WHEN FOUNDERS' VALUES SHAPE CORPORATE GOVERNANCE: AN AXIOLOGICAL PERSPECTIVE ON SOCIAL IMPACT VENTURE CAPITAL

Keywords: Business ethics ; Corporate Social Responsibility ; Corporate Governance ; Upper Echelons Theory ; Impact Investing

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ABSTRACT

This article examines how founders' ethical values shape the corporate governance (CG) of social impact venture capital (SIVC) funds. We argue that CG should not be conceived merely as an instrument through which ethical values are implemented, but as the organizational process through which founders' ethical values are filtered, interpreted, stabilized, and sometimes reconfigured over time. The analysis therefore focuses on how governance mechanisms are both formally designed and practically enacted, moving beyond a purely control-oriented understanding of governance to incorporate its cognitive dimension, thereby foregrounding the axiological underpinnings of CG.

Although research in business ethics, Corporate Social Responsibility (CSR), and Impact Investing (II) has extensively documented tensions between financial performance and social and environmental impact, considerably less attention has been devoted to the organizational processes through which these commitments are translated into CG architectures and enacted arrangements. In particular, the role of founders' ethical values in shaping these processes remains insufficiently theorized.

Drawing on business ethics scholarship, Upper Echelons Theory (UET), and contemporary CG research, this study provides evidence of the central role of founders' ethical values in structuring SIVC axiological governance. Rather than treating ethical values as abstract moral principles or declarative commitments, we conceptualize them as evaluative orientations that guide how founders interpret trade-offs, justify decisions, and legitimize impact commitments under conditions of uncertainty. From this perspective, founders' ethical values do not simply add a normative layer to CG structures. They operate as a principle of coherence linking governance design and governance enactment across both control-oriented and cognitive mechanisms.

The article makes three main contributions. First, it extends UET by shifting attention from strategic outcomes to governance architecture, showing how founders' ethical values shape both the design and the enactment of governance mechanisms in hybrid financial organizations. Second, it reconceptualizes CG in SIVC funds as a multidimensional configuration structured along two axes - control-oriented versus cognitive mechanisms, and formal design versus practical enactment - whose internal coherence is anchored in founders' ethical values. Third, it develops a processual account of CG by showing that founders'

ethical values operate as organizing orientations across both control-oriented and cognitive mechanisms. Through the recursive interaction between governance design and enactment, these values progressively shape and stabilize ethical values within organizational practice.

I. INTRODUCTION

A long-standing debate in business ethics concerns the relationship between ethical orientations and financial performance. Early research in this area was largely structured around a seemingly straightforward question: does it "pay" for firms to behave ethically or to engage in social and environmental responsibility? Meta-analytical studies suggest that corporate social and environmental performance is, on average, positively associated with financial performance, while at the same time emphasizing substantial heterogeneity across firms, industries, and institutional contexts (Dixon-Fowler et al., 2013; Van Beurden & Gössling, 2008). These findings progressively shifted the debate away from simplistic causal claims and toward a more contingent understanding of the ethics - finance relationship, where organizational and institutional conditions are of central importance (Gössling, 2003).

However, despite this emphasis on contingency, ethical values continue to be regularly conceptualized either as an organizational outcome - e.g. environmental and/or social performance proxied through various metrics - or as a declared strategic orientation, whose effects and impact on financial performance are assessed *ex post*. This means that traditional finance research typically conceives ethical performance either as an outcome of corporate strategy, alongside other performance measures, or as a determinant of financial performance. Much less attention has been devoted to the organizational processes through which ethical commitments are interpreted, structured, and enacted over time. We know comparatively little about how founders' ethical values shape the governance arrangements through which such commitments are operationalized and sustained.

This article therefore redirects attention from outcomes to CG, and from abstract ethical orientations to the founders whose ethical values inform the design and enactment of governance mechanisms. Rather than asking whether ethical orientations enhance financial performance, we examine how founders' ethical values become embedded in CG architecture under conditions of uncertainty and evaluative ambiguity. This shift calls for a micro-level and actor-centered perspective on CG.

The existing literature on CG and corporate social responsibility (CSR) has predominantly examined large, listed firms with dispersed ownership. In the field of entrepreneurial finance, the issue is still very much in its infancy. Vismara & Wirtz (2025) are a notable exception, as they explicitly investigate the role of CG in mediating the relationship between ethical values and financial performance in the context of equity crowdfunding. Their findings indicate that an environmental orientation contributes to short-term financial performance only when it is coupled with strong governance mechanisms, which function as credible and costly signals to investors. By jointly considering environmental commitments and CG arrangements, their analysis underlines governance as a central mediating mechanism linking ethical orientation to financial outcomes. However, it does not examine how founders' ethical values shape governance design and enactment themselves. Yet, entrepreneurial finance, in some of its more recent segments, such as crowdfunding and impact investing (II), is an innovative field, where organizational design and business models are not stabilized and experimentation with various specific CG arrangements is ongoing (Vismara & Wirtz, 2025). Impact VC features, by definition, a potential tension between different value systems, such as financial shareholder value and sustainability. The funds' founders constantly need to accommodate the two value systems (financial value and sustainability) that are, by definition, the central characteristic of their business. The inevitable dynamic tradeoffs pose a specific challenge to this kind of activity. Young emerging impact VC funds can thus be considered to be an ideal empirical field to study the process where potentially competing value systems interact with the nascent CG systems.

More broadly, Veldman et al. (2023) argue that CG scholarship often remains disconnected from debates in business ethics and call for more interdisciplinary oriented and context-sensitive research. II offers a particularly relevant empirical setting in this regard. The sector has experienced rapid growth; according to the Global Impact Investing Network, "Impact investors reported a volume of capital invested of $49.8 billion USD in 2024 and expect to invest $58.6 billion USD in 2025"[1] By definition, II occupies a hybrid space in which financial returns are pursued alongside explicit social and environmental objectives. To qualify as II, three criteria are typically invoked: intentionality, additionality, and measurability (Hockerts et al., 2022). Ethical commitments are therefore not peripheral but constitutive of the investment model.

Despite this growth, II remains characterized by conceptual ambiguity and heterogeneous practices (Agrawal & Hockerts, 2021; Höchstädter & Scheck, 2015; Schlütter et al., 2024). Impact measurement is frequently contested (Lehner et al., 2022), and the definition of materiality itself becomes an object of negotiation. Scholars have emphasized the need to include beneficiaries' voices in order to avoid misalignment in how impact is defined and governed (Casasnovas & Jones, 2022). These contributions suggest that CG in hybrid contexts cannot be reduced to technical measurement design; it involves ongoing processes of valuation and contestation.

In this article, we focus specifically on Social Impact Venture Capital (SIVC) funds. These intermediary organizations represent a significant share of II assets: in 2025, they manage 41% of the $218.3 billion USD Asset Under Management[2]. SIVC funds operate as a limited partnership between limited partners (LPs) and general partners (GPs) over a finite time horizon. SIVC funds constitute a particularly fertile context for examining CG because they must arbitrate between financial performance and impact objectives within structured yet flexible contractual arrangements. Balancing shareholder value with social and environmental commitments generates persistent tensions in daily investment practice. Yet the governance processes through which these tensions are managed remain insufficiently understood. Much

[1] https://s3.amazonaws.com/giin-web-assets/giin/assets/publication/giin-stateofthemarket2025.pdf
[2] https://s3.amazonaws.com/giin-web-assets/giin/assets/publication/giin-stateofthemarket2025.pdf

of the existing research has focused on measurement frameworks and mission drift (Cetindamar & Ozkazanc‐Pan, 2017; Ebrahim et al., 2014), often treating ethical governance as a technical problem. As Jain & Jamali (2016) argue, such approaches tend to leave the "black box" of the CG–CSR interface unopened, neglecting the organizational processes through which governance mechanisms shape CSR. Agency-based analyses have shown that impact-linked incentives, such as carried interest conditioned on impact performance, may reduce goal incongruity but simultaneously introduce new informational and strategic risks (Thirion et al., 2022). Other scholars highlight the hybridity of II structures (Moran & Ward-Christie, 2022) and the spectrum of value incorporation in multi-valued markets (Andersen & Tekula, 2022). While these studies illuminate important tensions, they largely focus on instruments, identities, or valuation practices. CG itself -as the organizational layer where founders' ethical values are translated into structured mechanisms - remains comparatively underexplored.

