an employee is lost, this investment in human capital is wasted, and thus retention becomes critical.

As shown in Table 1, although explicit knowledge has some definite limitations, tacit knowledge fulfils the widely recognized criteria of competitive advantage. First, tacit knowledge is long-term oriented and requires high commitment on the part of the organization, management, and employees. It is also unique, cumulative and interconnected. For organizations that are effective in retention, such as Southwest Airlines, State Farm Insurance Co., or Birmingham Alabama's American Cast Iron Pipe Company (which had only a two-percent turnover last year), tacit knowledge can be created faster than it is depleted, and is therefore renewable. The challenge, however, is that tacit knowledge is difficult to measure, and its impact is manifested over an indefinite period of time. For example, we would argue that many organizations in recent years took wrong turns with the indiscriminate utilization of temporary workers and freelancers. These short-term, quantifiable cost-savings were more tempting in relation to the intangible, distanced, hard-to-sell "fuzz" of investing in human capital yielding tacit knowledge for competitive advantage. To illustrate, every working day, at least 8 million temporary workers are placed worldwide, with 2.5 million of these in the United States, and 70 percent of them work full-time. Adecco SA, the Swiss temp giant, alone daily places nearly 700,000 temporary full-time clerical, industrial, and technical associates with businesses all over the world, with 250,000 of those in the United States. We next turn to how such human capital can be more effectively managed.

Human Capital Management

Although considerable attention has recently been devoted to human resource "scorecards," utility analysis, and other tangible methods for more objective management of human capital, as shown in Table 2, we offer the following practical guidelines and techniques for more effective human capital management, or simply HCM:

1. *Selection and selectivity.* Careful human resource selection is a necessary precondition for careful development. However, careful selection necessitates utilizing the right criteria. Jim Collins of "Good to Great" fame notes: "The adage 'people are your most important asset' turns out to be wrong. People aren't your most important asset; the right people are." Although education, previous experience, knowledge, skills and abilities, i.e., explicit knowledge, may be necessary, these factors may not be sufficient for leveraging human capital. What organizations should be looking for is the potential of the person being hired or promoted. Selection criteria should be focused on the chances of a candidate to absorb, retain and effectively utilize tacit knowledge over time. Gallup's "strengths-based" approach involves selecting employees based on their talents, and placing them where they get to

Table 2. Managing Human, Social and Psychological Capital

Approach	Representative Techniques
HCM (Human Capital Management)	1. Selection and selectivity. 2. Training and development. 3. Building tacit knowledge.
SCM (Social Capital Management)	1. Open communication channels. 2. Cross-functional work teams. 3. Work-life balance programs.
PCM (Psychological Capital Management)	1. Developing efficacy/confidence through • mastery experiences • vicarious learning/modeling • social persuasion • positive feedback • physiological and psychological arousal 2. Developing hope through •goal setting • ‘‘stepping’’ • participative initiatives • showing confidence • ‘‘preparedness’’ • contingency planning • mental rehearsals • ‘‘re-goaling’’ 3. Developing optimism through • leniency for the past • appreciation for the present • opportunity-seeking for the future • realistic perspectives • flexible perspectives 4. Developing resiliency through • asset-focused strategies • risk-focused strategies • process-focused strategies

do what they do best every day. This has been shown to result in employee engagement and satisfaction, with well documented positive impact on customer satisfaction, increased productivity and profits, and reduced employee turnover and accidents. Other key selection criteria for tapping and enhancing the tacit knowledge capabilities of human capital may include willingness and ability to continuously learn, desire for participation and involvement, and person-organization cultural fit. For example, Southwest Airlines is known to ‘‘hire for attitudes, and train for skills.’’

2. *Training and development*. There is no doubt that widely used external training has its advantages. Many organizations resort to sending their executives and employees to outside specialized training programs, or hire renowned subject-matter experts and training consultants, in order to benefit from their expertise without having to incur the prohibitive costs of keeping training specialists on staff. For example, the big pharmaceutical Pfizer Inc. in New York has training on every level—from self-paced courses to study at Harvard University, and an on-site master's degree program. At Pfizer, tuition reimbursement has no cap. Added to that are the new perspectives that trainees gain from a diversified training portfolio. However, the decision to outsource training is a strategic, rather than an operational one.

