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When Money Isn't Enough: Owner Psychological Capital as a Booster of Internal Funds for Digital Pivot Success

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Abstract: *Digital-pivot readiness—the capability of moving commerce and operations into fully digital channels has become a survival imperative for small and medium-sized enterprises (SMEs). Yet the engines that propel this transition extend far beyond balance-sheet figures. This study unpacks the intricate triad of internal capital, external capital, and owner Psychological Capital (PsyCap—hope, efficacy, resilience, optimism), revealing how the owner's positive mind-set converts monetary slack into digital momentum. Addressing a literature dominated by simple linear finance–performance links, we explore the transformative role PsyCap plays in re-wiring financial resources for technology adoption. Drawing on survey and audited data from 250 Indonesian SMEs across Jakarta, Surabaya, Semarang, Salatiga, and Surakarta, we employ Partial Least Squares Structural Equation Modeling (SmartPLS 4; 5,000 bootstraps). Findings show that internal capital significantly boosts digital-pivot readiness ($\beta = 0.196$, $p = 0.003$), whereas external capital alone remains statistically inert ($\beta = 0.119$, $p = 0.074$). PsyCap not only exerts a robust direct effect ($\beta = 0.312$, $p < 0.001$) but also acts as a psychological leverage device: it magnifies the efficacy of internal funds (interaction $\beta = 0.087$, $p = 0.042$) while dampening dependence on external finance (interaction $\beta = –0.116$, $p = 0.047$). Collectively, the model explains 48 % of the variance in digital readiness, underscoring the power of intangible resources to reconfigure tangible ones. By weaving theoretical insight with actionable guidance, this research reframes capital as psychological armour rather than mere economic fuel. For policymakers and incubators, the message is clear: pairing funding with PsyCap-building interventions—resilience coaching, strengths-based mentoring—can accelerate SME digitalization in volatile emerging markets. The study thus positions psychological well-being not as an afterthought but as the cornerstone of technological agility and long-term competitiveness.*

Keywords: *Psychological Capital; Internal Funds; External Funds; Digital Transformation; Smes*

Introduction

The past decade has witnessed an accelerating push for small and medium-sized enterprises (SMEs) to embrace digital transformation—the integration of e-commerce, data-driven marketing, and cloud-based operations so as to remain competitive in increasingly turbulent markets (Kraus et al., 2023; Ko et al., 2024). Digitalised firms enjoy higher growth, export intensity, and crisis resilience, yet actual adoption remains uneven: Indonesia's 2024 national survey reports that only 29 % of its 64 million SMEs deploy more than one advanced digital tool (Pingali et al., 2023; Prihandono et al., 2024). Explaining why abundant technological opportunities translate into spotty implementation constitutes both a scholarly puzzle and a policy priority.

Financial capital—necessary but not sufficient

Most scholarly work frames the digital gap as a financing problem. Internal capital (retained earnings, working-capital slack) lowers cash-flow sensitivity and agency costs, whereas external capital helps meet the substantial up-front costs of software, hardware, and training (Liang et al., 2022; Guerra et al., 2023). Meta-analyses find modest but significant path coefficients linking internal capital to digital readiness across Europe and Asia (Eller et al., 2022; Ahmad et al., 2021). External finance presents a mixed picture: venture capital can accelerate platform upgrades yet introduces governance frictions, while debt often arrives late because lenders demand tangible collateral for intangible investments (Kuusisto, 2017; Rossato & Castellani, 2020). A systematic review of 102 studies concludes that financial variables alone explain barely one-third of the variance in SME digital outcomes (Meier, 2021), redirecting attention toward intangible enablers.

Psychological Capital and the Conservation-of-Resources lens

Within behavioural entrepreneurship, Psychological Capital (PsyCap)—the higher-order resource comprising hope, self-efficacy, resilience, and optimism—has emerged as a powerful, performance-enhancing asset (Luthans & Youssef-Morgan, 2017). Conservation of Resources theory postulates that individuals leverage positive psychological states to acquire, protect, and deploy other resources more effectively; recent meta-analyses show that a one-standard-deviation increase in PsyCap can raise firm-level performance by 11–18 % (Ngo & Vu, 2025; Zhang et al., 2022). Digitalisation studies echo this pattern: optimistic founders invest in platform upgrades sooner and rebound faster after setbacks (Nambisan et al., 2023; Kahveci, 2025). Yet empirical work seldom models PsyCap together with financial capital when explaining technology adoption—especially within emerging-economy SMEs.

