Leadership in Startups: How Founder Personality and Leadership Behaviors Impact Startup Success and Psychological Safety

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Leadership in Startups: How Founder Personality and Leadership Behaviors Impact Startup Success and Psychological Safety

Submitted to
Professor Ronald Riggio

by
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Leadership in Startups: How Founder Personality and Leadership Behaviors Impact Startup Success and Psychological Safety

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Abstract

New ventures created by entrepreneurs are crucial to the economy and to the diffusion of innovative technologies. However, startups often operate in highly uncertain environments characterized by constrained resources, lack of established processes, and complex market dynamics. Despite surges in startup investment, the failure rate for new ventures remains high, making it crucial to understand the factors that can contribute to their success. This thesis explores how founder personalities, leadership styles, and cultivating psychological safety impact startup performance and growth trajectories. Founder personality traits like openness, agreeableness, and conscientiousness are positively associated with securing funding, achieving exit opportunities, and overall venture growth. In contrast, neuroticism appears detrimental to startup success. The findings also highlight the critical role of transformational leadership, where founders/CEOs exhibiting inspirational motivation, individualized consideration, and other transformational behaviors drive better performance compared to transactional styles. Creating an environment of psychological safety, where employees feel able to voice concerns, experiment, and learn from failures, emerges as another vital component. These insights can aid entrepreneurs to proactively nurture conditions that empower teams and foster growth. As startups are critical engines of innovation and economic vitality, improving knowledge in this area holds important implications and pushes for continued research in this field.

Keywords: Transformational leadership, Transactional leadership, psychological safety, Startups, Executive Leadership, Venture Capital
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Introduction

Global investment in new ventures hit an all-time high as recently as 2021. In North America alone, investors poured $329.5 billion into startups, which is an increase of 92% from the previous record set in 2020 (Glasner, 2022). Despite these investments, the odds of successfully launching a new business are low. In fact, nine out of ten startups fail (Patel, 2015). Globalization, changing market conditions, and the democratization of rapidly evolving technology have created turbulent environments for leaders and their employees. Tech startups are essential to the global economy, but predicting their short and long-term outcomes continues to be a challenge. This is especially true in the early stages of a startup’s lifecycle where little to no performance data is available (Freiberg and Matz, 2023).

Startups operate in an environment characterized by high degrees of internal and external uncertainty (Sommer et al., 2009). Internally, they often lack well-developed routines and processes. Externally, they may face complex and dynamic market conditions. As Cahill (2002) observes, "entrepreneurs are masters of creating something out of nothing. Where the environment is short on resources, the strength of the entrepreneur lies in utilizing those resources and, in some cases, creating the perception that the resources are there even when they do not exist." Cahill’s analysis encapsulates the widespread understanding that entrepreneurs are passionate, resilient, adaptable, among other characteristics.

Defining an entrepreneur is an important step when reviewing relevant literature throughout this paper’s analysis. The term has been applied broadly beyond founders of high-growth Silicon Valley startups that are often financed by venture capital firms (Kerr, 2017). The definition may also encompass many self-employed individuals who are not necessarily seeking exponential growth (Kerr, 2017). This distinction between self-employed individuals and
growth-oriented entrepreneurial firms influences the characteristics and behaviors studied, as well as the challenges and opportunities they face. For the purpose of this paper, founders who are leading organizations, as opposed to self-employed individuals, will be targeted in order to monitor leadership behavior. This focus allows for a more relevant analysis of the unique challenges and demands faced by founders seeking to build and scale successful, growth-oriented ventures.

A key transition entrepreneurs must make is evolving from being the visionary "idea person" to becoming a leader capable of running an organization (Cahill, 2002). Lippitt (1987) describes the entrepreneurial leader as one with the ability to take risks, assume responsibility, and energetically orchestrate all aspects of the new venture with self-confidence and persistence. This transition to becoming an organizational leader is critical for the success and growth of the company. Founders often start with a strong vision and passion for their idea, but as the venture grows, they must develop skills to manage people, resources, and operations effectively. The founder's leadership style and approach can significantly impact the company's culture, decision-making processes, and overall performance. Successful founder-leaders are able to strike a balance between maintaining their entrepreneurial spirit and adapting to the changing needs of the organization. They must learn to delegate responsibilities, build strong teams, and establish robust systems and processes to support the company's growth.

By situating startups and their founders within this context of heightened uncertainty and resource constraints, this paper aims to explore founder personality, leadership behavior, and psychological safety within startups. There is abundant literature surrounding leadership within large organizations, however, there appears to be a gap in current research that focuses specifically on startups. As of 2024, there are 77,927 startups in the U.S. and more than 150
million startups worldwide (Shewale, 2024). Due to the constantly growing number of startups, it is crucial to expand on the existing knowledge and understanding of effective leadership practices in the unique context of startups. Startups face distinct challenges compared to established organizations, such as constrained resources, rapidly evolving business models, and the need for agility and innovation. Effective leadership in this environment requires a different set of skills and approaches tailored to the dynamic and uncertain nature of startups. By exploring leadership theories and practices specific to startups, researchers can provide valuable insights and guidance to entrepreneurs, investors, and industry professionals, ultimately contributing to the success and sustainability of these emerging businesses.

Filling this research gap can provide valuable insights to help startup founders navigate the uncertainties inherent to embarking on a new venture. Examining factors like founder personalities, leadership styles, and the psychological safety climate cultivated within startups creates a possibility to identify approaches that may enhance resilience, decision-making, team performance and ultimate venture growth during the risky startup phase. As startups are vital engines of innovation and job creation in many modern economies, improving our knowledge of how to set them up for success has far-reaching implications. Through merging theories from organizational communication, and organizational development, “research in this area can become more problem-focused, positively impacting theory and research for the benefit of dotcom leaders, venture capitalists, and academics” (Klein & Knight, 2005). This paper therefore aims to contribute to the entrepreneurship literature by rigorously studying leadership and organizational behavior specifically within the context of high-uncertainty startups.
CHAPTER 1: Leadership Personality Impact on a Startup’s Trajectory

Big 5 Personality Test

A personality trait can broadly be defined as a, “characteristic pattern of thinking, feeling, or behaving that tends to be consistent over time and across relevant situations” (Soto, 2018). The Big Five Personality test measures how much behavior varies from high to low in five unique traits. The Big Five traits include: Openness to Experience, Conscientiousness, Agreeableness, Extraversion, and Neuroticism (OCEAN). These are broad dimensions that constitute one of the most widely used models of personality structuring. Each of the Big Five represents a comprehensive set of distinct personality traits.

Openness to Experience represents differences in intellectual curiosity, aesthetic sensitivity, and imagination. Highly open individuals enjoy thinking and learning, are sensitive to art and beauty, and generate original ideas. Close-minded individuals tend to have a narrow range of intellectual and creative interests (Soto, 2018). Openness to Experience is most strongly associated with intellectual and creative outcomes. Highly open individuals tend to score higher on tests of creativity and intelligence, and to pursue scientific and artistic occupations (Soto, 2018). Openness to Experience emphasizes imagination and insight the most out of all five personality traits (Power & Pluess, 2015). Openness to experience, “describes the breadth, depth, originality, and complexity of an individual’s mental and experimental life.” (Kerr, 2017)

Conscientiousness represents differences in organization, productiveness, and responsibility. Highly conscientious individuals prefer structure, work persistently towards their goals, and are committed to fulfilling their responsibilities (Soto, 2018). Unconscientious individuals are comfortable with disorder and less motivated to complete tasks (Soto, 2018).
Conscientiousness is an important predictor of achievement and health related outcomes. Highly conscientious students tend to earn higher grades, and conscientious workers tend to perform better in a variety of occupations (Soto, 2018). Individuals that score high on conscientiousness may be prescribed with an “impulse control that facilitates task- and goal-oriented behavior” (Kerr, 2017).

Extraversion encapsulates individual differences in social engagement, assertiveness, and energy levels. Highly extraverted individuals enjoy socializing with others, are comfortable expressing themselves in group situations, and frequently experience positive emotions such as enthusiasm and excitement (Soto, 2018). On the other hand, introverted people tend to be both emotionally and socially reserved (Soto, 2018). Highly extraverted individuals tend to have more friends and dating partners, and may be seen by their peers as having high social status. They generally prefer and perform better in social and enterprising occupations, and are more likely to adopt community leadership roles (Soto, 2018). An individual who scores high on extraversion implies “an energetic approach toward the social and material world and includes traits such as sociability, activity, assertiveness, and positive emotionality” (Kerr, 2017).

Agreeableness represents differences in compassion, respectfulness, and acceptance of others. Agreeable individuals experience emotional concern for others’ well-being, and treat individuals with regard for their personal rights and preferences, and hold generally positive beliefs about others. In contrast, disagreeable individuals tend to have less regard for others and of socially accepted norms related to politeness (Soto, 2018). Highly agreeable individuals tend to be better liked by their peers, and their close relationships tend to be more stable and satisfying (Soto, 2018). They generally prefer social occupations and are more likely to hold religious beliefs, perform volunteer work, and serve in community leadership roles. Agreeable
individuals are also less likely to engage in criminal behavior (Soto, 2018). Agreeable individuals convey a communal orientation toward others and demonstrate traits such as altruism, tender-mindedness, trust, and modesty (Kerr, 2017).