Opening this black box requires both a micro-level shift and a theoretical broadening. UET posits that organizational choices reflect the values and cognitive schemas of top executives, particularly under conditions of high managerial discretion (Hambrick & Mason, 1984; Hambrick & Finkelstein, 1987). Although UET has been extensively mobilized to explain strategic orientation, innovation, and CSR engagement (Chin et al., 2013; Petrenko et al., 2016), its extension to CG architecture remains limited. In hybrid contexts such as SIVC, where performance criteria are contested, founders' ethical values are likely to shape not only strategic decisions but also the formal design and practical enactment of CG mechanisms. At the same time, moving beyond outcome-based and purely control-oriented approaches requires integrating complementary theoretical perspectives. As Jain & Jamali (2016) argue, advancing research at the CG-CSR interface calls for greater theoretical pluralism and closer attention to organizational processes. CG should therefore be analyzed not only as a system of incentives and constraints, but also as a cognitive and interpretative process involving sensemaking, knowledge construction, and evaluative judgment (Forbes & Milliken, 1999).

Taken together, these observations point to an unresolved question, which this study seeks to address:

Do fund founders' ethical values shape the design and enactment of governance in SIVC funds, and if so, how can the design and enactment process be understood? Is CG instrumental in managing tensions between potentially conflicting axiological frameworks, such as shareholder value and social and environmental sustainability?

The article makes three main contributions. First, it extends UET by shifting attention from strategic outcomes to CG architecture, showing how founders' ethical values shape the configuration of governance mechanisms under conditions of normative ambiguity and managerial discretion. Second, it reconceptualizes CG in SIVC funds as a multidimensional configuration structured along two analytical distinctions: control-oriented versus cognitive mechanisms, and governance design versus governance enactment. It shows that the coherence of this configuration is anchored in founders' ethical values. Third, it develops a processual account of CG by demonstrating that founders' ethical values operate as organizing orientations across both control-oriented and cognitive mechanisms. Through the recursive interaction between governance design and enactment, these values progressively shape ethical values within organizational practice.

The remainder of the article proceeds as follows. Section 2 reviews the academic literature. Section 3 presents the research design and methodology. Section 4 reports the empirical findings. Section 5 discusses the theoretical implications. Section 6 concludes with limitations and avenues for future research.

2. LITERATURE REVIEW

1. Ethics, CSR, and II: from outcomes to processes

A long-standing stream of research in business ethics and CSR has examined the relationship between ethical orientations and organizational performance. Early contributions were primarily concerned with assessing whether it "pays" for firms to behave ethically, often operationalizing ethics through observable outcomes such as corporate social performance, environmental performance, or engagement in CSR activities. Meta-analytical studies have shown that, on average, social and environmental performance tends to be positively associated with financial performance, while simultaneously highlighting substantial heterogeneity across firms, industries, and institutional contexts (Dixon-Fowler et al., 2013; Van Beurden & Gössling, 2008). These findings progressively shifted scholarly attention away from universal causal claims toward more contingent explanations, emphasizing that the consequences of ethical orientations depend on a variety of organizational and contextual factors (Gössling, 2003).

Despite this move toward contingency, ethics has continued to be predominantly conceptualized either as an outcome - captured through ESG scores or extra-financial impact metrics (e.g., avoided CO_2 emissions) - or as a declared strategic orientation. As a result, comparatively limited attention has been devoted to the organizational processes through which ethical commitments are interpreted, sustained, transformed, or diluted over time. Ethical orientations are often implicitly treated as exogenous and relatively stable, rather than as socially constructed and continuously negotiated within organizations. This outcome-oriented bias may restrict our understanding of how ethical commitments are translated into day-to-day CG practices and decision-making processes. These limitations are particularly salient in the context of II, a field that explicitly combines financial objectives with social and environmental goals. By definition, II occupies a hybrid space in which investors intentionally seek to generate measurable extra-financial impact alongside financial returns (Höchstädter & Scheck, 2015; Hockerts et al., 2022). The literature has extensively documented tensions inherent in this hybrid positioning, including trade-offs between impact and financial performance, risks of mission drift, and challenges related to impact measurement and accountability (Cetindamar & Ozkazanc‑Pan, 2017; Ebrahim et al., 2014; Hockerts et al., 2022). Much of this work has focused on developing frameworks, metrics, and standards aimed at assessing impact outcomes and ensuring alignment with stated objectives. While this body of research has generated important insights, its strong emphasis on measurement and outcomes tends to overlook the organizational dynamics through which ethical commitments are enacted in practice. Social and environmental impact rarely results automatically from formal intentions or contractual arrangements; rather, it emerges through ongoing processes of interpretation, prioritization, and negotiation among organizational actors. Ethical commitments in II should therefore not be understood as fixed attributes of organizations or investments, but as fragile and evolving orientations that require continuous organizational work. Recent contributions in business ethics and CSR have emphasized the need to unpack the organizational dynamics linking CG and CSR. Jain & Jamali (2016) argue that much of the CG–CSR literature establishes associations between governance structures and CSR outcomes without examining the underlying processes through which these relationships are produced. Extending this call to II, (Hockerts et al. (2022) highlight that intentionality and impact claims must be sustained and operationalized over time, suggesting the need for greater attention to the organizational and governance processes through which such commitments are maintained. Kreutzer (2022) shows how social entrepreneurs strategically adapt their pitches to align with investors' expectations, often translating social missions into commercially intelligible narratives. Similarly, Smith et al. (2022) examine how faith-based institutions manage multiple identities through prioritizing, shadowing, distinguishing, or surrendering strategies. These studies highlight the discursive and identity work required to navigate plural logics. However, by focusing on communication and identity management, these studies under-theorize the role of governance arrangements in structuring and transforming such tensions over time.

Taken together, this literature suggests that understanding ethics in hybrid settings such as II requires shifting analytical focus from outcomes to processes, and from abstract commitments to the CG mechanisms through which they are enacted in practice.

2. CG and ethics: limits of the control-oriented perspective

CG has traditionally been conceptualized as a control-oriented architecture aimed at aligning managerial behavior with shareholders' interests and mitigating agency problems (Jensen & Meckling, 1976). However, while agency theory has often been mobilized within a shareholder-centered framework, it is not inherently restricted to a purely shareholder perspective. Extensions such as the stakeholder–agency approach developed by (Hill & Jones, 1992) broaden the analysis by conceptualizing managers as agents not only of shareholders but also of multiple stakeholders, thereby embedding governance relationships within a wider nexus of contractual and quasi-contractual obligations.

Within the more traditional shareholder-oriented interpretation, CG is primarily understood as a set of formal, ex ante mechanisms-such as incentive schemes, monitoring devices, and control structures -designed to constrain managerial discretion and ensure accountability. Its effectiveness is typically evaluated in terms of its ability to generate desired performance outcomes and to maximize shareholder value. This control-oriented conception has strongly shaped research at the intersection of CG and CSR. Numerous studies examine how specific CG mechanisms - board composition, ownership structures, executive compensation - are associated with CSR outcomes or social and environmental performance (Bear et al., 2010; Cheng et al., 2014; Frias‐Aceituno et al., 2013).

Ethical commitments are generally treated as dependent variables, while governance mechanisms are modeled as largely neutral instruments. Such an approach presents important limitations in contexts characterized by ambiguity and competing objectives. First, it assumes that ethical goals can be clearly specified *ex ante* and straightforwardly embedded into governance mechanisms. Second, it treats governance structures as stable and self-enforcing, leaving limited space to analyze how actors interpret and negotiate governance arrangements over time. Thirion et al. (2022) illustrate this ambivalence in impact settings. While impact-linked carried interest may reduce goal incongruity, it also introduces new agency risks linked to informational asymmetries. Their notion of impact fidelity highlights that contractual mechanisms alone may not secure commitment to impact objectives. Similarly, Vismara & Wirtz (2025) demonstrate that ethical orientations become economically consequential only when they are rendered credible through governance arrangements. In the context of equity crowdfunding, environmental orientation improves financial performance only when coupled with strong CG mechanisms that function as costly and credible signals. Their findings suggest that CG does not merely implement ethical commitments; it mediates their economic meaning. Fassin & Drover (2017) further show that ethical dilemmas in entrepreneurial finance emerge within concrete CG interactions, particularly during entry and exit of venture-capitalists. Research on vulnerable stakeholders emphasizes that ethical inclusion depends on governance design choices related to participation and legitimacy (Casasnovas & Jones, 2022)

Taken together, these studies converge on the idea that CG is not a neutral technical device, but a critical organizational site where ethical commitments are stabilized, interpreted, or progressively diluted.