We would argue that an organization should strike a balance between internal, customized training, and external, generic programs. The investment firm Edward Jones spends 3.8 percent of its payroll on such diversified training. This amounts to an average of 146 hours for every employee, and new brokers get about four times that amount. When asked why Jones invests so much in its people, a managing partner responded, "In order to grow, you have to be trained, or you get trapped in the present." Similar to education, generic training programs are not unique, and thus are easily imitable. On the other hand, internally tailored coaching and mentoring are more likely to develop the tacit knowledge of human capital and result in more long-term effectiveness and competitiveness. There is an ongoing debate regarding the effectiveness of succession planning efforts in grooming internal candidates for executive positions, in comparison to bringing in outsiders with the necessary skills and experience. However, one of the primary reservations regarding outsiders is their lack of tacit knowledge. We would argue that tacit knowledge cannot be outsourced. It is built only through time, tenure, and organization-specific developmental efforts, which are most often unique to insiders.

3. *Building tacit knowledge.* Many organizations fall into the trap of assuming that tacit knowledge is a given for anyone who "has been around long enough," and therefore invest minimal resources in developing their managers' and employees' tacit knowledge. This is a misconception that can destroy tacit knowledge, because it allows for discrepancies and conflicting perceptions among organizational members regarding the dynamics of the organization. On the other hand, building tacit knowledge requires a committed, proactive role on the part of the organization, to create the necessary quantity and

quality of exposure. Well-known consultant Warner Burke feels that to make tacit knowledge useful, there is a need for ''discovering new techniques for eliciting the knowledge that exists.'' Research in the area of employee socialization supports this idea. It has been shown that socialization is a multidimensional construct that includes performance proficiency, politics, language, people, organizational goals/ values, and history, i.e., tacit knowledge. Furthermore, research indicates that these tacit knowledge dimensions better predict performance and attitudinal outcomes over time than traditional, tenure-related operationalizations of socialization.

One of the practical approaches to developing tacit knowledge is good old job rotation, effectively used at firms such as GE Insurance or State Farm, where employees spend a sufficient amount of time with each department to gain exposure and formulate an overall perspective of the organization. Also, on an informal basis, at Southwest Airlines pilots are assigned to work with ramp agents, and customer service agents with sky-caps. Executives frequently pass out peanuts and serve drinks on flights and even help baggage handlers on holidays. This ''walking in the other person's shoes'' cultural value allows them to gain not only empathy, but also tacit knowledge.

Another approach that is relevant to today's global organizations is expatriation, in which an employee is given an international assignment at one of the organization's foreign operations. When effectively designed, international assignments can provide employees with invaluable cross-cultural perspectives that can enhance the organization's position in various geographic markets, as well as its profitability and effectiveness as a coordinated, integrated whole. Moreover, job security is still another indispensable organizational best practice for world-class performance. Job security creates a stable organizational culture that is more conducive to the requisite long-term perspective for tacit knowledge development. It contributes to the creation and maintenance of effective psychological contracts based on trust, commitment and organizational citizenship, as Yum Brands, Celanese Chemical, and other companies have discovered.

Recognition of Social Capital

Social capital is recognized to include interpersonal, inter-group and inter-organizational relationships, networks and connections, as well as the underlying group and community resources, social structure, and cultural dynamics. In other words, social capital is a multifaceted construct. There are three valuable aspects of social capital that have been identified as consequential for helping create sustainable competitive advantage. These dimensions of social capital are networks, norms and trust.

1. *Networks* involve the contacts and ties that relate organizational members and units with each other and with the outside world. Tacit knowledge can create familiarity with the organization's unique culture, structure, and processes that can result in smooth operations and a unified sense of direction and purpose. On the other hand, social networks establish the inter-linkages that allow for the sharing and exchange of ideas and resources at the cognitive (e.g., team mental models, networked organizations), affective (e.g., social support), and behavioral (e.g., teamwork) levels. For example, strategy guru Gary Hamel observes that "if I see someone in an organization who has captured the minds, passions, and attention of 20 other people, I know almost by definition that is an idea worth pursuing." Research supports that such dynamic processes significantly impact long-term success and effectiveness, because pooled resources and synergies compensate for individual deficiencies and cushion against external shocks and internal vulnerabilities. That is why Plante & Moran, a large Michigan accounting firm, gives annual awards to employees who have best contributed to the "spirit of team play and selfless behavior."