Neuroticism captures the differences of the intensity and frequency of negative emotions: “Highly neurotic individuals are prone to experiencing anxiety, sadness, and mood swings, whereas emotionally stable individuals tend to remain calm and resilient, even in difficult circumstances” (Soto, 2018). Neuroticism is negatively associated with subjective well-being and psychological health. For example, highly neurotic individuals tend to experience lower levels of overall life satisfaction, as well as lower satisfaction in a number of specific life domains, such as job and relationship satisfaction (Soto, 2018). Neuroticism contrasts emotional stability and even-temperedness with negative emotions, such as feeling anxious, nervous, sad, and tense (Kerr, 2017).

**How is the Big Five Measured?**

Scores for these five traits are assessed using one of multiple questionnaires. These tests vary in the exact terms used for each trait. However, they essentially cover the same broad dimensions and provide high to low scores on five different traits. Some examples of statements on questionnaires include: “Is systematic, likes to keep things in order” (conscientiousness), “Is compassionate, has a soft heart” (agreeableness), and “Is moody, has up and down mood swings” (neuroticism) (Kerr, 2017). Average scores can then be calculated from an individual’s responses on the questionnaire.
Why is the Big Five Personality Test Important?

The Big Five Personality Test provides a robust framework for exploring the relationships between fundamental personality traits and other critical life outcomes like physical health, social well-being, academic performance, and professional success. By evaluating characteristics such as openness, conscientiousness, extraversion, agreeableness, and neuroticism, the model offers predictive insights into how individuals may think, feel, and behave across various environments. Notably, research shows that these core personality traits can change and evolve over the course of one's lifetime, highlighting opportunities for personal growth and development. The Big Five's predictive power, paired with its diverse applications in areas like team dynamics, interpersonal interactions, and individualized coaching, underscore its importance in leadership literature.

In the context of entrepreneurship and startup leadership, assessing a founding team's Big Five personality profiles can illuminate potential strengths, risk factors, and areas for strategic personal development - ultimately informing efforts to build psychologically safe, high-performing cultures. The model's wide-ranging implications across individual, interpersonal, and organizational domains portray its significance as a framework for personal and professional development.

Distinguishing Entrepreneurs and Managers Personality Traits with Big 5

The Big Five personality test is often used in corporate settings since it helps predict job performance, one’s potential for burnout, and job satisfaction (Mercer, 2021). The Big-5 traits have been found to influence career choice and work performance (Kerr, 2017). Recent literature has focused on answering two key questions: “(1) Do certain traits predict an individual’s
likelihood of becoming an entrepreneur, and (2) Do certain traits predict an entrepreneur’s likelihood of achieving “successful” outcomes?” (Kerr, 2017).

Managers are frequently used as a comparison point for entrepreneurs given the need of both groups to direct workers and manage multiple tasks. A meta-analysis of 23 studies conducted from 1970 to 2002 in a variety of countries and reported in English-language journals, Zhao and Seibert (2010) find entrepreneurs to be more open to experience, more conscientious, and more extraverted. On the other hand, they were found to be less agreeable, and less neurotic than managers (Kerr, 2017). One theory often ascribed to the characteristic difference between entrepreneurs and the average employee is the “attraction-selection-attrition model” (Schneider, 1987). According to this model, employees are attracted to jobs whose opportunities and demands match their own personality traits, motives, and talents. Employers then select applicants whose motives fit with the job’s criteria. Entrepreneurs are characterized by low neuroticism, high openness, high conscientiousness, and high extraversion (Kang et al., 2023). Furthermore, entrepreneurs were found to be consistently more open than managers (Kerr, 2017). Researchers hypothesized that an entrepreneur is more likely going to be attracted to “constantly changing environments” and the “excitement of new challenges” within a business venture (Kerr, 2017). The openness of entrepreneurs, “may aid functions such as: presenting creative business solutions, business models, and products” (Kerr, 2017). On the other hand, managers are often selected for their ability to execute and deliver high-quality, consistent results for a given set of directions rather than seek out original solutions (Kerr, 2017).

The most significant difference between entrepreneurs and managers was found to be a higher score on conscientiousness (Zhao and Seibert, 2010). For the purpose of this study, researchers define conscientiousness as a composite of achievement, motivation, and
dependability (Zhao and Seibert, 2010). Entrepreneurs and managers are similar in dependability, but entrepreneurs score significantly higher than managers in the achievement aspect (Zhao and Seibert, 2010). Individuals who pursue entrepreneurial careers are significantly higher in achievement motivation than individuals who pursue other types of careers (Collins et al., 2004). Additionally, entrepreneurs are more achievement-oriented than managers (Steward and Roth, 2007). Researchers have hypothesized that “those with high achievement motivation are drawn to environments in which success is more closely attributed to their own efforts, rather than a larger institutional setting in which business success or failure is less a function of one’s individual efforts” (Kerr, 2017).

There is a lack of consensus on whether entrepreneurs score higher than managers on extraversion. Researchers in this study used extraversion to measure the extent to which one is dominant, energetic, active, talkative, and enthusiastic (Costa and McCrae, 1992). Researchers in this study have hypothesized that extraversion could be more important for entrepreneurs than managers. This is due to the role of entrepreneurs acting as salespeople for their ideas to investors, partners, employees, and customers (Kerr, 2017). However, Zhao and Seibert (2010) conclude that no reliable difference emerges in current literature.

Lastly, entrepreneurs have also often been found to have smaller amounts of agreeableness and neuroticism. These differences measured between entrepreneurs and managers have been quite small (Kerr, 2017). A key difference in the hypothesis for why entrepreneurs have been measured with smaller amounts of agreeableness and neuroticism is because, “most entrepreneurs eventually become the CEOs of their own ventures, they do not need to worry about pleasing other people around 12 them, whereas managers must at least please their own bosses” (Kerr, 2017). Entrepreneurs require exceptional self-confidence to take on the risks of
starting a venture (Kerr, 2017). Therefore, the findings that entrepreneurs are generally less neurotic than managers aligns with prior assumptions of the role.

**Big 5 Personality and Entrepreneurial Outcomes**

**Introduction**

Founder personality is presented as large-scale evidence that is available from the moment of the startup’s conception (Freiberg and Matz, 2023). The key arguments presented in this study include that openness and agreeableness are positively related to the likelihood of raising an initial round of funding (Freiberg and Matz, 2023). Neuroticism is negatively related to all outcomes, which essentially highlights the importance of founders’ resilience (Freiberg and Matz, 2023). Lastly, conscientiousness is positively related to early stage investment, and negatively related to the startup’s exit conditional on funding (Freiberg and Matz, 2023). In line with the research, Zhao et al. (2006), also found that conscientiousness and emotional stability predict venture growth.

Numerous methodological challenges have limited the ecological validity of previous work that studies the relationship between founder personality and startup outcomes. These problems include: issues related to collecting large sample sizes from the field, self-selection bias, and the extent to which founders’ personalities change as a response to their entrepreneurial experiences (Freiberg and Matz, 2023). This study fills the gap in current literature through providing large-scale evidence on the association between founder personality and entrepreneurial outcomes specifically among technology startups.
**Methods**

This study observed 10,541 founder-startup pairs from all stages: earliest funding round to acquisition/IPO (Freiberg and Matz, 2023). The startups included in this analyses were between 8 and 12 years old (Freiberg and Matz, 2023). Although this may be considered as relatively young in various other industries, the majority of startup exits in the technology space occur within 8 years (Cumming & Johan, 2010).

 Founder personality was predicted from language extracted from their tweets two years prior to their startup’s founding. Assessment of Big Five personality traits have traditionally relied on self-report questionnaires. However, recent research has shown that they can also be predicted with high levels of accuracy from an individual’s digital footprint (Youyou et al., 2015). More specifically, the scope of this research demonstrates that, “automated personality predictions from Twitter have been shown to provide valuable insights in the context of vocational preferences and outcomes” (Kern et al., 2019). Computer-based predictions not only align with people’s self-views, but also allow for prediction of external criteria with the same level of accuracy as self-report questionnaires (Park et al., 2015). Tweets were accessed for this study using the twitter API and only considered founders who had tweeted at least 50 times (Freiberg and Matz, 2023). Researchers used Twitter in this study since it is known to be an important communication platform among startup and investor communities (Freiberg and Matz, 2023). Researchers also used the Crunchbase API to connect the founders to startups and the following startup outcomes: whether the startup has raised funding, the amount it raised in the earliest funding round, and whether it exited through acquisition or IPO (Freiberg and Matz, 2023). Crunchbase is “a repository of startup data that is among the most extensively cited in the technology entrepreneurship literature” (Guzman, 2022). Crunchbase’s coverage of early stage
tech startups can be compared to platforms like PitchBook, VentureSource, and PwC MoneyTree.

Predictive models were trained with data from the MyPersonality project, a Facebook application that allowed users to take psychological assessments and receive immediate feedback on their responses (Kosinski, 2015). Five predictive modes, one for each personality trait, were trained. Users with fewer than 50 status updates were removed in order to increase the strength of the model. This led to a sample of 47,521 users who had an average number of 3,531 to 3,375 words (Freiberg and Matz, 2023). Additionally, each status update was embedded using Facebook’s InferSent, which is an embedding model trained on web and social media text (Conneau, 2018). Researchers also split the data into training and test sets. The test set size was 10% of the total sample (4,753 users), and models were trained using ridge regressions (Hoerl & Kennard, 1970).