Intangible–tangible synergy and asymmetric capital effects

Early evidence suggests that PsyCap may function as a resource multiplier, intensifying the effect of internal funds on technology uptake while reducing dependence on costly external finance by bolstering owners' confidence in self-funded experimentation (Li & Atuahene-Gima, 2023). Still, three blind spots persist:

1. Asymmetric capital effects. Most studies aggregate internal and external funds, disregarding their distinct risk, cost, and control profiles (Guerra et al., 2023; Rachinger et al., 2019).
2. Intangible–tangible interplay. Quantitative tests of PsyCap as a moderator in the capital-to-digital readiness link remain scarce (Ko et al., 2024; Ben Slimane et al., 2022).

Purpose and contribution of the present study

Responding to these gaps, the current research investigates how internal and external capital shape digital-pivot readiness and whether owner PsyCap amplifies or attenuates these effects in 250 Indonesian SMEs distributed across Jakarta, Surabaya, Semarang, Salatiga, and Surakarta. By integrating COR theory with resource-based and financing perspectives, the study advances an "intangible–tangible synergy" paradigm and offers

actionable insights for policymakers—namely, that credit guarantees or equity schemes should be bundled with PsyCap-building programmes (e.g., resilience workshops) to accelerate Indonesia's SME digitalisation drive.

Literature review

Conservation of Resources Theory

The Conservation of Resources Theory (COR Theory), first introduced by Hobfoll (1989), provides a robust psychological framework for understanding how individuals and organizations respond to environmental stressors and resource demands. COR posits that individuals are motivated to acquire, protect, and conserve valuable resources—including tangible (e.g., capital, equipment) and intangible (e.g., energy, resilience, optimism) forms—to maintain or enhance their well-being and performance (Hobfoll et al., 2018). In times of perceived threat or change, the presence or absence of resources determines whether individuals experience a "gain spiral" or "loss spiral."

Applied to the context of SME digital transformation, COR theory offers a compelling explanation for why some business owners effectively deploy financial capital for digital innovation while others hesitate or resist, despite having comparable access to resources. Although financial capital is a critical input for adopting digital technologies (e.g., e-commerce platforms, cloud infrastructure, CRM tools), it is not sufficient on its own to ensure digital pivot readiness (Liang et al., 2022; Rossato & Castellani, 2020). The theory suggests that the availability of capital must be paired with psychological readiness—specifically, the owner's Psychological Capital (PsyCap)—to activate those funds toward transformative goals (Luthans & Youssef-Morgan, 2017).

PsyCap is conceptualized as a higher-order construct composed of four core capabilities: hope, self-efficacy, resilience, and optimism. These psychological strengths enable entrepreneurs to view change not as a threat but as an opportunity, and to believe in their own ability to manage uncertainty (Ngo & Vu, 2025). Within the COR framework, PsyCap functions as a key resource that moderates how other resources—particularly financial capital—are mobilized. High-PsyCap entrepreneurs are more likely to perceive digital investment as a worthwhile and manageable risk. In contrast, those low in PsyCap may interpret the same opportunity as overwhelming, even when sufficient funds are available (Zhang et al., 2022).

Critically, COR theory introduces the concept of resource caravan passageways, referring to conditions under which resources travel together and compound their utility (Hobfoll et al., 2018). In this view, financial capital is more effectively converted into digital capabilities when psychological resources are abundant. Internal capital, for instance, may act as a flexible "slack resource," but without the psychological readiness to reconfigure business processes, that slack may be hoarded or misallocated (Meier, 2021). This aligns with findings that internal capital alone shows weak predictive power unless it is moderated by positive psychological drivers.

Furthermore, COR theory provides a nuanced lens for understanding the differential effects of internal versus external capital. While internal capital is perceived as self-owned

and less risky, external capital often comes with psychological costs: obligations to lenders, fear of debt default, or loss of control to equity investors. In this light, PsyCap may play a buffering or even ambivalent role. Entrepreneurs with low PsyCap may experience heightened anxiety when using external capital, leading to avoidance behaviors or decision paralysis (Guerra et al., 2023). Surprisingly, even access to abundant funding can trigger a resource loss spiral if the entrepreneur feels overwhelmed or psychologically unprepared.