3. Cognitive and process-oriented approaches to governance

Beyond control-oriented conceptions, a distinct stream of research conceptualizes CG as an ongoing organizational process rather than a fixed architecture of control (Brunninge et al., 2007; Charreaux & Wirtz, 2006). Cognitive and service-oriented approaches highlight the role of actors' beliefs, ethical values, and cognitive frames in shaping how CG mechanisms are understood and mobilized (Forbes & Milliken, 1999; Rindova, 1999). Forbes & Milliken (1999) argue that governance effectiveness depends not only on formal structure but on the cognitive engagement, interpretive capacity, and effort norms of decision-makers. Governance therefore operates as a site of sensemaking and collective interpretation rather than solely as a control-oriented apparatus. From this perspective, governance arrangements structure how actors interpret ambiguity, evaluate trade-offs, and coordinate action (Charreaux, 2002; Uhlaner et al., 2007). In this perspective, extending the analysis beyond governance design - referring to formal structures and rules - to include governance enactment, understood as the process through which these arrangements are interpreted and mobilized in practice (Weick, 1995), opens up a more processual and cognitively grounded understanding of CG. Process-oriented studies emphasize that enactment does not simply follow design but may reshape it over time. These perspectives are particularly relevant in hybrid settings characterized by uncertainty and competing logics. Meng et al. (2022) show that ethical decision-making in renewable energy investments involves pragmatic, retrospective, and prospective sensemaking. However, the CG infrastructures through which such sensemaking becomes stabilized remain underexplored in hybrid contexts.

4. Governance in VC and II: an underexplored setting

CG in Venture Capital (VC) has traditionally been studied through an agency lens (Gompers & Lerner, 2002; Sahlman, 1990). A cognitive and service-based view highlights that VCs provide strategic and cognitive support beyond monitoring (Wirtz, 2011). However, existing research has focused mainly on CG at the VC - portfolio company level. Much less attention has been devoted to the internal governance architectures of VC funds themselves. This gap is particularly salient in SIVC funds, where fund-level governance must arbitrate not only financial performance but also contested definitions of impact and valuation criteria (Höchstädter & Scheck, 2015; Hockerts et al., 2022). From a service-based and cognitive perspective, fund-level governance bodies can be understood as collective sensemaking arenas where heterogeneous expectations are translated into relatively stable arrangements.

5. Founders’ Ethical Values and Upper Echelons Theory

UET maintains that organizational outcomes are partly rooted in the values, experiences, and cognitive schemas of top executives (Hambrick, 2007; Hambrick & Mason, 1984). Because decision-makers operate under conditions of bounded rationality, they cannot process the full range of available information and therefore rely on interpretive filters shaped by their personal characteristics. In empirical research, these values are rarely observed directly; instead, scholars infer them from biographical proxies such as educational background, career trajectories, sectoral experience, or professional socialization. These observable attributes are treated as imperfect, but informative indicators of the cognitive frame executives bring to decision-making contexts. This indirect operationalization has been widely used to explain outcomes including strategic orientations, CSR engagement, and VC investment decisions (Chin et al., 2013; Patzelt et al., 2009; Petrenko et al., 2016). A central implication of UET is that the influence of executive values becomes more salient when managerial discretion is high (Hambrick & Finkelstein, 1987). Organizational choices are then more likely to reflect the personal orientations of top executives. Although UET has been widely mobilized to explain strategic choices and CSR engagement, governance arrangements have more often been treated as contextual constraints rather than as outcomes shaped by executives’ values.

This gap is particularly significant in hybrid fields characterized by normative ambiguity and evaluative uncertainty. In such contexts, CG mechanisms do not merely operationalize predefined objectives; they contribute to defining, structuring, and legitimizing managerial action. SIVC provides a salient illustration. Founders operate in environments where standards remain unsettled, goals are plural, and performance criteria are not yet stabilized. These conditions tend to expand managerial discretion and increase the likelihood that leaders’ ethical values shape not only strategic decisions, but also the design, interpretation, and practical enactment of CG mechanisms. Yet governance has rarely been conceptualized as the organizational layer through which founders' ethical values are translated into evolving structures and enacted practices.

3. RESEARCH DESIGN AND METHODOLOGY

Our methodological approach is designed to open the "black box" of governance in SIVC funds by examining CG not only as a formal architecture, but also as an enacted, value-laden process. Rather than relying on quantitative indicators of CG quality, this study draws on qualitative interviews with key governance actors, providing direct empirical access to how CG mechanisms are conceived, interpreted, justified, and adjusted in practice.

The focus on SIVC fund founders reflects a deliberate micro-level research choice. This focus is consistent with calls to examine CG through the situated interpretations and practices of key actors rather than treating governance as a self-enforcing structure (Jain & Jamali, 2016). In SIVC, founders typically operate under conditions of high uncertainty, weak standardization, and substantial managerial discretion. Under such conditions, CG cannot be adequately captured as a purely control-oriented set of constraints. Instead, it must be studied through the interpretive work of decision-makers who continuously navigate tensions between financial and ethical commitments. Interviewing founders therefore provides direct insight into how founders' ethical values and cognitive frames are articulated and mobilized in both the design and the enactment of governance within a hybrid organizational setting.

Finally, the methodological approach is grounded in a theoretically plural framework that combines control-oriented and cognitive perspectives on CG with UET. This enables a more nuanced analysis of CG processes by capturing both how CG mechanisms constrain discretion and how they enable interpretation, sensemaking, and legitimization. In doing so, the study responds to calls to move beyond black-box approaches in the CG - CSR literature by examining the processes through which ethical commitments are translated into evolving governance arrangements over time (Jain & Jamali, 2016).

1. Research design and epistemological positioning

This study relies on a qualitative, exploratory research design. Its objective is to conceptualize how founders' ethical values orient both the design and the enactment of governance mechanisms in SIVC funds. Given the limited empirical research on fund-level governance in II, as well as the normative and evaluative ambiguity that characterizes the field, a qualitative approach is particularly appropriate for capturing actors' interpretations, judgments, and concrete governance practices.

The research adopts an interpretive, theory-building epistemological positioning, consistent with CG research emphasizing cognition, sensemaking, and learning in organizational contexts. In line with cognitive approaches to governance, the objective is not to test predefined hypotheses, but to develop an analytical framework grounded in close engagement with empirical material. Concepts and relationships emerge progressively through an iterative movement between data and theory. The aim is analytical generalization rather than statistical representativeness (Yin, 2017).

Biographical indicators provide only a partial and static view of founders' ethical values and remain largely silent on how these values are articulated, justified, and mobilized in practice. In this study, founders' ethical values are therefore apprehended through their narratives and accounts, as expressed in interviews. This enables an approach to ethical values as lived and enacted orientations, visible in how founders interpret tensions, justify decisions, and evaluate trade-offs in concrete organizational contexts.

Within this perspective, founders' ethical values are not treated as fixed individual traits nor as abstract moral principles detached from organizational life. Rather, they are understood as orientations that acquire organizational meaning through their translation into governance arrangements, particularly in contexts where evaluative standards remain unsettled and governance mechanisms play a central role in structuring discretion, legitimacy, and accountability.

2. Empirical setting: SIVC funds

The empirical setting consists of SIVC funds, understood as investment organizations that explicitly pursue both financial returns and social and environmental impact objectives. These funds operate at the intersection of classical VC and responsible finance, making them particularly suitable for examining CG under plural objectives, competing evaluative frameworks (shareholder value vs. sustainability), and institutional uncertainty.

The focus on VC funds - rather than portfolio companies - is theoretically motivated. Funds constitute the organizational locus where investment philosophies are formulated, governance architectures are designed, and accountability toward investors and other stakeholders is organized. They also represent the level at which control-oriented and service and cognitive-oriented governance mechanisms related to impact control, measurement, and valuation are structured and articulated. Moreover, given their typical ten-year lifespan, VC funds provide a longitudinal setting that makes it possible to observe how these governance arrangements are enacted over time. This extended temporal horizon allows for the observation of governance enactment as an ongoing process through which actors continuously interpret, reproduce, and adjust governance arrangements in practice.