2. *Norms* and rules of behavior, as well as the underlying values and assumptions, provide the foundational infrastructure for the organizational strategies, structures and processes through which organizations achieve their goals. Even rules and regulations that may seem to hinder creativity and flexibility have been deemed to be necessary for providing stability, identity and direction, especially in times of change and uncertainty. Norms create practical mutual expectations that interacting individuals, groups or organizations can understand and fulfill in order to maintain smooth, productive relationships.

3. *Trust* acts as the bonding agent that allows for networks and norms to actualize and achieve their full potential. Trust can eliminate the barriers that hinder long-term relationships, open communication, knowledge- sharing, and continuous feedback, which can facilitate creativity, innovation and competitiveness. For example, at Baptist Health Care in Florida, housekeepers are privy to the same financial information as the chief financial officer (CFO). In a recent meta-analytical study, researchers found that employees' trust in their leaders

is related to their performance, organizational citizenship behaviors, turnover intentions, organizational commitment, and job satisfaction. Jeff Immelt, CEO of General Electric, has recently declared, ''If integrity is the high bar, it's way too low. Business leaders must win trust through performance with values, and through giving back to the society.'' Similar research findings support the significant role of interunit and interorganizational trust in creating effective partnerships.

In sum, we argue that social capital is crucial for creating sustainable competitive advantage. Social capital even contributes to the creation of human capital. The arguments we presented here support this claim. For example, without trust-based psychological contracts, building tacit knowledge becomes problematic. Contrary to the common belief that relationships and networks are too volatile and thus unreliable sources of competitive advantage, we have found established research support that social capital underlies long-term relationships at least for norms/ values and trust that are critical for sustained performance and effectiveness. As shown in Table 1, social capital dimensions also meet the other criteria of competitive advantage, because they are unique, cumulative, interconnected, and largely renewable. Some specific guidelines for managing social capital are presented next.

Social Capital Management

In order to effectively manage social capital, organizations and their managers need to establish and maintain the structures and processes necessary for networks, norms and trust to develop over time. Such factors of social capital management, or simply SCM as shown in Table 2, may include the following:

1. *Open communication channels:* Trust develops over time, through repeated encounters and interactions. Open communication becomes a key to the development of trust. Clearly communicated organizational vision and objectives ensure consistency and allow for best practices such as participation and involvement to materialize. Leadership transparency enhances perceptions of authenticity, enabling leaders to draw the support and buy-in that are crucial for guiding their units to accomplish their targets and goals. An organizational culture of openness enhances accountability, and reinforces responsible, ethical decision making. For example, the first law firm to crack

Fortune's top five ''Best Companies to Work For,'' Alston & Bird in Atlanta, reportedly thrives because of daily, weekly, monthly, and quarterly communications.

In addition, communication-oriented best practices, such as positive feedback and social recognition, have been shown through repeated research to enhance employee performance. If fact, a recent metaanalysis of relevant research studies by Stajkovic and Luthans has shown that feedback can enhance performance on average by 10 percent, and that social recognition can enhance performance on average by 17 percent. Feedback enhances performance through clarifying tasks and expectations.

On the other hand, social reinforcement enhances psychological contracts and trust relationships. In comparison to costly perks and monetary rewards, feedback and recognition are readily available for managers to use at no cost, yet they are often ignored as reinforcers. Moreover, feedback and recognition are beneficial, even for high-paying organizations that believe they are inundating their managers and employees with monetary rewards. When combined with contingent monetary reinforcement, feedback and recognition increased performance by 45 percent, in comparison to money alone, which increased performance by ''only'' 23 percent!

2. *Cross-functional work teams.* Often times, functional departments can become too specialized and isolated from the rest of the organization. Cross-functional work teams can provide a platform for cross-organizational communication, resulting in more integrated and strategically aligned organizational cultures, products and services. Diversified viewpoints allow for respect, appreciation, and confidence to develop across departments and work units, which in turn reduces the perceived risks and increases the perceived benefits of cross-unit networking and collaboration.