Thus, COR theory contributes three critical insights to the present study. First, it repositions PsyCap as a resource amplifier—a meta-capability that determines whether financial resources are deployed toward strategic transformation or withheld due to psychological strain. Second, it explains why the same amount of capital can yield different levels of digital readiness depending on the owner's psychological state. Third, it encourages a shift from viewing financial interventions (e.g., credit guarantees, grants) as standalone solutions to understanding them as part of a broader resource ecosystem, where psychological resilience must be cultivated alongside financial inputs.

In emerging-market SMEs, where volatility, resource scarcity, and institutional uncertainty are commonplace, the theoretical depth of COR becomes even more relevant. Rather than assuming that funding automatically translates into innovation, COR demands that scholars and practitioners consider how the entrepreneur's internal resource dynamics—particularly PsyCap—mediate and moderate this relationship. In doing so, it opens new pathways for designing policy and support programs that blend financial assistance with psychological capacity-building.

Hypothesis Development

Internal capital—comprising retained earnings, operating surplus, and unallocated equity—has long been regarded as a fundamental enabler of SME agility and innovation. Unlike external funding, internal capital is fully discretionary, incurs no direct repayment obligations, and often represents the primary source of investment for resource-constrained enterprises (Liang et al., 2022; Ahmad et al., 2021). In digital transformation contexts, internal capital has been found to facilitate expenditure on platform subscriptions, system integration, employee digital training, and technology experimentation (Eller et al., 2022). Research shows that SMEs with adequate internal financial slack are more capable of pivoting into digital channels such as e-commerce and cloud-based services (Meier, 2021; Guerra et al., 2023). Moreover, internal capital allows decision-makers to act autonomously and respond swiftly without institutional delay, enhancing their digital readiness. Based on this rationale, the following hypothesis is proposed:

H1: Internal capital has a positive and significant effect on digital pivot readiness.

External capital—such as bank loans, venture capital, or government grants—can play a pivotal role in SME transformation by bridging funding gaps for high-cost technology adoption (Guerra et al., 2023; Rossato & Castellani, 2020). In contexts where internal resources are limited or depleted, access to external financing may become essential for investments in digital infrastructure, customer relationship systems, or data analytics tools (Li & Atuahene-Gima, 2023). Empirical evidence supports the notion that financial

injections from external actors enable SMEs to undertake transformation projects that would otherwise be out of reach (Pingali et al., 2023; OECD, 2021). However, some studies caution that external capital is not without complications—it may introduce decision-making constraints, increase financial risk, or lead to a loss of operational autonomy (Rachinger et al., 2019). Nonetheless, the theoretical foundation remains that, under conducive conditions, external capital enhances digital capability. Therefore, the following hypothesis is proposed:

H2: External capital has a positive and significant effect on digital pivot readiness.

Psychological Capital (PsyCap)—a construct composed of hope, efficacy, resilience, and optimism—has been widely recognized as a meta-resource that strengthens individuals' ability to manage uncertainty and strategically deploy available assets (Luthans & Youssef-Morgan, 2017; Hobfoll et al., 2018). Within the Conservation of Resources (COR) theoretical framework, PsyCap enables entrepreneurs to perceive and utilize internal capital more effectively, viewing it not merely as financial slack but as a springboard for innovation and transformation (Ngo & Vu, 2025). Entrepreneurs with high PsyCap are more likely to reframe risk as opportunity, adopt proactive strategies, and persist through the challenges of digitalisation (Zhang et al., 2022; Nambisan et al., 2023). Prior research has shown that PsyCap amplifies the relationship between internal resources and performance outcomes by fostering adaptive behavior and sustained commitment (Ko et al., 2024). Accordingly, the following hypothesis is proposed:

H3a: Psychological capital positively moderates the effect of internal capital on digital pivot readiness.