3. Data collection

Data were collected through semi-structured interviews with key actors involved in the CG of SIVC funds. The interview sample includes founder-GPs of SIVC funds as well as limited partners (LPs). Although LPs do not participate directly in the operational enactment of governance mechanisms, they play an important role in defining the boundaries within which CG is designed and implemented. In particular, they articulate expectations regarding impact objectives, accountability, and reporting, and contribute to shaping governance frameworks through contractual provisions and interactions with founders within formal governance arenas.

The final dataset consists of five interviews: three conducted with founder-GPs and two with LPs. Given the relatively closed and opaque nature of the VC and impact VC ecosystem, this limited number of interviews provided access to information-rich accounts, enabling an in-depth analysis of governance design and enactment processes.

The empirical perimeter was confined to the European context. All actors operate within the same national and European institutional and regulatory framework. This choice is particularly relevant in light of recent European regulatory developments, notably the Sustainable Finance Disclosure Regulation (SFDR), including its Article 9 classification regime, and the EU Taxonomy Regulation, which establishes the EU Green Taxonomy for environmentally sustainable activities. These frameworks structure disclosure requirements, define impact-related expectations, and influence the formal organisation of governance and reporting mechanisms. Focusing on this setting allows governance design and enactment to be analysed under shared institutional constraints.

Within this perimeter, the two LPs operate within hybrid public - private financial institutions, one at the European level and the other at the French national level. Positioned at the intersection of public policy objectives and private capital allocation, they contribute to structuring the II market. Their role provides a field-level perspective on governance standards, accountability requirements, and impact expectations.

The three GPs were selected to reflect contrasting professional trajectories. GP1 moved from the social sector into finance, bringing a socially grounded perspective to financial governance practices. GP2 followed the reverse path, transitioning from finance toward impact investing, reflecting an evolution from a primarily financial logic toward a socially oriented investment rationale. GP3 played an early role in the structuring of impact investing and can be considered a pioneer in the field. These differentiated trajectories provide analytically distinct perspectives for examining how governance design and enactment are shaped by professional backgrounds and normative orientations.

Interviews were conducted between 2024 and 2025, lasted between 60 and 75 minutes, and were recorded and transcribed. The interview guide was designed to elicit respondents' accounts regarding founders' ethical values, formal governance devices, decision-making processes, tensions between financial and impact objectives, and processes of adjustment and learning over time. While the guide provided a common structure, interviews remained flexible and open-ended, allowing respondents to refer to concrete governance situations drawn from their experience.

4. Data analysis

Data analysis followed an iterative, abductive process combining inductive coding with theoretical interpretation. In a first stage, interview transcripts were coded using open, first-order codes closely reflecting respondents' language and descriptions of ethical values, governance arrangements, and practices. Particular attention was paid to references to concrete CG devices and to situations in which respondents articulated evaluative judgments or described experienced tensions. In a second stage, first-order codes were grouped into second-order themes through constant comparison across interviews. This stage was guided by two analytical distinctions derived from the theoretical framework: (i) governance design versus governance enactment, and (ii) control-oriented versus service and cognitive-oriented governance mechanisms.

To enhance analytical transparency, the analysis relied on a multi-level coding structure distinguishing empirical material, intermediate analytical categories, and theoretical dimensions. The resulting coding framework is organized around a 2 × 2 matrix (design/enactment × control-oriented/cognitive). This matrix constitutes the core analytical structure of the framework and enables systematic examination of how founders' ethical values are translated into governance architecture and mobilized in practice (table 1 and 2).

4. FINDINGS

Founders' Ethical Values as Constitutive of the Axiological Dimension of SIVC Fund CG

All interviewees emphasise the novel and uncertain nature of II. The model is described as still under construction and not yet fully stabilised. II operates at the intersection of two worlds - finance and social and environmental commitment - and this positioning shapes both organisational identities and founders' trajectories. Respondents repeatedly refer to the need to "hold" together financial discipline and impact ambition, without assuming a predefined hierarchy between them. This hybrid positioning generates instability. Principles remain only partially settled. While there is broad agreement on the need to balance financial and extra-financial performance, tensions become visible when this balance is translated into practice. Indicators are also unevenly stabilised. Financial metrics rely on established standards; impact metrics are described as evolving, heterogeneous, and sometimes contested. Governance, in such conditions, cannot rely exclusively on predefined rules or mechanical metrics.

Founders' trajectories illustrate how this instability becomes axiologically structured. Entry paths into II are heterogeneous and shape how financial codes and impact objectives are interpreted. Founder-GP1 comes from the nonprofit or social economy sector and describes a movement toward finance accompanied by a critical stance toward dominant financial practices, particularly extensive reporting and systematic quantification. He distances himself from an investment model characterised « *by long hours spent working on Excel spreadsheets* ».

Founder-GP2 followed a different path, transitioning from conventional venture capital toward impact-oriented investing. Founder-GP3, by contrast, represents a pioneering figure in the field, anchored from the outset in a pragmatic search for solutions capable of supporting the development of social enterprises. Founder-GP2 explains that he devotes significant time to reading works in economics and anthropology on the role of financial capital in society, and that these readings inform his practice as an impact investor. Founder-GP3 draws a sharp boundary between what he considers "true" investment and speculation, rejecting approaches centred exclusively on short-term financial performance. In his view, only social investment carries meaning, whereas speculation represents finance circulating for its own sake, detached from productive or societal purpose.

In this context, founders' ethical values are not framed as abstract moral doctrines. As Founder-GP1 states, "*we are not in something ideological*". The ethical discourse displayed by SIVC funds on their websites provides limited insight into founders' actual orientations. Across actors, this discourse relies on recurring and largely interchangeable formulations, typically embedded in fund manifestos or articulated through a formalised « *raison d'être* », when the management company has adopted mission-driven legal status. As LP2 cautions: "*And the thing is, when you're fundraising - when you have an LP in front of you - naturally they're going to tell you what you want to hear. So the narrative is always clean*." Ethical positioning expressed in formal and general statements often takes the form of broad declarations of intent, which provide limited insight into how governance is actually grounded in value orientations.

Values instead appear through practice. Finance is framed pragmatically, as a set of tools whose legitimacy depends on the ends they serve. Founder-GP2 formulates the issue directly: "*what is the objective of capital? what is capital for?*" He argues that capital should serve social purposes rather than become an end in itself. Founder-GP3 similarly grounds his reasoning in concrete social needs and in the feasibility of sustaining enterprises over time. Tensions between financial constraints and social ambition are not denied, but treated as matters of judgment and prioritisation. This orientation also surfaces in critiques of governance "*by numbers*." Founder-GP1 distances himself from Excel-based control, while Founder-GP2 advocates reporting grounded in dialogue and qualitative exchange, arguing that what matters is "*to tell a story*". These positions signal reservations about governance reduced to quantification and standardised reporting, and point toward more interpretative and relational modes of evaluation. In a field where principles and indicators remain unsettled, such evaluative orientations acquire practical significance. The absence of fully stabilised standards leaves room for discretion. They shape how governance mechanisms are interpreted, prioritised, and enacted in practice.

LPs appear aware that governance, in such a context, depends heavily on founders' value orientations. LP2 describes devoting substantial time to due diligence, gathering detailed information about founders' backgrounds and motivations, and conducting systematic reference checks. He frames his role as that of a gatekeeper: "*we […] have this kind of gatekeeper role […] to make sure it's a bit 'square*" He refers to "*one of the most advanced*" due diligence processes in the ecosystem, involving "*DD packs [that are] extremely exhaustive*," individual interviews with each team member, and systematic reference calls with entrepreneurs, co-investors, former employers, and other ecosystem participants. LP1 emphasises the signalling dimension of his cornerstone position, stating that "*the fact that we invest always triggers… a very important signaling effect*," and that "*we catalyze a lot of investors when we invest*."

Screening therefore extends beyond financial robustness. In a setting where impact metrics remain unevenly stabilised, due diligence becomes a means of assessing sincerity and coherence. Regulatory compliance alone is not considered sufficient. As LP1 explains, eligibility for a particular legal status "*does not say much about the investment strategy or the intensity of the impact pursued*." He adds that it is possible « *to be an Article 9 fund within the meaning of the SFDR regulation without having a genuine impact strateg*y ». Governance is therefore not reduced to formal eligibility criteria but involves substantive evaluation of strategic intent and impact orientation.