3. *Work-life balance programs.* Organizational members draw their social capital from multiple sources. These sources are not limited by organizational boundaries. Involvement in relationships with family, friends and non-profit organizations, can also enhance social capital. Firms such as Silicon Valley's Adobe Systems Inc. promote such social capital by sponsoring Friday night beer bashes and the jelly maker J. M. Smucker Co. offers employees unlimited paid time off to volunteer in the community. These outside activities in turn can impact job performance, both directly through created connections and contacts, and indirectly through enriched social support and enhanced psychological

well-being. For example, Judge and his colleagues have found that life satisfaction can cause job satisfaction, but not vice versa. Moreover, job satisfaction in turn is related to performance. In fact the correlation between job satisfaction and performance has recently been found to be a respectable .3. These relationships imply that organizational actions that emphasize employees' quality of life both inside and outside the workplace and take actions to prevent intrusions on their personal time are sound business decisions. For example, at PricewaterhouseCoopers, the hectic 24/7 demands that have become the norm in the consulting services sector have driven many trainees to leave before the company's investment in them has even started to materialize into any profits, which the firm estimates takes at least four years. In response to this dilemma, PricewaterhouseCoopers offered its trainees sabbaticals that can be used as time off for dependents, enhanced maternity leave, paternity leave, travel, or voluntary work time. In addition, the company also offered other work-life balance approaches such as job sharing, part-time and flexible work arrangements, and career management services.

Positive Psychological Capital

A few years ago, a new movement was initiated called positive psychology. This positive approach redirects focus away from an almost singular emphasis on healing mental illnesses and pathologies, and toward psychology's two forgotten missions: making people's lives more productive and worthwhile, and actualizing human potential. Led by Martin Seligman, then the president of the American Psychological Association, positive psychology became concerned with what is right with people and building on that instead of trying to just fix what is wrong with people. A stream of theory and research spanning multiple positively oriented strengths such as traits, talents, virtues, happiness, and others has been initiated.

Positive psychology has spurred two related movements that applied positivity and strength-based management to the workplace. The first is the positive organizational scholarship (POS) movement largely 151 based on the work of organizational scholars at the University of Michigan, which emphasizes positive organizational characteristics that can enhance organizational survival and effectiveness in times of crises and adverse conditions. The second is our proposed positive organizational behavior or simply POB, which applies positively oriented human resource strengths and psychological capacities that can be measured, developed and managed for performance improvement in today's workplace. These POB capacities include self-efficacy/confidence, hope, optimism, and resiliency, and as shown in Fig. 1, we collectively refer to these as positive psychological capital.

Unlike positive psychology, positive organizational scholarship, or many human resource management approaches that emphasize factors such as positive personality traits and individual differences, positive organizational behavior (POB) focuses on state-like (as opposed to dispositional, fixed, and trait-like) variables that can be developed within organizational members through workplace interventions and