Results

A series of logistic and linear regression analyses were performed to predict startup outcomes from the Big Five personality traits. To facilitate the interpretation of effects found in this study, the personality estimates were all z-standardized. All analyses control for the year the company was founded, the number of founders, the gender of the founder, US state, among other industry-fixed effects (Freiberg and Matz, 2023).

Whether a startup has raised initial funding, was positively related to openness and agreeableness (Freiberg and Matz, 2023). An increase of 1 SD in openness and agreeableness was associated with a 5% higher likelihood of attracting funding (Freiberg and Matz, 2023). An increase of 1 SD in conscientiousness was associated with an additional $170,000 raised, while an increase of 1 SD in neuroticism was associated with a drop of $90,000 (Freiberg and Matz, 2023).
2023). The number of investors included in the first round of funding was significantly related to conscientiousness and neuroticism (Freiberg and Matz, 2023). A 1 SD increase in conscientiousness and neuroticism was associated with having 0.21 and 0.20 fewer investors, respectively (Freiberg and Matz, 2023). Whether the startup exited was negatively related to conscientiousness and neuroticism (Freiberg and Matz, 2023). A 1 SD increase in conscientiousness and neuroticism was associated with a 15% and 16% lower likelihood of exiting, respectively (Freiberg and Matz, 2023). These results ultimately suggest that, “founder personality plays an important role across the different phases of a new venture’s development, from initial fundraising to exit” (Freiberg and Matz, 2023).

Discussion

Through the use of natural language processing to predict the personality of US-based tech founders from their Tweets, Freiberg and Matz show that founder personality is related to objective outcomes at all stages of the entrepreneurial process (i.e., from initial fundraising rounds to exit).

Openness “is aligned with the archetype of the ‘curious and inventive’ founder” (Freiberg and Matz, 2023). Founders identified to be more open may be more likely to develop products that gain more attention due to their unique value proposition. In addition to openness, agreeable founders can more easily leverage their network to bring on investors. The two traits that most consistently predicted startup outcomes were: conscientiousness and neuroticism (Freiberg and Matz, 2023). Neither of the two traits predicted the likelihood of raising an initial funding round. However they significantly predicted all subsequent conditional outcomes including: the amount raised in the first round, the number of investors, as well as the likelihood of exiting via IPO or acquisition (Freiberg and Matz, 2023). According to Freiberg and Matz (2023) the Big 5 trait
Conscientiousness showed a more “complex pattern that varied across the different outcomes we observed.” Conscientious founder raised $170,000 more from 0.2 fewer investors, but had 15% lower likelihood of exiting (Freiberg and Matz, 2023).

The positive relationship found of the initial amount of capital raised aligns with existing characterization of conscientiousness as a benefactor to startup performance (Barrick & Mount, 1991). However, the negative relationship with the likelihood to exit via IPO or acquisition strays from previous literature. Freiberg and Matz (2023) speculate that this pattern may be “driven by different stages favoring different aspects of conscientiousness stemming from founder dispositions (i.e., their intentions and ability), investor preferences, and the interaction of the two.” More specifically, at the early stages of venture creation, high levels of conscientiousness may encourage ambition in founders to aim for higher profile outcomes and develop organized business plans (Freiberg and Matz, 2023). Prior work has linked aspects of conscientiousness (such as high levels of planning, forecasting, and logic) to a higher likelihood of targeting acquisition and IPO-based exit strategies (DeTienne et al., 2015). Since venture capital returns most often come from acquisitions and IPOs, investors may be more likely to invest in conscientious founders whose exit goals align with their own (Nanda et al., 2020). Although the public image of entrepreneurs often associates them with creativity and ideation, “investors may initially prioritize signals that a founder is able to reliably execute critical day-to-day tasks that require the level of organization, diligence, and goal orientation associated with high levels of conscientiousness” (Chen et al., 2009). Additionally, when deciding to invest in early stage startups, investors often focus their due diligence on signals of the founder’s previous success. This includes the founder’s education and performance in previous jobs, which are both associated with high levels of conscientiousness (Bernstein, 2014).
While conscientiousness was positively correlated with a founder’s ability to initially raise capital, neuroticism demonstrated a negative impact on funding. Higher levels of neuroticism among founders were associated with a funding gap of approximately $90,000 and 0.2 fewer investors in the first round, as well as a 16% lower chance of exiting (Freiberg and Matz, 2023). These findings are in line with previous literature that suggests neuroticism is generally related to worse life outcomes. More recent literature has also highlighted the negative effect of neuroticism on entrepreneurial outcomes (Zhao et al., 2010). Since neuroticism is associated with lower levels of emotional regulation, founders that are perceived as neurotic may be considered as “less competent or trustworthy by investors, employees, and the public” (Bendersky & Shah, 2013).

It is important to note that as a startup matures and moves past its initial stages, the dynamics between founders and investors may change. As a startup matures, “the same ambition that led conscientious founders to strive for success via IPO or acquisition at the beginning of their journey, might later prevent them from selling their venture once it is successful” (Freiberg and Matz, 2023). Highly conscientious entrepreneurs may pursue long-term goals that no longer relate to selling the company as fast as possible (Freiberg and Matz, 2023). While the early stages of developing a business plan and gaining investors' trust may have benefitted from the organized tendencies of the conscientious founder, the later stages might favor founders with “the flexibility and ability to adjust to new challenges and opportunities as the startup matures. This may be through rapid ideation and prototyping rather than rigorous forecasting and strategic planning” (Koning et al., 2022). Therefore, investments made at a later stage of the startup’s operational life cycle may favor founders who have the flexibility and ability to adjust to new challenges and opportunities as the startup matures.
Extraversion did not show any significant outcomes with startup outcomes (Freiberg and Matz, 2023). These findings contrast prior literature, which has found a weak relationship between founder extraversion and startup performance. The differing results in this study may be due to the focus on technology startups in comparison to previous literature. Findings from this specific study suggest that the fast-paced world of technology startups, “rewards different behavioral dispositions at different startup stages” (Freiberg and Matz, 2023).

Limitations

One major limitation of this research is that Freiberg and Matz (2023) cannot directly speak to the causality of effects found. Tweets used in this study were collected prior to the founding of the startup in order to reduce the risks of reverse causality. However, confounding variables that may have impacted effects should not be ignored. Perceptual biases could also arise from founders with certain personality traits who are misrepresenting or exaggerating the “effectiveness or success” of their product (Freiberg and Matz, 2023). While conscientiousness often signals a positive personality trait for founders, individuals that score low on conscientiousness are also “more likely to deploy strategic positioning and dishonest behavior” (Hart et al., 2020).

Another limitation with the sample used in this study is that it is limited to founders who use social media. The accuracy of a founder’s profile is reliant on how often they post. Personality type has been found to influence an individual's likelihood of joining and posting on social media platforms (Amichai-Hamburger & Vinitzky, 2010). Prior research has also linked active engagement with social media platforms to extraversion (Amichai-Hamburger & Vinitzky, 2010). Researchers believe that while this might impact the reliability of personality estimates, it
should not “systematically impact the relationships between personality estimates and outcome measures” (Freiberg and Matz, 2023).

In addition to flaws in data collection and potential confounding variables, the context of this study is limited to tech startups that operate in a unique ecosystem in comparison to other industries. The failure rate of technology startups is much higher than startups in other industries (Cantamessa et al., 2018). This may partly be attributed to the ever-changing landscape of technology, which makes it difficult for founders to keep up: “the effects of conscientiousness on long-term outcomes might look different in an environment that is more stable and benefits from the organized and reliable nature of conscientious founders all the way to the end” (Freiberg and Matz, 2023). Furthermore, success is measured very differently across industries. While exits through acquisitions or IPO have generally been an indicator of success in the technology space, other potential outcomes hold importance as well. This might include the startup’s impact on its target market, profitability, and its overall survival. It is also important to note that the sample included in this study treats founders as individual observations. However, many startups have multiple founding members. Therefore, it may prove beneficial to explore how startups with multiple founders differ from these results.

Results found in this study are conditional on individuals who have chosen to be entrepreneurs. This demonstrates certain personality traits participants may inherently be associated with. A study quantifying the personality distinctions between entrepreneurs, nonfounder CEOs/leaders, and inventor employees demonstrates this phenomenon. Entrepreneurs display the greatest tolerance of risk, as well as the strongest self-efficacy, internal locus of control, and need for achievement (Kerr & Dalton, 2019).
**Future Studies**

Future research could potentially explore the coherence of personality profiles among all founding members of a startup. This could provide interesting insights to short and long term outcomes of a startup. Future research relating to founder personality and startup success may benefit from breaking down the main personality traits in the Big Five into facets or specific conscientiousness-related behaviors. The interpretation of the effects observed for conscientiousness is complicated by the fact that different facets could influence startup outcomes differently (Freiberg and Matz, 2023). It is possible that certain behavioral expressions of conscientiousness are beneficial to startup success. On the other hand, rigid adherence to existing plans might become outdated (Freiberg and Matz, 2023). Given that these findings do not have the statistical power to distinguish between different facets of conscientiousness, it is possible that the results of this study more closely align to one facet than another.