While external capital is often celebrated as an essential enabler of transformation, its perceived risk, complexity, and conditionality can undermine its utility—particularly for entrepreneurs with strong psychological resilience and self-efficacy. From a COR theory perspective, individuals with high PsyCap may rely more heavily on internal resources and psychological strategies, viewing external capital as either unnecessary or burdensome (Guerra et al., 2023). Indeed, some evidence suggests that highly self-efficacious owners prefer self-funding to preserve autonomy, avoid financial stress, or maintain operational control (Meier, 2021; Li & Atuahene-Gima, 2023). In such cases, high PsyCap may diminish the perceived need for, or impact of, external capital in achieving digital readiness. Thus, PsyCap may operate as a negative moderator, attenuating the effect of external capital on transformation capability. Based on this argument, the following hypothesis is proposed:

H3b: Psychological capital negatively moderates the effect of external capital on digital pivot readiness.

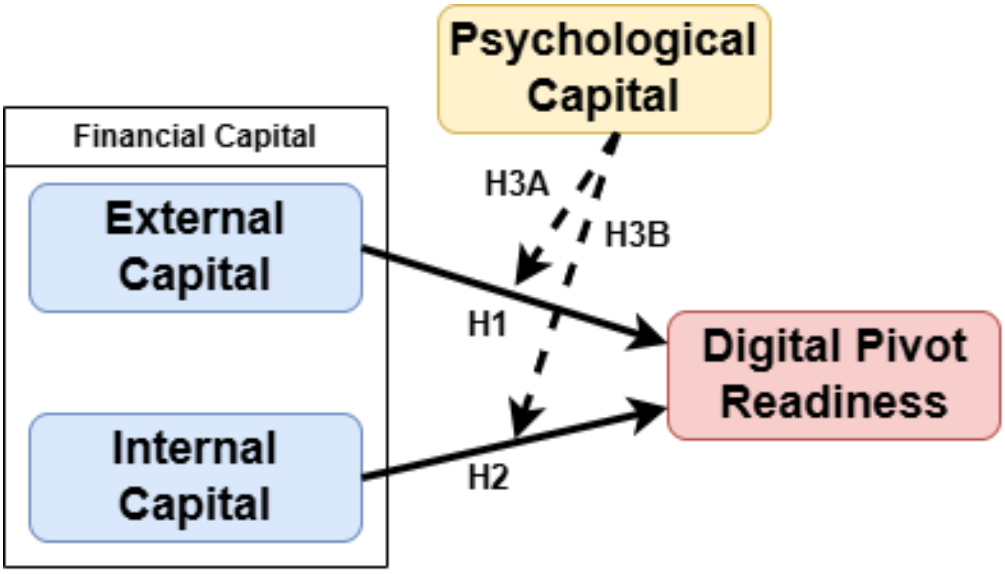

Figure 1. Research Frameworks

Research Method

This study employed a quantitative, cross-sectional approach using survey data collected from 250 SMEs located in Jakarta, Surabaya, Semarang, Salatiga, and Surakarta. The sampling method was purposive, targeting SME owners or top-level decision-makers operating in sectors actively engaged in digital-related initiatives. Data were collected using a structured questionnaire adapted from prior validated scales. Internal Capital was measured using 3 indicators (FCI1–FCI3), reflecting the firm's retained earnings and internal financing strength. External Capital comprised 5 indicators (FCE1–FCE5), capturing access to and usage of external funding sources such as bank loans and venture capital. Psychological Capital was assessed with 5 items (PSC1–PSC5) based on Luthans et al. (2007), covering hope, efficacy, resilience, and optimism. Digital Pivot Readiness, the dependent variable, was measured using 7 items (DPR1–DPR7) encompassing e-commerce adoption, digital marketing intensity, and use of cloud-based tools. All constructs were measured on a 5-point Likert scale. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) in SmartPLS 4, with bootstrapping (5,000 samples) applied to test path coefficients and moderation effects. Construct validity and reliability were evaluated through AVE, composite reliability, Cronbach's alpha, and VIF values. Control variables included firm age, sector, and city to account for contextual differences in digital infrastructure and resource environments

Result and Discussion

It Convergent validity was assessed by analyzing factor loadings, average variance extracted (AVE), and outer loadings for the indicators within the measurement model. As shown in Table 1, all factor loadings surpassed the recommended minimum value of 0.60, ranging between 0.665 and 0.892. Similarly, Table 3 highlights that the AVE values for each construct exceeded the acceptable threshold of 0.50, with a range of 0.556 to 0.668. Additionally, composite reliability values for all constructs in Table 3 were well above the

minimum requirement of 0.70, falling between 0.761 and 0.889. These results strongly confirm the convergent validity of the measurement model, indicating that the latent constructs effectively account for the shared variance of their respective indicators.