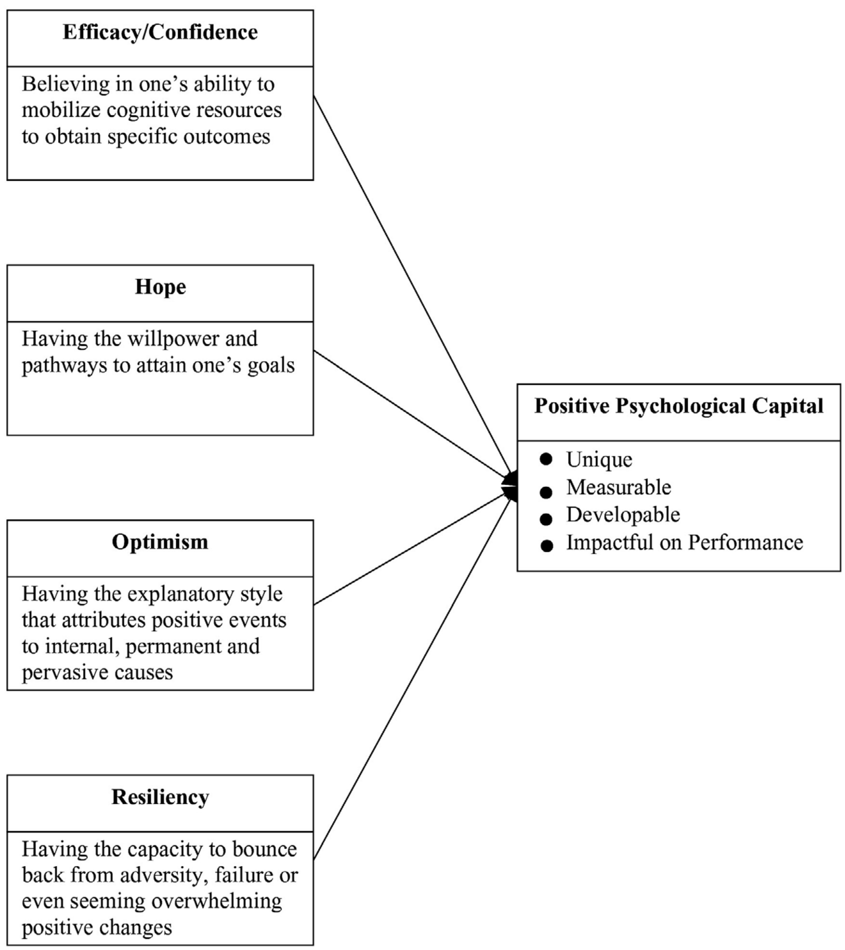

Figure 1. Dimensions of Positive Psychological Capital

proactive management. Moreover, POB incorporates only psychological states that are validly measurable, and that can result in performance improvement. In other words, interventions can be developed for enhancing managers' and employees' confidence, hope, optimism, and resiliency. Thus, positive psychological capital can be managed and its effectiveness can be objectively assessed, both in terms of enhanced positive psychological capital and bottom-line impact. Similar to traditional forms of capital, positive psychological capital can be assessed as to the return on investment and impact on competitive advantage.

The Basic Components of Positive Psychological Capital

Just as the other forms of capital are made up of certain components, i.e., traditional (financial, structural/physical, technological), human (explicit and tacit knowledge), and social (networks, norms/values, and trust), positive psychological capital also contains some basic capacities. Those that best meet the POB criteria of being positive, unique, measurable, developable, and performance related are self-efficacy/confidence, hope, optimism, and resiliency.

1. *Self-efficacy* draws from the extensive theory and research of Albert Bandura, and is defined as one's confidence in his or her ability to mobilize the motivation, cognitive resources, and courses of action necessary to execute a specific course of action within a given context. People who are self-efficacious (self-confident) choose challenging tasks and endeavors, extend motivation and effort to successfully accomplish their goals, and persevere when faced with obstacles. Self-efficacy has substantial research backup as to its positive impact in organizational settings. For example, Stajkovic and Luthans' meta-analytic research of 114 studies found that self-efficacy has a correlation of .38 with work-related performance. This impact on performance is stronger than many established performance enhancement initiatives such as goal setting and behavior modification, as well as widely recognized personality traits such as conscientiousness and attitudes such as job satisfaction. Moreover, our recent research supports the relationship between self-efficacy and desirable attitudinal outcomes such as job satisfaction, organizational commitment, turnover intentions, and perceived organizational effectiveness, both in U.S. and cross-cultural workplace settings.

2. *Hope* draws from the work of positive psychologist C. Rick Snyder as being a motivational state that is based on the interaction between three factors: goals, agency and pathways. People are driven to accomplish their goals by their sense of agency, which provides them with an internalized determination and willpower to invest the energy necessary to achieve their goals. Those with high hope are also motivated by their sense of having the capability to develop ways to get the things they want, which provides them with the ability to generate alternative pathways towards the accomplishment of their goals if the original ones have been blocked. Although research on the positive impact of hope is well established in clinical, educational, and athletic applications, research on the relationship between hope and work outcomes is just emerging. However, results are promising. For example, our recent research has shown that leaders' hope has a significant positive impact on business unit financial performance, employees' job satisfaction, and their retention. In a recent cross-cultural study, we also found, in a state-owned enterprise, Chinese workers' hope was related to their performance. Again, the results of this beginning research suggest the utility of positive psychological capital in contributing to sustainable competitive advantage.

