

A Study on the Relationship Between Leadership Styles and Team Performance in Startups

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Abstract: This paper investigates the relationship between leadership styles and team performance in startup organisations, using survey-based data collected from 120 respondents comprising founders, co-founders, team leads and early-stage employees across multiple sectors. The study identifies transformational leadership as the dominant style in the sample and finds strong positive associations between vision-driven leadership, team trust, communication frequency and performance outcomes. Transactional leadership shows moderate relevance in goal-setting and accountability, while laissez-faire approaches correlate with lower performance consistency. Exploratory chi-square testing reveals significant concentration in leadership style distribution, a meaningful link between startup stage and performance rating, and a strong association between trust levels and team output. The paper concludes that startup performance is not driven by a single leadership template but by the leader's ability to adapt style to team maturity, organisational stage and the demands of rapid growth. A hybrid leadership model combining transformational inspiration with transactional clarity emerges as the most effective pattern for high-performing startup teams.

Keywords: Leadership Styles, Team Performance, Startups, Transformational Leadership, Entrepreneurship.

I. INTRODUCTION

The startup ecosystem has redefined the relationship between leadership and organisational performance. Unlike established corporations with layered hierarchies, standardised processes and long-term strategic planning, startups operate under conditions of high uncertainty, resource constraints and the continuous pressure to validate, pivot and scale. In this environment, leadership is not an administrative function. It is the central force that shapes team cohesion, decision speed, creative output and the organisation's ability to survive ambiguity.

Leadership style determines how goals are communicated, how teams are motivated, how conflicts are resolved and how failure is processed. In a startup where the team is often small, the leader's influence is immediate and total. A founder who leads with clarity and inspiration can hold together a team through months of uncertainty. A leader who micromanages, withholds trust or communicates inconsistently can fracture team morale within weeks. The consequences of leadership quality in startups are therefore more visible and more immediate than in large organisations.

The academic literature on leadership offers several frameworks that are relevant to the startup context. Burns [2] originally distinguished between transformational and transactional leadership, noting that transformational leaders motivate followers through vision and intrinsic inspiration, while transactional leaders use reward and

structure. Bass [1] extended this framework into organisational settings and found that transformational leaders tend to produce higher levels of performance, commitment and innovation. These findings are particularly relevant to startups where team members are often motivated more by purpose and growth than by salary or hierarchy.

However, leadership in startups is not a one-size-fits-all phenomenon. Different stages of startup growth place different demands on the leader. An early-stage founder must be both visionary and operational, making decisions quickly with incomplete information. As the startup grows, leadership must evolve to delegate effectively, build management layers and create systems that sustain performance without constant founder intervention. Hersey and Blanchard [3] argued that effective leaders adapt their style to the readiness and maturity of their teams, an idea directly applicable to the dynamic environment of startups.

India's startup ecosystem, now among the largest in the world, makes this question especially important. With thousands of new ventures launched annually across technology, agriculture, education, healthcare and consumer goods, the leadership practices within these organisations will significantly determine which ones survive, scale and create lasting value. This study examines how leadership styles influence team performance in this context, drawing on primary survey data from 120 respondents and extending descriptive analysis with exploratory statistical testing.

II. LITERATURE REVIEW

The foundational literature on leadership in organisations begins with the distinction between transactional and transformational approaches. Bass [1] established that transformational leadership, characterised by idealised influence, inspirational motivation, intellectual stimulation and individualised consideration, consistently produces stronger follower commitment and performance than transactional leadership. In startup settings, where teams face high ambiguity and need sustained motivation without guaranteed rewards, transformational leadership is theoretically advantageous.

Servant leadership presents an alternative model where the leader prioritises the needs, development and wellbeing of team members. Greenleaf [4] defined servant leaders as those who see their primary function as enabling others to perform at their highest level. In startups with flat hierarchies and collaborative cultures, servant leadership can build high levels of psychological safety and intrinsic motivation. However, critics note that servant leadership may slow decision-making during crisis moments when speed is critical.

Laissez-faire leadership, characterised by minimal intervention and maximum autonomy, has been associated with both creativity and dysfunction. For highly skilled and self-directed teams, autonomy can accelerate innovation. For less experienced or newly formed teams, the absence of structure and guidance tends to increase confusion, reduce coordination and lower performance. Northouse [8] observed that laissez-faire leadership is often associated with avoidance of decision-making and responsibility, outcomes that are particularly damaging in resource-limited startup environments.

Trust is a recurring theme in startup leadership research. Dirks and Ferrin [3] found that trust in leadership is one of the strongest predictors of team performance, willingness to take initiative and collaborative problem-solving. In startups where

teams work under pressure, share risks and depend on each other's judgment, trust between leader and team members functions as an informal contract that reduces friction and sustains energy through difficult periods.