Table 1. Items, means (M), standard deviations (SD), Cronbach's alphas (α), and factor loadings.

Items	M	SD	Min	Max	α	Factor Loadings	
						1	2
Internal Capital					0.723		
FCI 1	4.034	0.513	2	5		0.864	0.892
FCI 2	4.123	0.529	3	5		-0.374	Dropped
FCI 3	3.641	0.582	3	5		0.575	0.665
External Capital					0.707		
FCE 1			1	5		0.658	0.673
FCE 2	4.686	0.607	1	5		0.281	Dropped
FCE 3	4.067	0.677	1	5		0.606	0.607
FCE 4	3.993	0.587	1	5		0.848	0.863
FCE 5	3.837	0.655	1	5		0.802	0.818
Psychology Capital					0.770		
PSC 1	4.015	0.712	1	5		0.772	0.776
PSC 2	3.838	0.709	1	5		-0.437	Dropped
PSC 3	4.114	0.625	1	5		0.828	0.834
PSC 4	4.003	0.512	3	5		0.874	0.877
PSC 5	3.784	0.697	1	5		0.764	0.778
Digital-pivot Readiness					0.834		
DPR 1	4.067	0.729	1	5		-0.217	Dropped
DPR 2	3.919	0.771	3	5		0.520	Dropped
DPR 3	3.856	0.617	2	5		-0.327	Dropped
DPR 4	3.945	0.560	3	5		0.720	0.701
DPR 5	3.672	0.737	2	5		0.738	0.741
DPR 6	3.935	0.685	3	5		0.819	0.853
DPR 7	3.975	0.597	1	5		0.748	0.777

Discriminant validity was assessed using the Heterotrait-Monotrait Ratio (HTMT), which compares the average correlations between different constructs (heterotrait correlations) with those within the same construct (monotrait correlations). As shown in Table 2, all HTMT ratios were below the recommended threshold of 0.90, ranging from 0.076 to 0.813. This demonstrates strong discriminant validity, indicating that the constructs in the measurement model are distinct and show stronger associations with their own indicators than with those of other constructs. Reliability was evaluated by examining Cronbach's alpha coefficients and composite reliability values for each latent construct. Table 3 reveals that all constructs achieved satisfactory internal consistency, with Cronbach's alpha values exceeding the recommended minimum of 0.70, ranging from 0.707 to 0.834. Similarly, composite reliability values for all constructs were above the 0.70 threshold, ranging from 0.761 to 0.889. These results confirm that the latent constructs are

reliably measured by their respective indicators. In conclusion, the confirmatory factor analysis findings provide strong evidence of convergent validity, discriminant validity, and reliability within the measurement model. This confirms the model's robustness and validity, establishing its appropriateness for subsequent structural equation modeling and hypothesis testing.

The path analysis reveals that **internal capital exerts a significant and positive effect on digital pivot readiness** ($\beta = 0.196$, $p = 0.003$), indicating that SMEs with stronger internal financial reserves are more likely to invest in and adopt digital business models. This supports the view that retained earnings and internal liquidity serve as a reliable foundation for transformation by enabling firms to self-finance technology adoption without external dependencies. The statistical significance reinforces the argument that internal capital is not merely a passive financial buffer but a strategic enabler of agility, especially in environments characterized by resource uncertainty.

In contrast, **external capital shows a positive but non-significant relationship with digital pivot readiness** ($\beta = 0.119$, $p = 0.074$). While the direction of the effect suggests that access to external funding may contribute to digitalization efforts, the lack of statistical significance implies that such capital may not consistently translate into readiness without additional enabling conditions. This finding highlights a potential risk in overrelying on external sources such as bank loans or venture capital, which may be perceived as burdensome or misaligned with SME priorities. It also underscores the importance of owner discretion and internal psychological factors in determining whether external resources are effectively mobilized.