**CHAPTER 2: Leadership Behavior Impact on a Startup’s Success**

**Defining Transformational Leadership and Transactional Leadership**

A widely used definition of leadership is that of Bass and Stogdill (1990): “Leadership is an interaction between two or more members of a group that often involves a structuring or restructuring of the situation and the perceptions and expectations of members … Leadership occurs when one group member modifies the motivation or competencies of others in the group. Any member of the group can exhibit some amount of leadership.” Leadership success is primarily influenced by its context, which includes business environment, company life cycle or firm structure (Porter and McLaughlin, 2006). Startups operate in a specific context which is characterized by a high risk of failure (Ouimet and Zarutskie, 2014). This often leads to
complexity and unforeseeable uncertainty (Sommer et al., 2009). Limited financial and human resources are another central characteristic of start-ups (Romanelli, 1989), which often results in a flat organization with a small number of levels of hierarchy.

Transactional Leadership

Transactional leadership is characterized by contingent reward and management by exception. This refers to the degree to which a leader sets up constructive exchanges with his followers (Judge and Piccolo, 2004). A transactional leader is one who clarifies and communicates to the follower what is expected and what they will receive if these expectations are met (Avolio et al., 1999). Transactional leadership has three key components. The first involves contingent rewards, which rewards followers for conformity with performance targets and expectations (Cahill, 2002). The second is management by exception, which can be further defined as “taking action when task-related activity is not going as planned” (Cahill, 2002). The last involves staying removed from the day-to-day workings of the organization (Cahill, 2002).

Transformational Leadership

Transformational leadership is a direct contrast to transactional leadership. Transactional leaders “motivate their followers by communicating an inspiring vision of the future, show respect to their followers and are genuinely concerned with their personal growth and development” (Zaech and Baldegger, 2017). Transformational leaders also provide opportunities that challenge employees to learn new skills and abilities (Zaech and Baldegger, 2017). Transformational leadership is composed of four key components including: idealized influence, individualized consideration, personal motivation, and attention (Bass and Avolio, 1994). Idealized influence comes in the form of behavioral and trait characteristics that enables a leader to develop a vision, create trust, and inspire (Cahill, 2002). Individualized consideration can be
defined as motivation by “creating high expectations and using symbols to focus efforts, as well as providing individualized consideration” (Cahill, 2002). The third key aspect of transformational leadership involves giving personal attention, respect, responsibility, and intellectual stimulation to followers (Cahill, 2002). Lastly, transformational leaders continually challenge followers with new ideas and approaches to challenges (Cahill, 2002). Bass’s theory of transformational leadership has been tested in multiple settings through the use of quantitative indicators like the Multifactor Leadership Questionnaire, also known as MLQ (Cahill, 2002). Findings from this measure indicate that inspiration and charisma affect employee performance the most (Cahill, 2002). Peterson et al. (2009) also showed a higher impact of transformational leadership on firm performance in small enterprises than in larger ones.

**Leadership Behavior Impact on Startups: Founder’s Leadership Style and its Influence on Startup Performance**

**Abstract**

The following study aims to address the research gap concerning the influence of leadership behavior on startup performance, with a focus on the role of founders/CEOs in the context of a startup. It explores how the leadership approach of founder-CEOs impacts startup performance, as well as the moderating impact of startup size (Zaech & Baldegger, 2017). The research involved a sample of 102 startups, their founder-CEOs, and feedback from 372 employees rating the leadership behavior (Zaech & Baldegger, 2017). The findings indicate that transformational leadership demonstrated by founder-CEOs has a significant and positive effect on startup performance (Zaech & Baldegger, 2017). However, transactional leadership exhibited no significant direct effects (Zaech & Baldegger, 2017). A key takeaway emphasizes the importance of founders actively monitoring their leadership behavior to foster an approach
conducive to driving startup success. This study contributes to the understanding of leadership dynamics within startup contexts and provides valuable insights for founders navigating the challenges of establishing and scaling a new venture.

Introduction

The foundation and development of startups is deeply connected to leadership (Zaech and Baldegger, 2017). In young firms, which have limited processes, structures, and routines, the leadership behavior of a founder plays a crucial role (Zaech and Baldegger, 2017). Therefore, founders must develop a vision in order to motivate and intellectually stimulate employees (Zaech and Baldegger, 2017). Start-ups operate in a context that is highly risky (Ouimet and Zarutskie, 2014), complex and uncertain (Sommer et al., 2009) as well as open, flexible and unstructured (Shamir and Howell, 1999). The qualifications and experiences of a founder/CEO to guide the organization and its members through this stage are critical.

The following study examines four hypotheses. The first hypothesis claims that, “transformational leadership behavior of the founder-CEOs will be positively related to start-up performance” (Zaech and Baldegger, 2017). The second hypothesis proposes that the transactional behavior of the founder-CEOs will be negatively related to start-up performance (Zaech and Baldegger, 2017). Hypothesis three states that start-up size will negatively moderate the relationship between transformational leadership and start-up performance (Zaech and Baldegger, 2017). Lastly, hypothesis four pushes the idea that start-up size will positively moderate the relationship between transactional leadership and start-up performance (Zaech and Baldegger, 2017).
Methods

516 startups were invited and the study had a sample of 102 startups with a response rate of 24% (Zaech and Baldegger, 2017). The average age of the start-ups was 8.03 years (standard deviation (SD) = 2.57 years), and the number of employees was 32 (SD = 75.75); 80.4% of the start-ups had less than 20 employees, whereas 5.9% had between 20 and 30 employees (Zaech and Baldegger, 2017). Two online surveys were compiled, one version for the founder-CEOs and another for the employees. The survey for the founder-CEOs covered questions about the performance of the start-up and the firm in general as well as some personal questions. The employee survey was designed to gather leadership behavior of the founder and personal information.

The independent variable in this study is leadership behavior. The IV of leadership behavior was measured using a MLQ (Bass, 1985). The MLQ comprises 36 items that examine transformational and transactional leadership. Respondents are required to assess items on a Likert-scale of 1 (never) to 5 (almost always) (Zaech and Baldegger, 2017). Five factors are represented by 20 items that are integrated into the questionnaire to measure transformational leadership (Zaech and Baldegger, 2017). For the purpose of this literature evaluation, the factors to focus on include: attributes of idealized influence (e.g. “I go beyond self-interest for the good of the group), behavior of idealized influence (e.g. I consider the moral and ethical consequences of decisions”), inspirational motivation (e.g. “I talk optimistically about the future”), intellectual stimulation (e.g. “I re-examine critical assumptions to question whether they are appropriate”) and individualized consideration (e.g. “I help others to develop their strengths”) (Zaech and Baldegger, 2017). Transactional leadership is represented by 12 items and includes contingent reward (e.g. “I make clear what one can expect to receive when performance goals are
achieved”), management by exception, which can be divided into management by exception active (e.g. “I keep track of all mistakes”) and management by exception passive (“I wait for things to go wrong before taking action”) (Zaech and Baldegger, 2017).

The dependent variable in this study measures startup performance. Sales growth is often used as a performance indicator in entrepreneurship (Gilbert et. al, 2006). Sales growth was included in the survey, supplemented by the relationship between sales growth and pre-established goals (Zaech and Baldegger, 2017). The moderating effect of startup size on the relationship between leadership behavior and performance was also examined. Startup size was operationalized as the number of employees at the time of the survey. To analyze the data, a regression analysis served as the primary statistical procedure. This approach enabled the researchers to assess the direct effects of transformational and transactional leadership styles on startup performance, as well as the moderating role of startup size. By integrating objective performance data, employee evaluations of leadership, and firm characteristics, the study provides a comprehensive perspective on the dynamics between founder leadership, contextual factors, and new venture outcomes.

Results

The results lend support to the first hypothesis, which proposed a positive relationship between transformational leadership behavior exhibited by founder-CEOs and startup performance (Zaech & Baldegger, 2017). This finding highlights the importance of founders adopting a transformational approach, characterized by inspiring a shared vision, stimulating innovation, and serving as a motivating force for employees.

However, the second hypothesis, which specified that transactional leadership styles would be negatively associated with startup performance, could not be supported. The data did
not reveal any significant effects of these leadership behaviors on firm performance, contrary to the initial expectations.

Regarding the third hypothesis, which claimed that startup size would negatively moderate the relationship between transformational leadership and performance, no significant interaction effect was observed. Thus, the results did not provide evidence to support this hypothesis.

The fourth hypothesis, which proposed a positive moderating effect of startup size on the relationship between transactional leadership and performance, received partial support. While no interaction effect was found for the contingent reward dimension of transactional leadership, the data revealed negative interaction effects between startup size and management-by-exception (Zaech & Baldegger, 2017). Specifically, as startups grew larger, the negative impact of passive management approaches on performance became more pronounced.

Overall, these findings underscore the advantages of transformational leadership in driving startup success, while also suggesting that the influence of transactional leadership styles may be contingent on the venture's stage of development and size.