Through these practices, LPs act as evaluative filters distinguishing founders perceived as sincere from those viewed as opportunistic. The founder-GPs themselves differentiate between LPs attentive to ethical commitments - particularly those operating under mixed public - private mandates, including LP1 and LP2, as well as family offices - and institutional investors primarily focused on financial performance. Opportunistic actors are described as mobilising the language of impact strategically. LP1 makes this boundary explicit, emphasising the need to ensure that "*impact does not just serve as… a fashionable concept to raise a fund more easily*," but that there is "*a real commitment*" and that teams are "*not opportunistic but sincere*." As LP2 underlines *« you have people who approach these topics in a opportunistic way. In that case, they might set up an impact strategy that basically just catches up with a reality that already exists anyway (…) What do I mean by that? They try to put together some kind of impact business plan that aligns with what they would have done regardless* ».

These findings suggest that governance in SIVC funds resists reduction to any stabilized institutional template inherited from classic VC. In a hybrid and evolving field marked by unsettled principles and heterogeneous indicators, governance is axiologically constituted. Founders' ethical values operate as reference points guiding discretionary judgments, structuring trade-offs, and shaping the meaning attributed to both financial discipline and impact objectives.

In the following sections, we examine this axiological dimension in greater depth, analysing how founders' value orientations influence the activation and enactment of governance mechanisms and how these orientations are articulated within organisational practice.

Founders' Ethical Values Orient What Is Formalized, Constrained, or Intentionally Left Open in Control-oriented Governance Design

The fund regulations are the subject of extensive exchanges and detailed comments between LPs and founders of SIVC funds. As LP2 emphasizes, governing documents often undergo particularly dense and lengthy revisions. According to interviewees, these negotiations are especially intense because the II field remains relatively unsettled, leaving room for interpretation and adjustment in governance arrangements. Rather than relying on fully standardized templates, governance structures emerge from iterative *ex ante* negotiations in which founders' ethical values influence what is formalized, tightly constrained, or deliberately left open. LP2 describes this gatekeeping work as continuing after the investment decision through intensive negotiation of fund regulations, with comment lists that are "*extremely long*," *covering investment policy, diversification ratios, co-investment rules, conflicts of interest, economic terms (fees, carry, GP commitment), and protective clauses (key person, change of control), while aiming to remain "business-friendly" without "leaving the keys of the truck" to the team.*

Table 1 – Control-oriented governance: Design vs. Enactment

CONTROL-ORIENTED GOVERNANCE	DESIGN	ENACTMENT
Role of values	Values orient what is formalized, constrained, or intentionally left open	Values limit the coercive activation of control-oriented mechanisms
General orientation	Control-oriented mechanisms negotiated ex ante, reflecting founders' ethical orientations	Control-oriented mechanisms interpreted through founders' ethical judgments
Formal CG devices	Fund regulations, impact clauses, impact or mission committees, expert committees	Dialogue, relational governance, and situational judgment
Reporting & indicators	Extra-financial KPIs selected to reflect founders' conceptions of impact	Selective and contextualized use of KPIs
Financial incentives	Impact-linked carried interest formally specified as an alignment device	Carried interest negotiated, calibrated, or contested in practice
Thresholds	Negotiated impact thresholds embedded in contracts	Tolerance of impact shortfalls justified by contextual and ethical reasoning
Financial performance targets	Absence of explicit IRR targets linked to impact	Discipline exercised *ex post*, mainly through non-reinvestment
Resources	Formal commitment of resources to extra-financial impact (teams, tools, audits)	Reputational discipline shaped by perceived ethical credibility of founders
Sanctions	Contractual control-oriented tools formally available	Contestation and selective activation of sanctions

The overall design of SIVC funds follows the architecture of conventional VC vehicles. However, interviewees describe an additional layer of complexity linked to the integration of social and environmental impact. This complexity materializes through several control-oriented mechanisms. First, funds frequently establish impact or mission committees (when structured as mission-driven entities). Second, extra-financial reporting frameworks are implemented, typically based on key performance indicators (KPIs) intended to capture impact performance. Third, carried interest remuneration may be partially linked to impact objectives, with explicit negotiations over the level of impact required for full or partial entitlement. As LP2 notes, these thresholds are discussed in detail during the drafting phase, illustrating how control-oriented mechanisms are calibrated in light of founders' ethical commitments (table 1).

At the same time, interviewees indicate that no explicit internal rate of return (IRR) targets are specified in the fund regulations, nor are quantified extra-financial performance targets contractually fixed. This absence of predetermined financial or impact benchmarks suggests that founders do not embed their ethical values through rigid numerical targets. Instead, founders' ethical values become visible in the way control-oriented mechanisms are structured and articulated during negotiations. Founder-GP2 explicitly confirms that contract documents focus on strategy rather than detailed quantified targets.

More specifically, founders' ethical orientations are expressed in *ex ante* negotiations surrounding the carried interest structure, where impact-related conditions are contractually introduced and debated. LP1 describes the original rationale of this design choice at European Investment Funds (EIF) as follows: "*we started by developing an impact measurement methodology, and more than a reporting tool, it was primarily conceived as an alignment-of-interests tool between fund managers and investors*," to ensure that "*everyone has the same incentive*" to deliver both financial performance and impact performance. Interviewees describe these discussions as moments in which founders seek to ensure that impact is recognized within incentive arrangements, while avoiding overly rigid numerical commitments. The integration of impact into control-oriented therefore occurs through negotiated clauses. LP1 clarifies that, in practice, EIF's "*impact-carry*" mechanism is not fixed at one level: "*it can be 100%... it can be 100% to 25% of the carry that is subject to indexation*," depending on negotiations and co-investor constraints. Founder-GP2 provides a concrete illustration in discussions with EIF, reporting that an initial request to link 100% of carry to impact was refused on the grounds that impact measurement is intrinsically difficult and that such a mechanism can produce perverse incentives. He describes the eventual compromise as a 50/50 structure.

Founder-GP1 articulates a moral critique of the sanction logic embedded in impact-linked carry arrangements. In his view, social commitment is not an external incentive but something already embedded in his professional identity. He rejects the idea that remuneration should be made conditional upon impact performance, arguing that framing impact investing as a pathway to personal enrichment misrepresents its underlying rationale. If financial gain were the primary motivation, he suggests, one would not engage in impact investing in the first place. In a similar vein, Founder-GP2 draws an analogy with blood donation, arguing that remunerating such an act would strip it of its meaning. By extension, conditioning financial reward on impact achievement risks transforming a commitment grounded in intrinsic motivation into a transactional arrangement, thereby altering its ethical foundation. The issue, therefore, is not the existence of control and incentives *per se*, but the framing of impact as a condition for remuneration when it is already embedded in the fund's identity and strategy.

The sanction deeply troubles the founder insofar as it calls into question deeply held ethical convictions.

Beyond contractual provisions, founders' ethical commitments materialize through their intentional allocation of resources to the extra-financial dimension of the fund's activity. This includes the establishment of dedicated impact structures, the involvement of specialized experts, and the direct participation of founder-GPs in impact-related governance bodies. As LP2 underlines, declarative elements - such as a profession of faith or an investment thesis - are not considered sufficient indicators of genuine ethical commitment. Instead, interviewees point to the concrete resources devoted to impact governance as evidence of ethical intentionality. In this sense, founders' ethical values become observable through the structured allocation of means and the institutionalization of governance devices rather than through discourse alone. From LP2's perspective, "*We try to make it as objective as possible, in the most coherent way we can (...) For me, the intentionality of the manager - or the fund managers - when it comes to impact is really measured through the resources they allocate within the management company to put these issues forward and position themselves as pioneers on the topic (...) That's how we assess the level of intentionality. It is not a rhetorical stance. There's a real commitment from the leadership to say: we take these issues into account in our investment decisions, we monitor them, we negotiate them into our shareholder agreements.* ». Just as one might say that "there is no love, only proof of love", ethical values do not exist in the abstract; they exist only insofar as they are demonstrated through concrete commitments and governance practices.

Founders' Ethical Values Shape the Enactment of Control-oriented Mechanisms Linked to Social and Environmental Impact

While the previous section examined the formal design of control-oriented governance, interview data indicate that founders' ethical values also shape how these mechanisms are enacted in practice. Although control-oriented arrangements are formally specified in detailed contractual documents, they are not mechanically implemented. Their activation and interpretation depend on ongoing interactions between LPs and founders.