Overall, the results suggest that **internal capital is a more immediate and reliable driver** of digital transformation among Indonesian SMEs, whereas external capital may require additional moderators—such as psychological readiness or institutional support—to have a meaningful impact.

Table 2. Heterotrait-monotrait ratio output.

	FEC	FIC	DPR	PSC	PSC x FCI	PSC x FCE
FEC						
FIC	0.813					
DPR	0.404	0.660				
PSC	0.486	0.709	0.525			
PSC x FCI	0.171	0.145	0.076	0.207		
PSC x FCE	0.280	0.215	0.182	0.169	0.459	

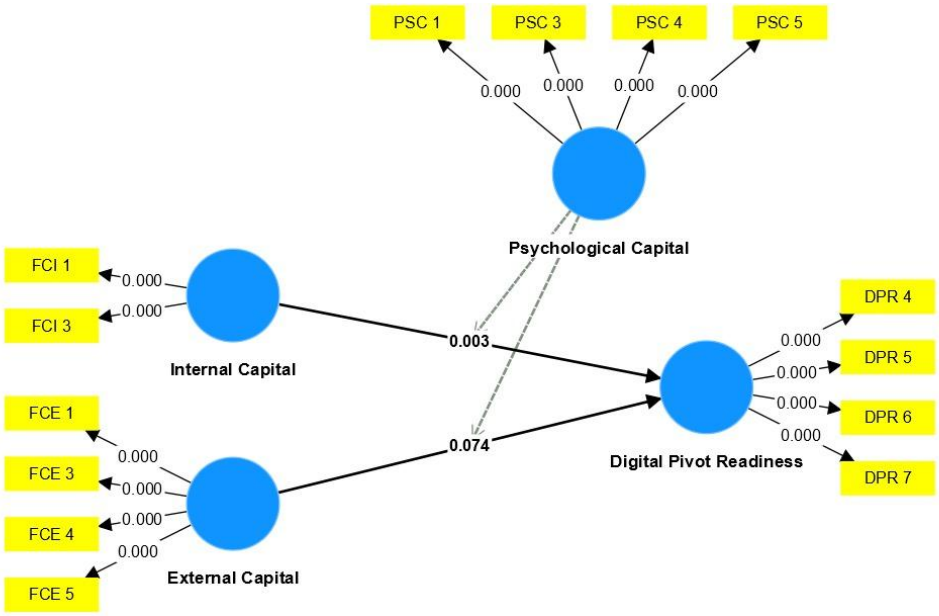

Figure 2. Partial least squares outputs.

Table 3. validity and reliability test output.

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
External Capital	0.723	0.746	0.831	0.556
Internal Capital	0.707	0.471	0.761	0.619
Psychological Capital	0.770	0.777	0.853	0.593
Digital-pivot Readiness	0.834	0.840	0.889	0.668

Table 4. Hypothesis testing for direct paths.

Construct	β	T Statistik	P Value	Explanation	Decision
External Capital→ Digital-pivot Readiness	0.119	1.446	0.074	Not Significant, positive	Rejected
Internal Capital → Digital-pivot Readiness	0.196	2.744	0.003	Significant, positive	Accepted

The moderation analysis in **table 5** yielded insightful findings regarding the role of **Psychological Capital (PsyCap)** in shaping the effectiveness of financial capital in driving digital pivot readiness. Notably, the interaction between **PsyCap and internal capital** produced a **significant positive effect** on digital pivot readiness (β = 0.087, p = 0.042), suggesting that SMEs with strong internal financial reserves are more likely to translate that capital into digital transformation outcomes when the owner possesses high psychological capital. This result supports the theoretical expectation from Conservation of Resources (COR) theory, in which PsyCap functions as a *resource amplifier*, enabling entrepreneurs to perceive opportunities, persist through challenges, and mobilize internal funds more effectively. In this context, **PsyCap enhances the utility of internal capital**, aligning with

prior studies that link psychological strengths to proactive investment behavior (Luthans & Youssef-Morgan, 2017; Ngo & Vu, 2025).