Discussion

The present study yields three main conclusions regarding the influence of founder/CEO leadership behavior on startup performance. First, the results provide compelling evidence that transformational leadership has a significant and positive effect on startup performance (Zaech & Baldegger, 2017). This finding corroborates earlier research highlighting the advantages of transformational leadership in entrepreneurial contexts (Baum et al., 1998; Peterson et al., 2009). Transformational leaders do not merely create and communicate a vision; they instill a deep conviction that this vision can be achieved through collective effort (Bass & Riggio, 2006). By
embodied this transformational approach, founder-CEOs stimulate teamwork, foster a spirited work environment, and generate optimism among employees. This, in turn, reinforces confidence in the leadership, the company, and its prospects for success (Zaech & Baldegger, 2017).

Second, high transactional leadership demonstrates a significant positive effect on performance in larger startups, whereas transactional leadership shows negative effects in smaller startups (Zaech & Baldegger, 2017). These contrasting findings suggest that the influence of leadership styles may be dependent on the venture's stage of development and size.

The lack of support for the second and third hypotheses, which proposed negative relationships between transactional leadership and startup performance, as well as a negative moderating effect of startup size on the transformational leadership-performance link, calls for further exploration. One potential explanation, as suggested by Porter and McLaughlin (2006), is that leadership may exert only an indirect effect on firm performance, with factors such as employee commitment or motivation serving as intervening mechanisms. Future research should investigate these potential mediating variables to shed light on the complex influence leadership has on startup outcomes.

Overall, this study contributes to our understanding of leadership dynamics in startup environments, emphasizing the advantages of transformational leadership while also highlighting the contextual nature of transactional approaches. As startups navigate various growth stages, founders and CEOs must remain cognizant of how their leadership styles may differentially impact performance and adapt their approach accordingly.
Limitations/Future Studies

The study's findings must be interpreted within the context of several limitations. First and foremost, the evaluation of leadership behavior relied exclusively on feedback from employees, potentially introducing bias into the ratings found. This limitation stems from the inherent subjectivity of employee perceptions, which may be influenced by factors such as personal relationships, job satisfaction, or organizational culture. To address this limitation in future research, incorporating self-assessments of founders/CEOs could provide a more comprehensive understanding of their leadership styles. Additionally, future studies should consider integrating the concept of shared leadership, as proposed by Pearce et al. (2010). Shared leadership suggests that leadership tasks are distributed among a group of individuals within an organization, offering a more nuanced perspective on leadership dynamics within startups. By addressing these limitations and embracing opportunities for future research, scholars can enhance the rigor and validity of their studies while advancing the understanding of leadership in startup contexts.

Leadership Behavior Impact on Startups: Role of Transformational Leadership and Vision Communication on Startup Growth

Introduction

The following literature review examines the impact of transformational leadership, management of meaning, and vision characteristics on the growth of startups. Researchers used the term ‘dotcom’ throughout their paper, which can be understood interchangeably with ‘startup’ based on its definition. A dotcom is defined as an organization that is “dependent on some form of seed funding or venture capital with up to 150 employees” (Cahill, 2002). The
organization has also generally been in business for less than five years, which fits established understanding of a startup in this paper.

Leadership becomes important in the process of, “framing and defining” reality for employees (Smith, 1982). This research examines the link between the leadership qualities of individuals attempting to start dotcoms, their frequency of communication related to the vision of these leaders, the characteristics of the visions they use, and overall dotcom growth (Cahill, 2002).

The vision of the startup itself has multiple key characteristics to keep in mind. A founder’s vision must be brief (Locke et al., 1991), clear (Nanus, 1992), abstract (Locke et al., 1991), challenging (Nanus, 1992), future-oriented (Jacobs & Jacques, 1990), stable (Locke et al., 1991), and desirable or inspiring (Shashkin, 1988). A vision must be brief so that it is memorable for employees. However, it should not be so brief that it is confused as a slogan or catchphrase. An “abstract vision is more favorable than a more concrete vision because it leaves employees with room to interpret that vision and thus apply it to their individual roles, tasks, problems, and responsibilities” (Cahill, 2002). A leader’s vision must also challenge individuals. This has the purpose of both inspiring the individual and provides a leader with the opportunity to follow up with other challenging messages to employees (Cahill, 2002). A stable vision is also crucial since too much “excitement” within the organization may create a sense of “uneasiness” (Cahill, 2002). This cultivates order for employees in a potentially chaotic environment. Employees are exposed to a multitude of messages during the day, therefore, the vision needs to be “that one spark in an employee’s day that provides him or her with a sense of purpose” (Cahill, 2002). Shamir et al (1999) argue that the vision should speak to employees’ self efficacy. Essentially focusing on employees’ worth, high expectations, values, and history. The vision must create an
emotional response in an employee that builds purpose or meaning (Cahill, 2002). Although it may seem intuitive, it is important to acknowledge that the founder’s vision must also be future-oriented, which involves a goal that is yet to be achieved in order to move employees beyond the status quo.

During the startup phase of organizational growth, a vision statement is often the only resource available to entrepreneurs who are seeking funding, employees, and materials (Cahill, 2002). Through examining smaller organizations, such as dotcoms, the research aims to provide more insight into the connection between vision and a startups effectiveness (Cahill, 2002).

This study considers three hypotheses: “As compared to low-growth dotcoms, high-growth dotcoms will have CEOs with transformational qualities”, “As compared to low-growth dotcoms, high-growth dotcoms will have CEOs who communicate their vision frequently”, “As compared to low-growth dotcoms, high-growth dotcoms will have CEOs who report having a vision with favorable vision attributes” (Cahill, 2002). These hypotheses suggest that transformational leadership, frequent communication of vision, and favorable vision attributes are associated with high-growth dotcoms.

Prior literature to this study has most often not been able to find a relationship between an organization’s effectiveness and the presence of a transformational leader. For one, there are a variety of confounding variables that exist between the financial performance of an organization and the communication of a vision to accurately measure the impact of that vision (Salancik & Pfeffer, 1977). However, in the case of startups, leadership and vision are more prominent factors since the organization is less complex during its developmental phases (Cahill, 2002). Since transformational leadership qualities and vision both affect traditional organizations, “dotcoms are likely to be affected even more by these phenomena because startups are smaller and more
susceptible to messages from their CEOs and founders” (Cahill, 2002). It is also more likely that with the absence of a tangible product, the startup’s vision would become a much higher priority (Cahill, 2002). This would subsequently increase the likelihood that the vision is communicated often within the startup. The combination of leadership and vision may be a catalyst for other factors that influence performance such as: job satisfaction, commitment, and employee motivation (Cahill, 2002). When taken together, leadership and vision should impact on how quickly a dotcom will grow, “the process is dynamic…the vision binds all of the voices in an organization together and creates a force of energy that shapes a context for success” (Cahill, 2002).

**Methods**

The sample for this study was drawn from startups based in the Midwest. In total, 186 participants were contacted, 94 of which were CEOs of dotcoms. A total of 39 individual dotcoms were represented in the response, resulting in a 41% response rate (Cahill, 2002). The 39 individuals used for this study had an average age of 41.2 years old (Cahill, 2002). It is important to note that the sample population was 90.3% Caucasian and 87.8% male (Cahill, 2002). The companies included in the study had been in business for an average of 3.6 years (Cahill, 2002). For the sample of this study, dotcoms were defined as, “a small company that uses the internet as an integral part of its business model” (Cahill, 2002). The majority of the startups evaluated in this study focused on customer service, customer retention, and E-commerce. In order to be a part of the sample in this study, the organization had to have three of the following five criteria: dependent on some form of seed funding or venture capital, have less than 150 employees, have been in business for less than five years, rely heavily on the
internet as a business for its business model, and have the letters “.com” in the name of their business.

Interviews were also conducted during the research process in order to provide data of the internal work climate, culture, and operations that may impact work life. CEOs were contacted by this study’s lead researcher for a 45 minute interview. In total, seven interviews were conducted with each lasting between 40 to 140 minutes (Cahill, 2002). Interviews included a confidentiality statement and a series of open-ended questions that were also included from the survey. Survey questions were asked in an open-ended format. The interview questions focused on four major areas: leadership, vision, vision characteristics, and their impact on the success of the organization (Cahill, 2002). Some examples include: “tell me about the vision itself. What are the attributes of a good vision?” (Cahill, 2002). The open-ended questions were also designed to gain more information about how startups measure success, the impact of the entrepreneur, and the role of leadership/vision growth. Some examples of questions included: “What qualities do leaders possess? Are you a good leader? Do you use a vision to lead?” (Cahill, 2002). According to researchers, “interview data helped clarify how growth and effectiveness are measured in a dotcom and over what period of time it is legitimate to expect growth” (Cahill, 2002).

The most important variables in this study to consider are transformational leadership and transactional leadership. Similar to the previous study in this chapter, transformational leadership was measured using Bass and Avolio’s (1990) Multifactor Leadership Questionnaire. The MLQ included three scales measuring transformational leadership including: charisma, intellectual stimulation, and individualized consideration. The three scales measuring transactional
leadership included contingent reward, active management by exception, and passive management by exception.

The initial conceptualization of the transformational and transactional leadership model included six factors: charisma and inspiration, intellectual stimulation, individualized consideration, contingent reward, management by exception, and laissez-faire (Cahill, 2002). Since its initial conceptualization, additional factors have been incorporated, including factors that provide attributions relating to a leader’s transformational style. These factors distinguish between charismatic behaviors and attributions (Cahill, 2002). Two of these factors include idealized influence and idealized influence behavior. Charisma has also been re-defined as “inspirational motivation” A strong positive relationship exists between transformational leadership and effectiveness as measured by employee satisfaction (Cahill, 2002).