Despite the sophistication and length of legal documentation, financial control-oriented mechanisms linked to social and environmental impact are applied in a relational and context-sensitive manner. In practice, they acquire meaning through dialogue, situational judgment, and mutual interpretation. LPs explain that their investment decisions in SIVC funds are closely intertwined with their assessment of founders' ethical orientations. LPs state explicitly that their willingness to interpret contractual clauses flexibly depends on their trust in founders' commitments. As a result, impact-related financial mechanisms are rarely activated in a strictly coercive way. Discipline thus remains incentive-based and relational rather than automatically sanction-based.

Within what interviewees describe as a relatively small and interconnected field, reputational dynamics play a central role. When discipline is exercised, it tends to occur *ex post* through decisions not to reinvest in subsequent funds rather than through immediate financial sanctions. Founder-GP2 formulates this clearly: when expectations - financial or impact - are not met, "*the sanction […] is that [the investor] does not invest in the next fund*." Discipline is therefore enacted primarily through relational continuity or discontinuity rather than through mechanical enforcement of contractual thresholds.

Financial mechanisms such as impact-linked carried interest are also open to interpretation and contestation throughout the life of the fund. While formally conceived as alignment instruments, their practical enactment depends on how founders operationalise and measure extra-financial impact, and therefore on how impact objectives themselves are interpreted and assessed. LP2 describes the construction of impact business plans as a collective learning process: "*we all assume […] we are all groping collectively*," and objectives may be adjusted *ex post* when indicators prove mis-scaled. Founder-GP2's explicitly connects his intellectual trajectory to a critique of "*governance by numbers*" (Alain Supiot), warning against an overreliance on quantitative indicators that may lead actors to "*look at the finger rather than the moon*." He describes impact as conceptually unstable and partly arbitrary, emphasizing that debates around intentionality, causality, and measurability remain unresolved in practice. He insists that measurement is both necessary and inherently fragile, stating: "*Whatever the measurement or valuation indicator, it's a big risk - so it's both necessary, and we must be very aware of it; meaning we must constantly question: is the thermometer we're using a good thermometer?*" From this perspective, the difficulty does not lie in the principle of incentives itself, but in attaching financial consequences to indicators whose validity and completeness are continuously questioned. In this sense, the incentive–sanction logic associated with impact-linked carry is contested not only on moral grounds but also on epistemic ones. If impact measurement tools are acknowledged as provisional, context-dependent, and imperfect proxies of social reality, then grounding financial rewards or sanctions in their quantified outputs raises questions about proportionality and legitimacy. Control Discipline is therefore not rejected outright; rather, its operationalization through quantified impact thresholds is treated with caution. Founders' ethical values shape how these mechanisms are interpreted, negotiated, and sometimes softened in practice, reinforcing a broader pattern in which formal control-oriented devices remain available but are enacted through contextual judgment rather than automatic enforcement.

These reservations coexist with an opposing dynamic within the field. LP2 refers to a hub of SIVCs actively working on methodologies aimed at quantifying and even monetizing impact through avoided-cost approaches. This illustrates that tensions do not map onto a simple opposition between pro-control and anti-control positions; rather, they reflect competing epistemic and moral orientations concerning the measurement of extra-financial impact and its articulation with financial incentives as well as the underlying assumption that aligning interests necessarily requires aligning financial interests. As Founder-GP2 argues, "*people think aligning interests means aligning financial interests; but when you do an impact fund, the engine is not there*." Founder-GP3 similarly questions whether carried-interest logics genuinely produce alignment, suggesting instead that they may distort decision-making when high-impact projects are financially fragile.

More generally, interviewees also question the robustness of standardized indicators. Founder-GP2 notes situations in which portfolio companies generated substantial real-world impact yet underperformed on formal metrics, while others scored well numerically without equivalent substantive contribution. Such discrepancies reinforce skepticism toward automatic financial discipline based on quantified outputs. These concerns are amplified by references to European regulatory requirements sometimes perceived as compliance-driven and disconnected from substantive impact evaluation. As Founder-GP3 remarks: "*It's a bit like what we're experiencing with Europe today- all these sustainable development requirements where we're asked to sign off on completely absurd matrices that make no real sense. So in practice, we end up doing box-ticking; we can't really do anything else*."

In this context, contestation of impact-linked financial mechanisms is not expressed as opposition to control-oriented CG itself, but as skepticism toward the epistemic foundations upon which incentive and sanction mechanisms are built. Empirical data do not support a simple association between the desire to quantify impact and stronger ethical commitment, nor between resistance to quantification and weaker ethical values. Rather, differing positions reflect distinct philosophical understandings of value, of measurement, and of the moral status of financial incentives within II.

Founders' Ethical Values Define Legitimate Knowledge and Epistemic Devices in the Design of service and cognitive-oriented governance

Interview data indicate that CG within SIVC funds centers on the definition and production of knowledge about impact. Respondents describe distinct but interconnected arenas in which actors collectively reflect on what impact means, how it should be understood, and which forms of expertise are required to assess it. Founders' ethical values are reflected in the time, attention, and resources they devote to these issues, thereby shaping the epistemic foundations of governance. Interviewees consistently present this investment of time and cognitive effort as stemming from founders being convinced that impact cannot be reduced to pre-established categories.

A first set of issues is devoted to defining the conceptual and evaluative basis of social and environmental impact. Interviewees emphasize that impact cannot be treated as a fully stabilized category, confirming that the epistemic foundations of II remain under construction. In this context, founders invest considerable effort in internal deliberation. Founder-GP2 explains that significant time is spent revising and adjusting evaluative approaches internally, indicating that knowledge frameworks are continuously reworked rather than fixed *ex ante*. He explicitly highlights internal debates about whether cases exhibit "*real impact*," whether impact is "*useful*," emphasizing that such exchanges are not always captured by formal governance devices.

These reflections frequently involve external expertise. LP2 stresses that the involvement of experts in social and environmental sciences is essential for reflecting rigorously on impact. The mobilization of such expertise reflects a deliberate effort to extend governance beyond purely financial competencies and to incorporate alternative epistemic perspectives into evaluative processes. The expertise sought can be highly specialized and may require mobilizing different experts depending on the investment under consideration. LP2 also insists on the independence of such expertise, emphasizing that a committee member "*appointed and paid*" by the founder-GP creates structural conflicts of interest, and notes that LPs sometimes seek experts who contribute "*pro bono*" to preserve independence. Founder-GP3 also describes governance bodies as a place where complementary expertise is deliberately brought in to challenge internal assumptions and protect both mission and financial discipline.

A second set of issues is oriented toward experimentation with CG arrangements capable of integrating these evolving knowledge frameworks. Interviewees describe attempts to "*make the system move*" by exploring alternative legal and organizational configurations. One example provided by Founder-GP1 concerns the integration of an NGO working on the social and economic inclusion of migrants into the governance architecture of a fund managed by an AMF-authorized asset management company through an innovative partnership. The NGO would play multiple roles: contributing to the sourcing of companies working on inclusion-related issues, animating the ecosystem through European-level events bringing together firms active in these domains, and conducting an "inclusion audit" prior to investment. This audit would complement traditional financial, legal, or technical due diligence by assessing whether potential portfolio companies meet a set of inclusion criteria defined from the association's perspective. Founder-GP1 presents this initiative as unprecedented: "*It would really be- well, as far as I know -it would be a world first: an inclusion audit. There are plenty of technical audits, legal audits, and so on. But I've never seen an audit specifically on these issues anywhere else.*" He also stresses the legal and regulatory creativity required to make such a structure compatible with AMF rules, describing the need to "*invent a model*" and "*play with the rules in force*," including the involvement of a "*creative*" lawyer. It is noteworthy that GP1 uses the term 'audit' in relation to inclusion. By appropriating a concept traditionally associated with financial control, the extra-financial dimension of inclusion is symbolically elevated to the same level of rigor and importance as financial auditing. The partnership between the fund and the NGO is institutionalized within both the investment committee and the impact (or mission) committee in the context of portfolio company monitoring.

Founder-GP3 traces the creation of his first vehicle to a concrete funding impasse for social entrepreneurs and to a foundation's refusal to finance working capital, which led him to "*go and see a lawyer, who was a friend*" and to set up an investment company to finance and support these social ventures. He frames early governance design as a practical innovation aimed at preserving trust among close investors: his lawyer advised him to create an investment committee so that "*they decide on the investments with you*," because "*you will mess up anyway and they will remain your friends*."

LP1's account converges with this logic of situated experimentation: he stresses that, at EIF, the GP and the portfolio company must remain "*totally in the driver's seat*" in defining indicators and targets ("*we do not intervene in the definition of indicators and targets*"), and that EIF does not impose "*a list of eligible indicators from which GPs should choose*"; instead, the indicator must "*fit the portfolio company*".