3. *Optimism* has been researched and applied by Seligman and others in the positive psychology movement. Optimism involves a positive explanatory style that attributes positive events to internal, permanent, and pervasive causes, and negative events to external, temporary, and situation-specific ones. This allows individuals to take credit for favorable events in their lives, boosting their self-esteem and morale. It also allows them to distance themselves from unfavorable life happenstances, shielding them from depression, guilt, self-blame, and despair. Unlike hope, optimism has been applied not only to clinical applications, but also in organizational settings. For example, 153 Seligman's Metropolitan Life Insurance Co. experiments are featured in his popular book *Learned Optimism*.

When Seligman initially studied life insurance sales agents at Met Life, he discovered that although agents are selected based on their scores on an industry test, agents who scored in the top half on his optimism measure outsold those who scored in the pessimistic half by 37 percent. Those who scored in the top 10 percent on optimism outsold those who scored in the bottom 10 percent by 88 percent. Next, applicants were given both the industry test and the optimism assessment. Seligman proceeded to hire a ‘‘special force’’ of agents who failed the industry test but scored in the top half on optimism. Interestingly, he found that agents in the special force sold as much as optimistic agents who passed the industry test, but outsold pessimistic agents who also passed the industry test by 21 percent in their first year, and by 57 percent in their second year. He also found that among those who passed the industry test, optimists outsold pessimists by 8 percent in the first year, and 31 percent in the second year. Consequently, Met Life incorporated optimism in its selection criteria.

4. *Resiliency* is the capacity to bounce back from adversity, uncertainty, failure, or even positive but seemingly overwhelming changes such as increased responsibility. Resiliency allows individual and environmental protective mechanisms to operate through enhancing the assets and/or reducing the risk factors within individuals and/ or their environment. Established in developmental and clinical areas by positive psychologist Ann Masten and others, applications of resiliency to the workplace are just emerging. However, similar to the previously discussed positive psychological capital dimensions, resiliency does meet the POB criteria. Moreover, recent analyses by organizational scholars suggest that resilient people can thrive and grow through setbacks and difficulties. They bounce back not only to their original but to even higher levels of performance, and find meaning and value in their lives in the process. The three recognized components of such resiliency are: a staunch acceptance of reality; a deep belief, often reinforced by strongly held values, that life is meaningful; and an uncanny ability to improvise and adapt to significant change.

These four POB criteria meeting components of positive psychological capital are not intended to be an exhaustive list. There are obviously other possibilities such as happiness, compassion, or even emotional intelligence. However, we feel that self-efficacy/ confidence, hope, optimism, and resiliency at present best meet the POB criteria and are currently most relevant. Most important from a psychological capital perspective, we feel they can be most readily managed for competitive advantage.

Positive Psychological Capital Management

The components of positive psychological capital are open to development and management. The following represent some of the well-researched, established guidelines for psychological capital management, or simply PCM as shown in Table 2:

1. *Developing self-efficacy/confidence.* The most effective approach to developing employees' self-efficacy and confidence is to allow them to experience success, which self-efficacy researchers such as Bandura refer to as mastery experiences. Actual performance attainments boost employees' confidence in their ability to accomplish the specific tasks that their jobs entail. However, in order for employees to experience frequent success that is conducive to their efficacy development, they need to work toward challenging but achievable, concrete, specific, proximal goals. Experiential exercises, on-the-job training, and coaching have been found to contribute to building self-efficacy through ''guided mastery experiences.''

Another approach that has been found to enhance self-efficacy is vicarious learning or modeling. In situations when success experiences are unavailable or prohibitively too expensive or too risky to provide (e.g., pilot flight training), shadowing a successful mentor or watching a relevant model (similar to the developing employee and dealing with a similar situation) effectively handling a realistic situation has been found to also help in building the observer's self-efficacy. Even when actual role models are not available, ''imaginal experiences,'' in which a person can imagine him/herself succeeding in effectively dealing with difficult situations and challenges, have been found to be effective substitutes, and to enhance self-efficacy. In other words, an imagined successful self can act as one's relevant role model! Other previously discussed approaches that have also been found to enhance self-efficacy are social persuasion, positive feedback, and psychological and physiological health and arousal.