The measure used for this study included a 36-item scale that measures a range of leadership styles and yields nine factors. These factors include: idealized influence (attributed), idealized influence (behavior), inspirational motivation, intellectual stimulation, individualized consideration, contingent rewards, management by exception (passive), management by exception (active), and laissez-faire. The first five factors account for transformational leadership where leaders “influence the understandings and networks of meanings that others hold and express through actions” (Cahill, 2002). The remaining factors relate to transactional leadership qualities. CEOs and CFOs were asked in the study how frequently they engage in different types of leadership activities. Each behavior was rated on a five point frequency scale ranging from 0 (‘not at all’) to 4 (‘frequently, if not always’).
Results

Mean scores from the MLQ were calculated by each trait (inspirational, idealized influence, etc.), and then ranked by mean, median, and mode. Around half of the samples showed high levels of the following transformational leadership qualities including: inspirational motivation, individualized consideration, idealized influence behavior, idealized influence attributed, and intellectual stimulation (Cahill, 2002). The extent to which these leadership qualities helped sustain the organization was calculated by using the amount of time that the organization was in business and the success of the organization. In some cases, transformational leader qualities were negatively associated with the amount of time the organization had been in business. For example, there was a significant negative relationship between high inspirational qualities and months in business among leaders interviewed (r= -.48, p<.01). The same was found for leaders reporting high individualized consideration (r= -.34, p<.05) and idealized influence (r= .32, p<.05) (Cahill, 2002). Researchers of this study outlined three explanations for these findings. First, and most likely, the transformational leaders were just beginning to “get in the game.” Some organizations being evaluated in this specific study were only recently founded (Cahill, 2002). A less likely scenario researchers proposed for these findings would be that “the transformational leaders were running their business into the ground by over-promising on a vision that was not backed up by a strong business model” (Cahill, 2002). The last scenario could also be that the leaders’ enthusiasm and inspiration is most evident at the beginning of an effort (Cahill, 2002).

Participants were also asked if they felt that their business was successful. 82% of the sample reported having a successful organization (Cahill, 2002). Participants who reported high inspirational motivational qualities also reported to have successful organizations (r= .51, p<0.05)
On the other hand, idealized consideration negatively correlated with success ($r=-.46, p<.01$) (Cahill, 2002). These findings indicate that leaders who have strong inspirational qualities are more likely to report having a successful organization. Leaders who are more focused on the consideration of individuals’ feelings are less likely to report success (Cahill, 2002).

The data from interviews revealed that successful senior management combinations for dotcoms include a CFO with transformational leadership qualities who took on “CEO-type” roles combined with a CEO who took on product development or sales roles (Cahill, 2002). The entrepreneurial leader was found to take on an external transformational leadership role, while the operational leader takes on the traditional transactional leadership role. Some of the CEOs in the study describe their leadership styles as: “leading by example,” “set the vision and make sure we are all running towards the same target,” and “ability to make decisions” (Cahill, 2002). The CFOs in the study described themselves as “the leader of cultural maintenance,” “credible,” and “detail-oriented” (Cahill, 2002). According to the research compiled from the interviews, “the operational leader prefers to keep the entrepreneurial leader out of operations, and the entrepreneurial leader is fairly good at realizing they do not want to deal with day-to-day problems. The entrepreneur only seems to intervene when action, decision-making, or movement for the startup is needed” (Cahill, 2002).

Based on this study’s findings, it takes a transformational leader to communicate a vision. The only two significant relationships that existed between high growth organizations and leadership qualities were inspirational motivational qualities ($r=.35, p<.05$) and idealized influence behavior ($r=.42, p<.01$) (Cahill, 2002). Transformational leadership qualities often “appear in more effective firms” (Cahill, 2002).
Hypothesis one of this study proposed that high-growth dotcoms would be more likely to be led by CEOs with transformational leadership qualities than low-growth dotcoms. Results indicate that employee growth and transformational leader behavior may be significant with a p-value less than 0.05 (Cahill, 2002). Sales growth, customer growth, and their relationship to transformational behavior were not found to be significant. Hypothesis two proposed that high-growth dotcoms would have CEOs who communicate their vision more frequently than those in low-growth dotcoms. However, none of the growth measures were found to be significant with vision communication (Cahill, 2002).

Discussion

The findings highlight the prevalence of transformational leadership behaviors among startup leaders. The data indicates that every CEO in the sample reported having a vision, and the survey results revealed that nearly all CEOs and founders exhibited high transformational qualities (Cahill, 2002). These findings underscore the significance of transformational leadership in the context of startups, suggesting that such leadership behaviors are commonly adopted by leaders in this setting. The ability to articulate a compelling vision and inspire others towards a shared goal is crucial for startup leaders, as they need to attract and motivate a talented workforce, secure investor confidence, and navigate the inherent uncertainties and challenges of launching a new venture. The high transformational leadership scores observed in the sample indicate that successful startup leaders possess the ability to challenge the status quo, encourage innovative thinking, and foster a sense of purpose and commitment among their teams.

Furthermore, the high prevalence of visionary leadership among CEOs emphasizes the importance of having a clear and compelling vision for the success of startup ventures. In the fast-paced and highly competitive startup ecosystem, a well-defined vision can serve as a guiding
light, helping to align the efforts of the entire organization and ensuring that decisions and actions are in line with the overarching goals and aspirations of the company. Overall, these results contribute to our understanding of leadership dynamics within startup environments and emphasize the role of transformational leadership in driving organizational success. They suggest that startup leaders who can effectively leverage transformational and visionary leadership behaviors are better equipped to navigate the unique challenges and opportunities that come with building and scaling a new venture.

CHAPTER 3: Startup Leaders and their Impact on Psychological Safety in the Workplace

Defining Psychological Safety

Psychological safety is described as “the shared belief held by members of a team that the team is safe for interpersonal risk-taking” (Edmondson, 1999). This means team members trust each other enough to share ideas, ask questions, and make mistakes without fear of judgment or repercussions. Psychological safety creates a space where people feel valued, respected, and supported by their peers and leaders, fostering a culture of trust, openness, and collaboration. Psychological safety is essential for effective teamwork, innovation, and creativity, as it encourages diverse perspectives, honest communication, and constructive feedback. When employees feel psychologically safe, they are more likely to contribute their ideas, share their expertise, and take initiative, leading to higher levels of engagement, productivity, and overall organizational success. In contrast, the absence of psychological safety can lead to silence, conformity, and a reluctance to take risks, stifling innovation and hindering performance. Therefore, creating and maintaining psychological safety is a fundamental aspect of building healthy and high-performing teams and organizations.
Startups grow and change quickly, due to this trait they are an excellent context to study psychological safety within an organization (Barhdyt, 2023). The five dimensions identified that impact perceptions of psychological safety include: top executives, employee characteristics, senior leadership, business performance, and growth. As workplace organizational structure grows increasingly complex and conducted across, cross-functional teams, the importance of interpersonal trust and collaboration is growing (Newman et al., 2017). In more simple terms, “psychological safety matters greatly for workplace effectiveness” (Edmondson & Lei, 2014). Kahn (1990) found that people need three psychological conditions (i.e., meaningfulness, safety, availability) to express and employ their personal selves at their places of employment.

Most previous studies have focused on psychological safety within teams of large organizations. However, there is a lack of academic studies on psychological safety at an organizational-level climate in startups or new business ventures, therefore opening the door for this research to enter a new direction.

**Effect of Transformational Leadership on Team Satisfaction: The Mediating Effect of Psychological Safety**

**Introduction**

As discussed throughout this thesis, the general findings of transformational leadership inquiry results in favorable outcomes on employees’ task performance, employees’ engagement, employees' organizational commitment and job satisfaction (Winarto, 2018). The question that this research attempts to answer is whether psychological safety facilitates the link between transformational leadership and team performance, more specifically, "does psychological safety mediate the relationship between transformational leadership, team performance, and team
satisfaction? (Winarto, 2018). The research addresses a gap in the literature of the outcomes of transformational leadership, particularly on team performance and team satisfaction.

It is important to note that this study does not evaluate transformational leadership and its connection to psychological safety specifically through the lens of startups. However, this research is important to evaluate when later considering how transformational leadership and its connection to psychological safety impacts startups as opposed to larger organizations.

Transformational leadership behavior has positive relationships with follower job satisfaction, follower leader satisfaction, follower motivation, leader job performance, group or organization performance, and rated leader effectiveness. Other outcomes of transformational leadership are employees will be more engaged in their work (Tims et al., 2011), and they will have high organizational commitment and job satisfaction (Walumbwa et al., 2005). Finally, transformational leadership is associated with employee voice (Detert & Burris, 2007) and learning culture (Nemanich & Vera, 2009). Prior empirical research demonstrated that transformational leadership is closely related to positive outcome on the team performance (Bass et al., 2003). In addition, a meta-analysis also suggested that transformational leadership contributes to high team performance, and team satisfaction (Wang et al., 2011).