Table 2 – Service and cognitive-oriented governance: Design vs. Enactment

SERVICE AND COGNITIVE-ORIENTED GOVERNANCE	DESIGN	ENACTMENT
Role of values	**Values define what counts as meaningful and legitimate knowledge**	**Values orient how knowledge is produced, debated, and stabilized**
General orientation	Service and cognitive-oriented governance designed around learning and innovation rather than compliance	Service and cognitive-oriented governance enacted as continuous inquiry and reflexivity
Relation to numbers	Rejection of governance by numbers embedded in governance design	Reflexive questioning of evaluative tools
Standardization	Deliberate resistance to full standardization of impact measurement	Persistent contestation of standardized indicators
Indicators	Indicators conceived as provisional and context-dependent devices	Indicators mobilized primarily as steering and learning tools
Monetization of impact	Cautious and selective exploration at the design stage	Ongoing debate and polarization around monetization in practice
Cognitive spaces	Creation of dedicated spaces for learning and innovation	Collective deliberation in inter-fund hubs and working groups
Devices and tools	Legal and organizational experimentation embedded in governance design	Practical testing, adjustment, and refinement of cognitive devices over time
Actors	Inclusion of unconventional actors (e.g., NGOs) as legitimate contributors	NGOs mobilized as sources of expertise and methodological innovation
Dynamics over time	Service and cognitive-oriented governance conceived as evolving and non-stabilized	Enactment-level innovations feeding back into emerging standards

Such experimentation illustrates how founders seek to institutionalize alternative forms of expertise and evaluation within governance design. Innovation therefore extends beyond refining technical instruments and involves redefining which actors are legitimate contributors to knowledge production and which criteria are considered valid in investment decision-making. In this sense, service and cognitive-oriented governance design becomes an arena where founders' ethical values justify the inclusion of non-financial actors (e.g., NGOs) as legitimate evaluators alongside financial and legal expertise.

Founders' Ethical Values Orient How Knowledge Is Questioned, Adjusted, and Gradually Stabilized in Practice

While the previous section examined the intentional design of CG, interview data show that its enactment is characterized by sustained reflexivity and ongoing adjustment of evaluative tools.

Respondents describe continuous questioning of the devices used to assess impact. As Founder-GP2 asks, "*is the thermometer the right one*?" This metaphor reflects an orientation in which evaluative instruments are treated as provisional constructs subject to revision rather than as definitive measures. Knowledge devices are repeatedly tested against practice and re-evaluated considering their perceived adequacy. Interviewees relate this ongoing questioning to founders' ethical stance that evaluative tools must remain aligned with the substantive purpose of II. Founder-GP2 explains that he regularly hosts interns or postdoctoral researchers in the social sciences to cultivate a reflexive and intellectually grounded perspective on his investment practices.

Consistent with this approach, interviewees explain that indicators are mobilized primarily as internal steering and learning devices. Their function is to support deliberation and strategic alignment rather than to serve as rigid benchmarks. Founder-GP2 emphasizes the time devoted to revising tools internally, illustrating how service and cognitive-oriented governance involves sustained investment in adaptation and refinement. Founder-GP2 also explicitly frames measurement as "necessary and unsatisfying," and warns against confusing measurement with purpose, arguing that impact accounts must combine metrics with narrative and qualitative sensemaking. Founder-GP3 similarly frames impact objectives as primarily strategic steering devices embedded in company strategy and board-level discussion, rather than as purely compliance-driven reporting outputs.

The involvement of NGOs also shapes the enactment of service and cognitive-oriented governance in practice. Founder-GP1 describes how collaboration with this NGO extends beyond a formal advisory role and participates directly in the evaluation process. Through its sourcing activities, ecosystem animation, and proposed inclusion audit, the NGO contributes to defining which companies are considered legitimate candidates for investment. In this configuration, inclusion criteria are not treated as secondary filters applied after financial screening, but as integral elements of the evaluative process. The inclusion audit is conceived as analogous to financial or legal due diligence, suggesting that social criteria are subjected to structured examination before capital allocation decisions are made. Interviewees indicate that this involvement introduces additional deliberation and may lead to the reconsideration of potential investments when inclusion standards are not met.

Knowledge production and stabilization also occur through collective arenas beyond the fund level. LP2 refers to inter-fund hubs, cross-actor working groups, and analytical approaches such as life-cycle analysis as spaces in which evaluative frameworks are tested, discussed, and progressively refined. These practices require significant investments of time and attention and reflect founders' willingness to prioritize epistemic exploration in a context where shared standards remain in formation. LP2 provides a concrete example of such a collective arena, citing an inter-VC hub named "Impact Valuation Up." He describes the underlying ambition as developing methodologies (e.g., life-cycle analysis and avoided-cost reasoning) that could express impact in comparable terms across portfolios, while acknowledging that these approaches require substantial dedicated resources and therefore constitute a strong signal of intentionality. Founder-GP3, by contrast, positions himself outside monetization-oriented epistemic programs, insisting that many central social effects are not meaningfully convertible into monetary equivalents and warning that financialization can displace attention away from lived social outcomes.

5. DISCUSSION

5.1. Founders' ethical values as an axiological orientation of CG

This study shows that founders' ethical values do not merely influence strategic positioning; they shape the architecture and functioning of governance itself. In SIVC funds, governance mechanisms are neither neutral nor purely technical: they are designed, interpreted, and selectively activated through founders' ethical orientations, in interaction with LP expectations and field-level uncertainty.

At the control-oriented level, founders' ethical values orient what is formalized *ex ante* and how coercive mechanisms are mobilized *ex post*. Although contractual devices such as impact-linked carried interest, reporting obligations, and committee structures are formally specified, their activation remains relational and context-sensitive. This finding nuances agency-based accounts (Jensen & Meckling, 1976) by showing that control-oriented CG in hybrid settings cannot be reduced to financial incentive alignment. The tensions surrounding the incorporation of an impact carried interest clause into the fund's governing framework, and the challenges encountered in its operationalisation, reflect deeper normative and institutional frictions. Specifically, they reveal the difficulty of embedding a market-based incentive mechanism - rooted in a shareholder value logic - within the hybrid architecture of impact investing, which simultaneously draws upon social and environmental value logics. These tensions are not simply technical issues of metric design. They reveal a deeper misalignment between competing institutional logics and the different conceptions of value they enact. In settings characterized by incomplete contracting and contested performance criteria, formal clauses require interpretation, and enforcement is partly substituted by relational governance, trust, and reputational mechanisms (Poppo & Zenger, 2002; Zaheer et al., 1998). In this respect, Thirion et al. (2022)' notion of impact fidelity appears incomplete if understood solely in contractual terms: our findings suggest that fidelity is not secured by formal clauses alone, but by the ethical credibility attributed to founders, which shapes how discipline is exercised in practice (including the preference for *ex post* sanctioning through non-reinvestment rather than immediate coercion).

At the cognitive level, founders' ethical values structure what counts as legitimate knowledge and valid expertise. Indicators are not treated as objective measures but as provisional epistemic devices subject to revision and contextualization. In doing so, the analysis resonates with cognitive approaches to governance developed by Charreaux (2002) and Forbes & Milliken (1999) by showing that governance bodies operate as arenas where ethical commitments influence the construction, contestation, and stabilization of evaluative frameworks - especially under ambiguity, where decision-making depends on sensemaking and interpretive work (Maitlis & Christianson, 2014; Weick, 1995).

Service-based perspectives on CG (Gorman & Sahlman, 1989; Hillman & Dalziel, 2003; Sapienza, 1992; Wirtz, 2011) have long emphasized advisory and cognitive roles of investors, particularly in VC. Yet these contributions typically conceptualize cognitive input in terms of strategic value creation and managerial support. Our findings extend this view by demonstrating that, in SIVC funds, the cognitive/service dimension of governance is explicitly structured by founders' ethical values: the inclusion of NGOs and social-science experts illustrates how governance becomes a vehicle for institutionalizing moral and epistemic commitments within decision-making processes. This resonates with broader work on boards and governance as knowledge/attention structures rather than mere monitoring devices (Rindova, 1999; Westphal & Zajac, 2013).