2. *Developing hope.* In order to develop managers' and employees' hope, the goals, agency and pathways components of hope need to be enriched. Again, the role of clearly communicated, specific, realistic, measurable, and challenging organizational and individual goal-setting is vital in creating targets toward which people can direct their agency and pathways. Moreover, breaking down complex, difficult, or long-term goals into manageable sub-goals, commonly referred to as ''stepping,'' has been found to enhance hope, as it allows employees to experience gradual progress and ''small wins.''

Developing agency necessitates participative initiatives such as delegation and empowerment, in which employees view themselves to be in control of their own and their organization's present and future. Moreover, when managers show confidence in their employees and treat them "as if they are going to succeed," this has been found to be very effective in enhancing their hope through enriching their sense of agency and willpower.

Finally, approaches that enhance "preparedness" have been found to enhance the pathways or waypower component of hope. For example, organizations such as Royal Dutch Shell and TXU Energy that utilize contingency planning, engage in what-if and scenario analysis, and explore alternative courses of action, instill in their members and decision makers a sense of readiness for multiple possibilities. They enrich their pathways inventory, and enhance their openness to and effectiveness during times of change and uncertainty. Another approach to building waypower is mental rehearsal, in which a manager or an employee visualizes important upcoming events, anticipates possible obstacles, and mentally pictures alternative pathways to overcome those obstacles, enhancing preparedness to handle blockages.

However, managers and employees should also be simply encouraged to enjoy the process of developing their hope and achieving their goals, rather than just focusing on their final attainments. They should also learn when and how to "re-goal" when absolute goal blockages are encountered, in order to avoid the trap of false hope.

3. *Developing optimism.* Without optimism, even positive events in one's life are less likely to be internalized and for credit to be taken. For example, people with a pessimistic explanatory style usually attribute favorable events in their lives to luck, others' help, or situational factors. These are external (out of their control), temporary (one-time happenstances), and situation-specific (will not generalize to future situations) causes. These attributions act as a barrier against learning from successes, building mastery experiences (necessary for self-efficacy development), and gaining a sense of agency and control (necessary for hope development). On the other hand, when faced with adversity, pessimists magnify the setbacks in their lives into personal crises (their own fault) that are permanent (will always be there) and pervasive (will reoccur in every walk of life they might pursue). People with these attributions can rarely learn from failure (or even successes) or grow through life's challenges.

Three approaches that have been offered by Schneider for developing people's optimism are particularly applicable to positive psychological capital development in today's workplace. The first approach is "leniency for the past." Managers and employees should learn to reframe and accept their past failures and setbacks, give themselves the benefit of the doubt, and forgive themselves for mistakes that they can no longer reverse. The second approach is "appreciation for the present," i.e., thankfulness and contentment about the positive sides of their current life, including both the things that they can control and those they cannot. The third approach is "opportunity-seeking for the future," in which the future and the uncertainties it holds are viewed as opportunities for growth and advancement, and are embraced with a positive, welcoming, and confident attitude.

The ideal type of optimism that should be developed in managers and employees is realistic and flexible. Unlike undiscriminating optimism which may lead to irresponsible behavior, realistic optimism does not take an extreme in externalizing and eliminating personal responsibility for poor choices. Moreover, flexible optimism allows people to be able to use various explanatory styles, both optimistic and pessimistic, and to adapt their style to the situation at hand. For example, a safety engineer may need to be able to adopt a pessimistic explanatory style on setting up a procedure for operating a dangerous piece of equipment, but an optimistic explanatory style in a staff meeting with the operations department. Other approaches that have been discussed earlier such as positive feedback and social recognition are likely to enhance employees' self-confidence and increase the accuracy of their self-assessments. Stress management and work-life balance initiatives have also been found to have a positive impact on optimism.

4. *Developing resiliency.* There is a general misconception that resiliency is an extraordinary gift; a magical, mystical, rare capacity; a trait that results only from genetic or long-term environmental variables; or a "super material" that distinguishes survivors from failures. Often times resiliency is viewed as an after-the-fact passive adjustment process, manifested in terms of freedom of pathological symptoms subsequent to exposure to otherwise devastating adversities. However, we believe that resiliency is a lifelong developmental journey that people undertake in daily, progressive steps. In other words, resiliency is a process, rather than an end goal.