Team psychological safety suggests that there is a shared belief that the team is safe for interpersonal risk taking (Edmondson, 1999). On the team level, every team member must have similar perceptions about the psychological safety of the organization. It must also be characterized by overall team members instead of individual members (Winarto, 2018). Psychological safety enhances team learning because team members are encouraged to discuss errors, seek feedback and information from others. This process is critical in a team’s process
that leads to a higher level of team outcomes (Kessel et al., 2012), for instance team performance and team satisfaction.

This study includes two primary hypotheses aimed at understanding the dynamics between transformational leadership, psychological safety, and team satisfaction. Firstly, Hypothesis one proposes that team members' perceptions of their supervisors' transformational leadership positively influence their overall satisfaction within the team (Winarto, 2018). Building on this, Hypothesis two comprises several interconnected sub-hypotheses. Hypothesis 2(a) suggests that team members' perceptions of transformational leadership are linked to the level of psychological safety felt within the team (Winarto, 2018). Furthermore, Hypothesis 2(b) proposes a direct relationship between psychological safety within the team and overall team satisfaction (Winarto, 2018). Finally, Hypothesis 2(c) delves into the mediating role of psychological safety and the positive relationship between team members' perceptions of a supervisors' transformational leadership and team satisfaction (Winarto, 2018). These hypotheses collectively provide a framework for examining the connections between leadership styles, team dynamics, and organizational outcomes.

Methods

The study was conducted across 83 teams in different companies. Respondents comprised 583 employees. 55% percent of team members were men and 45% were women; on average they were 39 years old and they have been working in the organization for around 118 months (Winarto, 2018). Participants in the study were asked to fill out a set of questionnaires. Data were collected using anonymous self-report questionnaires. Team members were asked to answer questions relating to three elements: transformational leadership, psychological safety and team satisfaction. Participants were required to answer the scale measuring the extent to which the
statements corresponded to their perception of transformational leadership on the team. The scale used in this study has been adapted from Podsakoff (1990) with a 7-point Likert-type scale (from ‘1- strongly disagree, to 7, strongly agree’) and consisted of 22 different statements. Sample items from this scale include statements such as: "Nobody in this team would deliberately undermine my efforts" and "It is not difficult to tell other members of the team to ask for help" (Winarto, 2018). Job satisfaction was measured by using the following four item scale: “I enjoy my work, my job does not make me bored, I am very satisfied with my work, I would like to continue to do this work” (Winarto, 2018).

Results

The results of the study reveal several key findings regarding the relationship between transformational leadership, psychological safety, and team satisfaction. Firstly, consistent with Hypothesis one, team members' perceptions of their supervisors' transformational leadership positively correlated with their overall satisfaction within the team. Additionally, in support of Hypothesis 2a, it was found that team members' perceptions of transformational leadership were associated with higher levels of psychological safety within the team. Moreover, Hypothesis 2b was validated as psychological safety within the team exhibited a significant positive relationship with overall team satisfaction. The study also uncovered compelling evidence for Hypothesis 2c, indicating that psychological safety serves as a mediating factor, facilitating the positive relationship between team members' perceptions of supervisors' transformational leadership and their overall satisfaction within the team. These results collectively underscore the critical role of transformational leadership and psychological safety in fostering a conducive team environment that promotes satisfaction and productivity.
Limitations

While the present study offers valuable insights into the effects of transformational leadership on team satisfaction, several limitations should be acknowledged. First, the number of teams included in the analysis was relatively small, potentially limiting the generalizability of the findings. Future research should aim to replicate these results with a larger and more diverse sample of teams to enhance the robustness and external validity of the conclusions drawn. Additionally, this study did not account for potential confounding factors such as company scale, age, and business type, which could influence the observed relationships. Subsequent investigations should consider incorporating these variables as control measures to isolate the unique effects of transformational leadership.

Furthermore, the study's scope was limited to examining the direct relationship between transformational leadership and team satisfaction. However, it is plausible that this association may be moderated by other contextual factors, such as the level of psychological safety experienced within the team. Future research could explore psychological safety as a potential moderator variable, investigating whether low or high levels of psychological safety strengthen or weaken the link between transformational leadership and team satisfaction. Addressing these limitations through comprehensive future studies would deepen the understanding of dynamics between leadership styles, team processes, and psychological safety in organizational settings.
Implications of Leadership and Startups’ Lifecycle on Psychological Safety in Startups

Introduction

While the previous study examined in this chapter provides a strong foundation of understanding the relationship of transformational leadership, psychological safety, and team satisfaction, it does not directly address these connections in the context of startups. The following study considers the following research questions: “are there certain common moments in the lifecycle of a startup where psychological safety is high?”, “are there certain common moments in the lifecycle of a startup where psychological safety is low?”, “Do certain common events trigger increases or decreases in psychological safety? (Barhydt, 2023).

Defining the Startup Lifecycle

When considering psychological safety at varying stages of a startup’s lifecycle, it is important to outline this specific study’s breakdown of a startup’s lifecycle. A startup’s lifecycle may be defined in varying formats that stray from this researcher’s understanding. Figure 1 included in this study illustrates the lifecycle of startups, which typically progresses through three main stages: bootstrapping, seed stage, and creation stage (Barhydt, 2023). The bootstrapping stage is characterized by individual effort, reliance on personal networks (such as family and friends), low investment, and potential involvement of angel investors. This initial phase represents the foundational steps of bringing an entrepreneurial idea to fruition.

As the startup transitions to the seed stage, team collaboration becomes more prominent, and activities such as valuation and securing average investment from sources like accelerators, incubators, and seed funds come into play. This stage marks a critical juncture where the startup begins to establish itself as a viable business entity.
Finally, the creation stage signifies a more mature phase where organizational arrangements are formalized, corporate finance strategies are implemented, and substantial investment from venture capital firms is sought. This stage represents a significant growth and scaling phase for the startup, enabling it to expand its operations and solidify its position in the market.

The cyclical nature of the startup lifecycle suggests that startups may revisit earlier stages or iterate through the lifecycle multiple times as they evolve and adapt to changing circumstances or new opportunities.

**Methods**

Data for this study was obtained through in-depth video interviews conducted with 10 individuals who had experience working in startups. The interview protocol consisted of open-ended questions designed to elicit participants’ perceptions and experiences related to psychological safety in the organizational context. Prior to commencing the interviews, participants were provided with a definition of psychological safety at the organizational level to ensure a common understanding of the concept. They were also given the opportunity to ask clarifying questions about the definition before proceeding with the interview.

The dataset comprised interviews from individuals affiliated with a total of 18 unique startups. These startups varied in their stages of development, ranging from pre-funding to post-IPO and post-acquisition. The diverse representation of startup stages enabled a comprehensive exploration of psychological safety across different phases of organizational growth and maturity.

This study adopted an exploratory approach, emphasizing qualitative methods to delve deeply into participants' perceptions and experiences. By utilizing in-depth interviews, the
research aimed to capture insights into the dynamics of psychological safety within startup environments. The qualitative nature of the study allows for a holistic understanding of the phenomenon, allowing for the exploration of contextual factors shaping psychological safety in startups.

Results

The most common theme arising from this study was the description of the top executive’s impact on psychological safety. Participants either described that impact as noticeably positive or negative. Top executives increased psychological safety in their organizations when they modeled certain leadership behaviors including, “publicly owning up to their own mistakes, publicly appreciating when employees admitted their mistakes, being open about what they did not know, showing their personal vulnerability, and consistently addressing and resolving interpersonal conflict” (Barhdyt, 2023). Top executives were also described as positively impacting psychological safety when they “actively worked to balance power in their organizations, held their senior leadership teams and employees accountable to business goals and financial objectives, and worked intentionally to foster a safe culture and environment” (Barhdyt, 2023). On the other hand, top leaders lowered psychological safety when they publicly shut down others’ ideas, fired people suddenly, and demonstrated personal conflicts of interest with the business (Barhdyt, 2023).

The personality and experience of the leader in charge stood out to participants of this study. Some participants felt that psychological safety was higher when the individual had prior experience leading a company. Others who participated in the interviews felt that psychological safety was higher when the individual was a first time founder (Barhdyt, 2023). Charismatic leaders created a sense of security within the organization, more specifically when the
survival/success of the business is at risk (Barhydt, 2023). Increases and decreases on the organizational-level of psychological safety were also attributed to how the founder(s) felt emotionally at any given moment in the company’s evolution (Barhydt, 2023). Senior leadership were seen as positive influences when they embodied and modeled the positive values and behaviors of the company’s culture. Senior leadership were also seen as positive influences on psychological safety when they protected their teams (sometimes from volatile top executives), were role-models for healthy conflict, and demonstrated vulnerable sharing, which can be defined as an individual who is honest about mistakes or admits when they did not have all the answers (Barhdyt, 2023).

Rapid growth within a startup actually negatively impacts the employee’s perception of psychological safety within the company and destabilizes company operations and other interpersonal and group dynamics (Barhydt, 2023). Rapid hiring was identified as the primary cause of lowered psychological safety (Barhydt, 2023). As a company increases in size, roles and responsibilities can often be less clear.

**Discussion**

The study's findings extend prior research on the influence of leadership on perceptions of psychological safety within organizations. Consistent with the work of Hirak et al. (2011) and Wang et al. (2018), the results demonstrate that top executives and senior leaders can noticeably impact, either positively or negatively, how their employees perceive psychological safety at an organizational level.