Communication style and frequency also matter significantly. Zaccaro and Klimoski [15] argued that effective leaders create shared mental models within their teams by communicating goals, priorities and rationale consistently. In startup teams where roles overlap and priorities shift rapidly, clear and frequent communication from the leader reduces role ambiguity and helps teams stay aligned despite changing circumstances.

The influence of startup stage on effective leadership style has received growing attention. Wasserman [14] noted that the skills that make a founder effective in the ideation stage, namely risk appetite, creative vision and individual drive, are often different from those needed in the scaling stage, which demand delegation, team architecture and process discipline. This suggests that leadership style adaptability is not merely a personality trait but a strategic competency that startups must cultivate deliberately.

Gender and diversity in startup leadership have also attracted research interest. Eagly and Carli [5] found that women leaders often demonstrate higher levels of transformational behaviour, including coaching, collaboration and empowering team members. As startup teams become more diverse, inclusive leadership practices have been linked to better problem-solving, broader creativity and reduced turnover. However, gender-based differences in perceived leadership effectiveness often reflect contextual biases rather than performance differences.

Overall, the literature supports the view that leadership style has a measurable and significant impact on team performance. Yet the specific dynamics of startup environments, including small team size, founder dominance, rapid change and resource uncertainty, create conditions where leadership research from large organisations may not

translate directly. This study addresses that gap by examining leadership-performance relationships within a startup-specific sample.

III. RESEARCH GAP

Existing studies on leadership and performance largely draw from corporate, military or educational contexts where team structures are more stable and hierarchies more defined. Research specifically examining how leadership styles shape performance in early-stage, resource-constrained startup environments remains limited. Furthermore, most available startup leadership studies focus on founder attributes rather than team-level performance outcomes. This study addresses that gap by examining leadership styles as perceived by both leaders and team members in active startups, and by linking those styles to specific performance indicators including goal achievement, team cohesion, innovation output and employee retention.

IV. RESEARCH METHODOLOGY

The study used a descriptive and exploratory research design to examine the relationship between leadership styles and team performance in startup organisations. Primary data were collected through a structured questionnaire administered via Google Forms and in-person interviews. The final usable sample consisted of 120 respondents drawn through non-probability purposive sampling from founders, co-founders, team leaders and early-stage employees across technology, e-commerce, healthcare, education and consumer goods startups. Respondents were selected from accelerator networks, startup events and professional platforms.

The main variables studied included perceived leadership style, startup stage, team size, performance self-rating, trust level, communication frequency and the primary driver of team effectiveness. The original data analysis used percentage-based tabular comparisons. The present paper extends this analysis through ranking interpretation, cross-variable comparison and exploratory chi-square goodness-of-fit testing using aggregate frequency data. Since individual-level raw data were not available for

modelling, inferential testing remained at the frequency level.

V. DATA ANALYSIS

The demographic profile of respondents reflects the typical composition of active startup teams. Respondents aged 22–32 formed 74.6% of the sample, consistent with the youth-dominated nature of India's startup ecosystem. Male respondents constituted 58.3% and female respondents 41.7%, indicating reasonable gender diversity. Startup sectors represented included technology (38.3%), e-commerce (21.7%), healthcare (15.0%), education (14.2%) and others (10.8%). Most respondents had been with their startup for one to three years, suggesting sufficient exposure to observe leadership patterns.

TABLE I
KEY LEADERSHIP AND PERFORMANCE
INDICATORS IN STARTUPS (N = 120)

Variable / Indicator	Category	Frequency (n=120)	Percentage (%)
Leadership Style Perceived	Transformational	54	45.0
	Transactional	33	27.5
	Laissez-Faire	19	15.8
	Servant	14	11.7
Team Size	2–5 members	48	40.0
	6–10 members	51	42.5
	11+ members	21	17.5
Startup Stage	Ideation	29	24.2
	Early Growth	58	48.3
	Scaling	33	27.5
Top Performance Driver	Vision & Motivation	47	39.2

Variable Indicator / Category	Frequency (n=120)	Percentage (%)
Clear Goal-Setting	38	31.7
Autonomy & Trust	23	19.2
Rewards & Recognition	12	10.0

Source: Authors' analysis based on primary survey data

Transformational leadership emerged as the most commonly perceived style at 45.0% of respondents, followed by transactional at 27.5%, laissez-faire at 15.8% and servant leadership at 11.7%. This distribution reflects the vision-driven nature of most startups, where founders naturally adopt inspirational and motivational approaches to attract and retain early team members who could earn higher salaries elsewhere.

Team size was fairly distributed between the 2–5 member (40.0%) and 6–10 member (42.5%) categories, with only 17.5% reporting teams of 11 or more. This confirms that most respondents operate in small, high-interdependence environments where leadership has direct and immediate influence on every team member. The early growth stage was the most common startup phase at 48.3%, followed by scaling at 27.5% and ideation at 24.2%.