In order to develop resiliency, organizations can adapt the three strategies recommended by Masten: asset-focused, risk-focused, and process-focused. Risk-focused strategies concentrate on reducing the risks and stressors that can increase the probability of undesired outcomes. For example, organizations provide healthcare benefits, wellness programs and employee assistance programs in order to reduce the probability of physical and psychological risks such as health problems, stress, burnout, alcohol and drug abuse. In production and construction settings elaborate safety regulations aimed at reducing the chances of accidents and injuries are set up.

However, since no organization can shield its employees from all the possible risk factors that they might encounter throughout their personal and work lives, asset-focused strategies emphasize and enhance resources that increase the probability of positive outcomes despite the presence of risks. For example, the development of human, social and positive psychological capital of managers and employees can better equip them to deal with setbacks, both at the personal and at the organizational levels. Effective leadership and adequate resources can also mitigate the impact of adversities. Finally, process-focused strategies involve the mobilization of the power of the adaptational systems necessary for the utilization of one's inventory of assets to manage emerging risk factors. For example, strategic planning and organizational learning can enhance an organization's preparedness to deal with crises through effectively capitalizing on its material and human resources to flexibly and swiftly adapt to new realities.

Meeting the Criteria of Competitive Advantage

As shown in Table 1, positive psychological capital meets the established criteria of competitive advantage across the board. Positive psychological capital requires a transformed organizational ideology that views employees through a positive lens as confident, hopeful, optimistic and resilient. Importantly, this unique, largely untapped psychological capital can be developed and managed toward long-term success and competitiveness. Recognition of this new form of capital does not negate the traditional, human and social capital needs, but does require long-term commitment to a new vision, and a different strategic orientation.

For competitive advantage, every organization needs to adapt its psychological capital development and management approaches to its own situation and realities, making it unique and organization-specific.

For example, self-efficacy is a domain-specific psychological capacity. New employees who may have been self-efficacious in their previous jobs will not necessarily be confident in their new jobs, unless proactive developmental efforts are extended on the part of themselves and their managers and peers to enhance their self-efficacy in their new job. Moreover, organizations that operate in turbulent or uncertain industries are likely to benefit more from using risk- and process-focused strategies to buffer the impact of change on their employees' resiliency than those operating in stable industries.

Psychological capital also meets the cumulative and interconnected criteria of competitive advantage. No employee is an empty-headed, clean slate. Everyone brings considerable psychological baggage from life experiences with them to the workplace. Also, events that are currently occurring in an employee's social environment continuously shape his/her confidence, hope, optimism, and resiliency. Organizations should view such psychological dynamics as a tremendous opportunity that, unlike their common resistance to structural changes, employees are malleable and flexible to positive psychological change and renewal. Once a new organizational and management ideology focused on positive psychological capital is established, and employees gain trust that their managers truly perceive them as the most important asset, a positive spiral is likely to develop, paving the road for a measurable return on the psychological capital and resulting competitive advantage.

Conclusion

No one questions that human resources are critical to sustainable competitive advantage in today's global economy. However, with few notable exceptions (about one-eighth of today's organizations to be exact), human resources have been only given lip service, and have not been treated as a capital investment to be developed and managed. To a substantial extent, we feel this situation can be at least partly attributed to the perceived difficulty in assessing the direct impact of human-oriented initiatives on the bottom line, as well as on long-term performance and competitive advantage.

The time has come for this assumption to wither and die. The dimensions of the human factor are gradually lending themselves to more objective measurement and cost/benefit, investment analysis. There are now enough examples (again Pfeffer's one-eighth) that have started off or revive themselves, go through constant or revolutionary changes, and flourish through the development and management of their human, social and positive psychological capital, using practically applicable management approaches summarized in Table 2. The time has arrived for organizational decision making and human resource management to go through a transformation. We feel there is a need to move away from only narrow, selection- oriented techniques, primarily tailored to shield organizations against discrimination-related litigation, and toward developmental approaches that can consistently enhance performance over time. The predominantly 157 negative theories that we hold about human behavior and motivation in organizations need to give way to positively oriented strength-based management that focuses on developing human, social and psychological capital to achieve their full potential. We propose that positive psychological capital management in particular can effectively channel people's talents, strengths and psychological capacities toward achieving worthwhile productive, ethical, sustainable outcomes and result in competitive advantage.

Selected Bibliography

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