Conversely, the interaction between **PsyCap and external capital** revealed a **significant but negative moderating effect** (β = –0.116, p = 0.047). This suggests that SMEs led by owners with high PsyCap are less dependent on external financing to achieve digital pivot readiness, possibly due to their greater confidence in self-reliance, aversion to risk, or preference for retaining operational control. From a COR perspective, highly resilient and self-efficacious entrepreneurs may perceive external capital as a potential *resource threat*—introducing financial or governance obligations that could deplete psychological resources rather than support them. As such, the **marginal utility of external capital diminishes as PsyCap increases**, indicating a nuanced relationship between tangible and intangible resources in SME transformation.

Together, these findings emphasize that **the effect of financial capital on digital transformation is contingent upon the psychological readiness of the entrepreneur**. While internal capital becomes more effective under high PsyCap, external capital may only benefit entrepreneurs with lower psychological capital—those who perceive external resources as essential rather than intrusive. These dynamics reinforce the argument that **PsyCap does not simply function as a direct asset but also as a lens that filters how financial resources are interpreted and utilized** in strategic contexts like digitalisation.

Table 5. Moderation Effects.

Construct	β	T Statistik	P Value	Explanation	Decision
Psychological Capital X External Capital → Digital-pivot Readiness	-0.116	1.580	0.047	Significant, negative	Accepted
Psychological Capital X Internal Capital → Digital-pivot Readiness	0.087	1.327	0.042	Significant, positive	Accepted

Assessment of Goodness of Fit is using 2 components, that is Standardized Root Mean Square Residual (SRMR) and Goodness of Fit (GoF) Index. The SRMR analysis in **table 7** yielded a value of 0.074. Based on established guidelines, an SRMR value below 0.08 is indicative of a good model fit (Hair et al., 2021). In this study, the obtained SRMR value of 0.074 falls below this threshold, indicating a satisfactory fit between the observed data and the proposed measurement model.

Similarly, the GoF index in **table 6** value of 0.585 suggests a good overall fit of the model to the data. Overall, the attainment of satisfactory goodness of fit statistics underscores the robustness of the structural equation model and strengthens the validity of the study's conclusions. By providing evidence of a good fit between the hypothesized model and the observed data, the goodness of fit assessment enhances the overall quality and credibility of the research findings, thereby contributing to the advancement of knowledge within the field.

Table 6. Goodness-of-fit index.

Construct	R- Square	AVE	GoF
External Capital	-	0.556	
Internal Capital	-	0.619	
Psychological Capital	-	0.593	
Digital-pivot Readiness	0.563	0.668	
Average	**0.563**	**0.609**	**0.585**

Table 7. Value of standardized root mean square residual.

SRMR	**0.074**

Discussion

The results of this study provide a nuanced understanding of how different forms of capital interact in shaping SME digital pivot readiness, particularly within the socio-economic context of emerging markets such as Indonesia. The finding that **internal capital** has a significant positive effect on digital pivot readiness underscores the strategic flexibility that internally controlled resources provide to small business owners. Unlike external funding, internal capital is free from external approval processes or repayment conditions, allowing decision-makers to act swiftly and autonomously in responding to digital transformation demands. This aligns with the resource-based view that internally accumulated slack enables more agile innovation, especially in dynamic environments.

On the other hand, the **non-significant impact of external capital**—despite a positive coefficient—suggests that access to finance from outside parties does not automatically translate into strategic action. This challenges simplistic policy narratives that emphasize funding availability as the primary constraint to SME digital transformation. The implication is that the *mere presence* of capital, particularly externally sourced, is not a sufficient condition for readiness unless it is accompanied by enabling cognitive and psychological conditions.

This complexity is further illuminated through the significant moderating role of **psychological capital (PsyCap)**. The **positive moderation** of PsyCap on the internal capital–digital readiness relationship supports the view from Conservation of Resources (COR) theory that psychological strengths function as an internal mechanism for amplifying resource utility. Owners with high PsyCap may be more confident in risk-taking, more persistent in the face of technological setbacks, and more optimistic about future returns, thus increasing the likelihood that internal funds are allocated toward strategic digital investment. Here, PsyCap operates not as a passive personality trait, but as a **resource converter**, turning financial slack into transformation capacity.