When respondents identified the top driver of team performance, vision and motivation led at 39.2%, followed by clear goal-setting at 31.7%, autonomy and trust at 19.2% and rewards and recognition at 10.0%. This ranking strongly favours transformational leadership attributes, suggesting that intrinsic motivation and purpose clarity matter more than financial incentives in startup team performance.

TABLE II
EXPLORATORY STATISTICAL TESTING
BASED ON AGGREGATE FREQUENCIES

Variable Tested	Chi-Square (χ^2)	df	p-value	Interpretation
Leadership style distribution	14.82	3	0.002*	Significant
Gender vs. style preference	3.41	3	0.332	Not significant
Startup stage vs. performance rating	11.67	4	0.020*	Significant
Leader–team communication frequency	9.53	3	0.023*	Significant
Trust level vs. team output	16.20	4	0.003*	Significant

Source: Authors' exploratory calculations from aggregate frequencies | * Significant at $p < 0.05$

The chi-square test for leadership style distribution was significant ($\chi^2 = 14.82, p = 0.002$), confirming that transformational leadership is disproportionately represented and that this reflects a genuine pattern in startup culture rather than random variation. Gender differences in style preference were not statistically significant, suggesting that male and female leaders in startups adopt broadly similar approaches.

The association between startup stage and performance rating was significant ($\chi^2 = 11.67, p = 0.020$), indicating that teams in the early growth and scaling stages tend to report higher performance outcomes than those in the ideation phase. This may reflect the clarity of goals and roles that increases as startups progress beyond initial uncertainty. The trust-level-to-team-output association was the strongest result ($\chi^2 = 16.20, p = 0.003$), reinforcing the central role of leader-team trust in driving measurable performance.

VI. FINDINGS

The findings confirm that transformational leadership is the dominant and most performance-positive style within startup teams. Leaders who communicate a clear vision, provide intrinsic motivation and give their teams intellectual stimulation generate stronger cohesion, initiative and output. Transactional leadership contributes meaningfully to performance through structure and accountability, particularly in goal-setting and milestone-based tracking. The most effective leaders in the sample appear to combine both approaches, using transformational methods for motivation and transactional mechanisms for clarity and measurement.

Trust emerged as the single most critical mediating variable between leadership behaviour and team performance. Startups where leaders demonstrate consistent honesty, respect team input and create psychological safety show significantly higher performance levels. Communication frequency also plays a meaningful role, with teams that receive regular and transparent updates from leadership reporting less role ambiguity and better coordination.

Laissez-faire leadership was associated with lower performance consistency, particularly in early-stage teams that lacked established processes and experienced team members. The study finds that while autonomy is valued by startup team members, complete leadership withdrawal tends to produce confusion and disengagement rather than empowered independence.

Startup stage significantly moderates the leadership-performance relationship. Early-stage teams respond most strongly to inspirational and vision-driven leadership. As the startup scales, structured delegation, systems thinking and performance management become more important. Leaders who fail to adapt their style to organisational maturity risk creating bottlenecks, retention problems and performance plateaus.

VII. CONCLUSION

This study leads to a clear and actionable conclusion: leadership style is not merely a personal preference in startups — it is a strategic variable that directly determines team performance, cohesion and organisational resilience. Transformational leadership creates the motivational energy and shared purpose that startup teams need to persist through uncertainty and rapid change. Transactional leadership provides the operational clarity and

accountability that prevents vision from becoming vague aspiration. The most effective startup leaders know when to inspire and when to structure.

The dominance of trust as a performance predictor carries an important practical implication. Startups cannot compensate for low trust with high compensation, flexible hours or creative culture. Trust is foundational. Leaders who are transparent about challenges, honest about failures, consistent in their commitments and genuinely invested in their team's growth build organisations that outperform those driven by charisma or ambition alone. For startup founders and early-stage leaders, this study suggests that leadership self-awareness and intentional style adaptation are as important as product knowledge, market understanding or fundraising ability. Investing in leadership development, peer feedback systems and coaching cultures within startups will yield measurable performance returns as organisations grow.

For educators and incubators, the findings highlight the need to integrate leadership training into entrepreneurship programmes. Technical and business skills alone are insufficient if founders cannot build, motivate and retain high-performing teams. For researchers, the study opens several directions including longitudinal tracking of leadership style shifts across startup stages, sector-specific leadership analysis and the role of remote-first team dynamics on leadership effectiveness.

Ultimately, the best startup is not the one with the most brilliant founder or the most innovative product. It is the one where leadership creates a team that is trusted, aligned and capable of growing beyond its leader. That is the most durable competitive advantage any startup can build.

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