The analysis reveals that humble and inclusive leadership approaches exhibited by both top executives and senior leaders are instrumental in increasing employees' perceptions of psychological safety across the organization. This finding aligns with the propositions put forth
by Hirak et al. (2011) and Wang et al. (2018), which highlighted the importance of leadership in shaping organizational-level psychological safety. However, the study makes an important contribution by distinguishing between the roles of top executives and senior leaders, finding that both groups can positively influence psychological safety through the demonstration of humility and inclusiveness in their leadership styles.

By cultivating humble and inclusive leadership practices, organizations can create an environment where employees feel empowered to take interpersonal risks, voice their opinions, and embrace a learning mindset without fear of negative consequences. Such an environment is conducive to innovation, creativity, and effective team collaboration – all of which are crucial for organizational success, particularly in dynamic and rapidly evolving industries. The study reinforces the critical role of leadership in shaping organizational culture and climate, specifically concerning psychological safety. By highlighting the positive impact of humble and inclusive leadership approaches, the findings provide actionable insights for organizations seeking to foster a psychologically safe environment that promotes employee engagement, risk-taking, and continuous learning.

Limitations/Future Research

One notable limitation of this study is the absence of interviews with multiple employees within the same organization. While insights were gathered from individual participants, the study did not confirm these perspectives with other members of the organization. This limited organizational perspective may have constrained the depth of the findings since the views of different stakeholders within the startup context could provide additional nuances.

Another limitation stems from the relatively narrow definition of startups used in this study. The definition primarily focused on startups in early stages of development, characterized
by factors such as low revenues and employee counts. Future research should consider expanding the definition of a startup to encompass a broader range of organizational characteristics, including higher revenues and employee counts. Additionally, there is a need to extend the study's scope beyond the typical lifecycle of startups, potentially examining organizational dynamics beyond the point of liquidity or acquisition. By broadening the definition and timeframe of startups, future research can offer a more comprehensive understanding of psychological safety within diverse organizational contexts.

CHAPTER 4: Takeaways and Future Considerations

Original Research Questions and Purpose

This paper originally aimed to investigate the influence of founders’ personalities and leadership approaches on the overall trajectory of startup ventures. Specifically, it sought to answer two key questions: 1) How does a founder’s personality and leadership style impact the overall success of a startup? 2) How do these leaders with distinct personalities and leadership styles create psychological safety within fast-paced environments which are often volatile?

The reason behind exploring these questions stems from the well-recognized role startup leaders play in shaping the culture, norms, and dynamics of their organizations from inception of the idea to its exit. Founders have often been stereotyped as having enigmatic personalities that allow them to operate both at a high strategic level, casting bold visions and thinking big-picture, while also immersing themselves in the nitty-gritty details and daily operations required to get a new venture off the ground. However, the research synthesized here reveals that rather than any single archetype, a diverse range of founder personalities and leadership styles can pave the way toward startup success - provided that the right complementary factors are also in place. What emerges as universally applicable to startup founders is the ability to blend creativity, passion
and inspirational leadership with a strong moral compass, emotional intelligence, and a commitment to cultivating psychologically safe environments that unleash employees’ full innovative potential.

**Takeaways from Previous Literature**

The analysis of personality traits, leadership behaviors, and psychological safety within startup environments yields several important insights. Firstly, the findings highlight the impact that founder personalities can have on the trajectory and success of their ventures. Specifically, the study by Freiberg and Matz (2023) revealed that traits such as openness, agreeableness, and conscientiousness were positively associated with successful entrepreneurial outcomes, including securing funding and achieving exit opportunities. On the other hand, neuroticism exhibited a negative relationship with venture growth and performance. These results align with broader research on the links between personality and career success, while highlighting the heightened significance of emotional stability and other positive traits in the high-stakes realm of startup leadership.

This research also underscores the critical role of transformational leadership in driving startup success. The study by Zaech and Baldegger (2017) demonstrated that transformational leadership behaviors exhibited by founder-CEOs had a significant and positive effect on startup performance. Findings suggest that the influence of transactional leadership styles may be contingent on the venture's stage of development and size, with larger startups benefiting more from such approaches. The distinction between transformational and transactional leadership is one of the key takeaways produced from this research. In order to build an enduring startup, leaders must go above and beyond a strict management structure and inspire team members to follow their vision. This requires a high degree of communication, coordination, and
collaboration. Using rewards and punishments to motivate employees may work well for established organizations, but in the context of startups the charisma and enthusiasm of an entrepreneur is more highly valued. Leaders must go beyond merely managing employees through a transactional structure, rather, they must inspire follow-through on a bold, differentiating vision and the ability to unite teams through shared purpose and values.

In regards to fostering psychological safety, leadership approaches exhibited by top executives and senior leaders are crucial to increasing employees’ perceptions of psychological safety. These leadership approaches are crucial drivers of employees’ perceptions of being able to voice concerns, admit mistakes, and take risks without undue fear of negative consequences. However, it is important to note that the study reviewed in this paper provides insight into employees’ perceptions of psychological safety, but does not measure the actual psychological safety across the organization. Truly understanding the psychological safety of employees within startups may prove to be difficult due to employees’ inherent fears that voicing concerns may result in losing their job.

This review synthesizes evidence that highlights the enduring importance of founder personalities, transformational leadership skills, and psychologically safe environments in shaping startup success. While substantial opportunities for further inquiry arise, these findings offer guidance for entrepreneurs aiming to increase their chances of building enduring, high-growth companies. Perhaps most critically, they underscore that raw talent, great ideas, and the human elements of leadership, inspiration, and the cultivation of a strong culture are often decisive.
Remaining Questions and their Future Implications

While this research provides key insights into leadership dynamics within startups, there are still quite a few questions that remain unanswered. One area that warrants deeper exploration is how founder personality traits and leadership approaches evolve as their ventures grow and face new challenges across different developmental stages of a startup. As previously outlined, startups face various stages throughout their lifecycle, all of which come with their own unique objectives and challenges. The majority of literature included in this paper defined the scope of startups based on the size of team and industry it is operating in, such as tech. However, current literature fails to address what leadership characteristics are most important as a startup evolves over time. For example, leaders may need to focus on ideation and vision creation during the early stages of the startup and transition to a more operational or tactical role as the startup grows. The varying responsibilities from seed stage to exit may have impacted the results discussed in this paper. Startup stage is a key variable that must be considered as researchers in this field continue to uncover founder personality and leadership dynamics within startups.

From a methodological perspective, developing practices to objectively measure and quantify psychological safety within the challenging startup context remains an opportunity for future research. Identifying organizational systems, processes, or practices that startup leaders can implement to observe and cultivate psychological safety could prove to be beneficial. One of the biggest hurdles that startup founders face is effectively distributing capital to product development, employee salaries, marketing, amongst other priorities. Since a startup's available capital is usually quite constrained, especially in its early stages, most founders may not prioritize investing their limited resources in external support explicitly focused on building psychological safety within their organizations. However, neglecting this critical factor could
undermine their ability to unleash the full innovative potential of their teams and sustain high performance over time.

A potential solution to better understand and foster psychological safety within startups could lie in leveraging the expertise and support networks of venture capital (VC) firms. Many prominent VCs have accumulated years of experience working closely with founders to rapidly scale high-growth ventures. Through these partnerships, they have gained deep insights into the interpersonal dynamics, leadership practices, and cultural elements that allow startup teams to operate at peak productivity.

Many leading VC firms already provide portfolio companies with resources and guidance that extend well beyond financial investment such as coaching founders on team-building, organizational design, cultural development, and leadership best practices. By further expanding these support offerings to include programming explicitly focused on cultivating psychological safety, VCs could help founders overcome resource constraints and equip them with proven tools for maximizing employee engagement, retention, and innovation velocity. This could take the form of workshops, mentorship programs, or partnerships with organizational psychologists and culture experts. The goal would be to instill a framework for open communication, vulnerability-based trust, and promoting the types of positive leadership behaviors research shows drive psychological safety. Given the startup scale-up experience and ecosystems most VCs have built, they are perhaps uniquely positioned to help disseminate these vital cultural principles throughout their portfolio companies at a mass scale.

Ultimately, prioritizing strong leadership practices and psychological safety may require an initial investment from cash-strapped startups. However, the unlocked potential of having truly empowered, engaged teams that can take calculated risks, learn from failures, and innovate
rapidly could quickly offset any upfront costs. With the right support from their VC partners, founders can be better positioned to weave psychological safety into the fabric of their organizations from the earliest stages, ultimately fostering a sustainable competitive advantage.

Conclusions

This thesis has provided insight to its original research question of the pivotal roles that founder personalities, leadership approaches, and psychologically safe environments play in shaping the trajectories of startups. However, strong analysis often leads to more questions than answers. As the startup ecosystem continues evolving, further research delving into how leadership must adapt across different venture stages, as well as developing robust methods for assessing and cultivating psychological safety, will remain paramount. The overarching message is clear - combining the inspirational spark of entrepreneurship with unwavering persistence to unleash a team’s potential is what truly catalyzes breakthrough innovations. Entrepreneurs who can master this duality will be positioned to build impactful products.
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