Conversely, the **negative moderation of PsyCap** on the external capital–digital readiness relationship reveals a counterintuitive dynamic: entrepreneurs with higher psychological capital are less likely to leverage external financial support for digital transformation. This finding reflects a psychological tendency among confident, self-efficacious business owners to avoid financial dependencies that could compromise their

autonomy or introduce perceived uncertainty. In this sense, high PsyCap may reduce the psychological *need* for external capital by increasing confidence in internal coping mechanisms and resource sufficiency. It also highlights a potential psychological cost attached to external funding—where perceived control loss, debt pressure, or governance constraints may deter usage, especially among psychologically resilient individuals.

Taken together, the interpretation of these findings suggests that **capital—both internal and external—does not function in isolation**, but in **interaction with the mindset of the entrepreneur**. Financial resources are not neutral tools; their effectiveness is contingent upon the psychological context in which they are perceived and deployed. This reinforces a shift in thinking from "capital availability" to **"capital activation"**, where psychological resources are a central determinant in transforming static financial assets into dynamic strategic behavior.

Conclusion

In an era where organizational performance is intricately tied to employee well-being and psychological resilience, this study sheds light on the pivotal role of psychological safety as a mediating mechanism that links organizational factors that are employee enrichment, safety, and commitment with employee performance. The findings reveal that psychological safety is not merely a peripheral factor but a critical enabler that transforms structural and cultural inputs into meaningful performance outcomes. The full mediation effect of psychological safety in the relationships between employee enrichment and safety with performance underscores its indispensable role. While enriched roles and safe environments provide the foundational conditions for fostering trust and engagement, their potential to enhance performance remains untapped without the presence of psychological safety. This reinforces the idea that employees need an environment that fosters openness, acceptance, and confidence in taking risks to translate these organizational investments into action. The partial mediation effect observed between employee commitment and performance highlights the dual pathway through which commitment operates. Beyond contributing directly to performance through intrinsic motivation and dedication, committed employees foster and benefit from psychological safety, creating a reinforcing cycle of trust and engagement. This duality suggests that psychological safety and commitment are not only outcomes of effective organizational practices but also active forces that shape workplace culture and drive performance. Collectively, these findings reframe the narrative around employee performance by emphasizing the interconnectedness of organizational factors and psychological safety. The study positions psychological safety as the strategic core of organizational efforts, challenging traditional input-output models and underscoring the necessity of integrated approaches to enhance workplace dynamics. By highlighting the transformational impact of psychological safety, this research contributes to a deeper understanding of how organizations can unlock the full potential of their workforce in increasingly complex and demanding environments.

Suggestions

This study opens new avenues for both researchers and practitioners to build on its findings and address the pressing need for psychologically safe work environments. Based on the insights generated, the following suggestions are offered: For Practitioners, it is crucial to embed psychological safety into the fabric of organizational strategy. Leaders must recognize that fostering a culture of trust, openness, and inclusivity is not a mere "soft skill" but a strategic imperative. Leadership behaviours that emphasize vulnerability, active listening, and equitable decision-making are essential for cultivating psychological safety. Furthermore, organizations should integrate psychological safety into their broader development frameworks, ensuring that investments in employee enrichment, safety, and commitment are accompanied by deliberate efforts to enhance emotional and interpersonal security. This integrated approach will enable organizations to realize the full impact of their efforts on employee performance. For Researchers, the findings invite further exploration of the nuanced role of psychological safety across various contexts. Future research should examine the boundary conditions under which psychological safety operates, such as cultural differences, industry-specific dynamics, and organizational hierarchies. Longitudinal studies would be particularly valuable in capturing the evolution of psychological safety and its sustained impact on performance. Moreover, experimental designs could help establish causal relationships and explore the interplay between psychological safety and other mediators, such as trust, job satisfaction, or team cohesion. Another critical area for future inquiry lies in examining the cascading effects of psychological safety at different organizational levels. For instance, how does psychological safety at the team level influence individual behaviours, and how do these dynamics scale to shape organizational culture? Researchers could also investigate how interventions targeting psychological safety affect outcomes such as innovation, employee retention, and organizational agility. Finally, practitioners and researchers alike are encouraged to adopt a systems perspective that integrates psychological safety into the broader ecosystem of organizational practices. By positioning psychological safety as a central pillar of strategy, organizations can not only enhance performance but also build resilient, adaptive, and future-ready workplaces. These efforts will ensure that psychological safety becomes a cornerstone of organizational success in an increasingly volatile and complex world.

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