5.2. Opening the black box of the CG–CSR interface in II

This study responds directly to calls in business ethics and CG scholarship to unpack the organizational processes linking CG and CSR (Jain & Jamali, 2016). Rather than modelling CG structures as exogenous predictors of CSR outcomes, the analysis shows that governance constitutes the process through which ethical commitments are translated into operational arrangements, enacted through interaction, and stabilized over time.

This processual view also complements II research, including Hockerts et al. (2022), who emphasize intentionality, additionality, and measurability as defining criteria. While existing research has often focused on the technical design of measurement frameworks, our findings indicate that measurability itself becomes an object of governance: founders' ethical values influence how metrics are selected, interpreted, contextualized, and sometimes resisted. Governance therefore operates upstream of measurement. It shapes the epistemic conditions under which "impact" becomes definable and auditable. This aligns with research showing that performance indicators are not merely representational but constitutive, shaping what actors attend to and what becomes legitimate (Espeland & Sauder, 2007; Power, 1997), and with work highlighting the contested nature of materiality and impact definitions (Casasnovas & Jones, 2022; Lehner et al., 2022).

Research on hybridity in II has stressed the coexistence of plural logics and the tensions embedded in "hybrids of hybrids" (Moran & Ward-Christie, 2022), as well as the role of valuation practices and potential value hierarchies (Andersen & Tekula, 2022). Our contribution shifts attention from identity strategies or outcome-level trade-offs to CG as the institutional layer where these logics are arbitrated and rendered workable over time. Rather than assuming that hybrid governance balances competing objectives automatically, the findings suggest that coherence emerges through founders' ethical values functioning as interpretive anchors across control-oriented and cognitive mechanisms - consistent with institutional logics perspectives that locate hybridity management in ongoing organizational work rather than formal design alone (Battilana & Dorado, 2010; Thornton et al., 2012).

In doing so, the study advances a genuinely process-based understanding of the CG–CSR interface aligned with the JBE agenda of moving beyond outcome models toward analyses of organizational dynamics and moral governance.

5.3. Extending Upper Echelons Theory to CG architecture and governance work

This study extends UET (Hambrick, 2007; Hambrick & Mason, 1984; Hambrick & Finkelstein, 1987). First, it shifts the analytical focus from strategic choices and performance outcomes to CG architecture. While UET has often been mobilized to explain CSR engagement or strategic orientation, it has rarely been applied to the structural configuration of governance mechanisms (Chin et al., 2013; Petrenko et al., 2016). Our findings show that founders' ethical values influence not only positioning but also the design of both control-oriented and service and cognitive-oriented governance arrangements.

Second, the study shows that the influence of founders' ethical values becomes particularly salient under conditions of high managerial discretion and normative/evaluative ambiguity, which are typical of SIVC. In such contexts, governance mechanisms do not merely operationalize predefined objectives; they contribute to defining them. This resonates with UET's emphasis on discretion, while specifying a concrete locus of influence: founders' ethical values shape both the framing of tensions and the mechanisms through which those tensions are mediated.

Third, the analysis reveals a recursive dynamic between CG design and CG enactment. Enactment does not simply implement design; it progressively reshapes it through ongoing adjustment of indicators, committees, and evaluative tools. This complements process-oriented governance research (Brunninge et al., 2007) and sensemaking perspectives (Weick, 1995), while embedding them within UET: founders' ethical values are not static attributes but organizing orientations progressively institutionalized through governance practice.

5.4. Re-embedding CG in business ethics: purpose, value, and moral governance

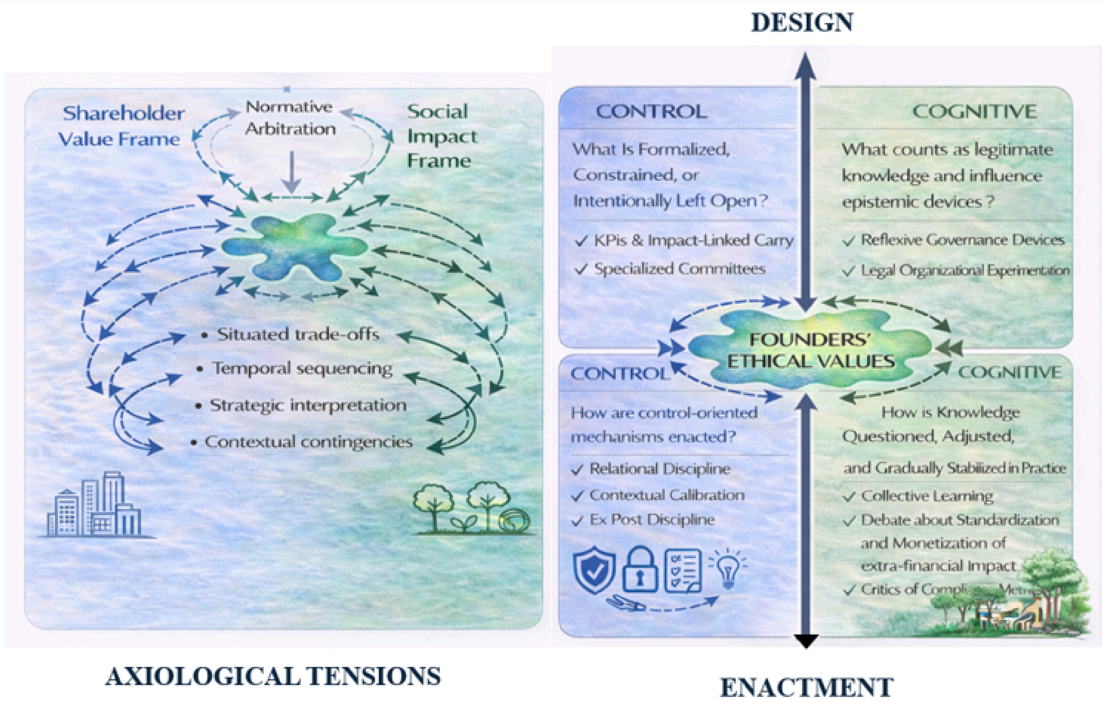
The findings contribute to debates within JBE regarding the need to reconnect CG scholarship with broader societal and ethical concerns (Veldman et al., 2023). Veldman and colleagues argue that CG research can become overly technical and detached from questions of purpose and value. This study empirically shows that, in SIVC funds, governance constitutes a primary site where competing conceptions of financial value and social impact are negotiated and rendered actionable.

By integrating control-oriented, cognitive, and service-based perspectives, the study moves beyond a narrow agency conception of governance and proposes a multidimensional framework in which founders' ethical values play a structuring role. Governance does not operate as a neutral control device. In practice, it functions as the organizational infrastructure through which ethical commitments are worked through and progressively stabilized.

In other words, governance appears as a form of moral organization of finance, where ethical orientations shape both "*what is controlled*" and "*what is known*" (and therefore what can be governed).

Figure 1 synthesizes the theoretical model emerging from the findings. It presents dynamic value configuration under axiological tension (left panel) and the recursive co-constitution of value configuration and corporate governance (right panel). Founders' ethical values operate as an axiological framework structuring governance mechanisms across design and enactment, along control-oriented and cognitive-oriented dimensions. The model highlights the recursive feedback loop through which enactment practices progressively reshape formal governance architecture and reconfigure the underlying value framework.

Figure 1: Dynamic Value Configuration of Values under Axiological Tensions



This reframing aligns with JBE's interdisciplinary-oriented trajectory toward processual and societally engaged analyses of governance, and it suggests that, in hybrid financial organizations, ethics is not only a matter of declared purpose or measured outcomes but also a matter of how governance is practically organized.

6. CONCLUSION

This study shows that founders' ethical values shape CG in SIVC funds not as abstract normative statements, but as orienting principles structuring both the control-oriented and cognitive dimensions of CG across design and enactment, thereby foregrounding the axiological underpinnings of CG

By distinguishing between CG design and CG enactment, and between control-oriented and cognitive mechanisms, the article advances a processual and multidimensional understanding of CG in hybrid financial organizations, where CG process is instrumental in navigating two potentially conflicting axiological systems. CG appears not as a neutral architecture of control, but as an organizational arena in which the meaning of ethical value is interpreted, negotiated, and progressively stabilized in practice.

The study makes three main theoretical contributions. First, it extends Upper Echelons Theory by shifting attention from strategic choices and performance outcomes to governance architecture itself. It shows that under conditions of evaluative ambiguity and high managerial discretion, founders' ethical values shape not only strategic positioning but also the formal configuration and practical enactment of CG mechanisms. Second, it reconceptualizes CG in SIVC funds as a configuration structured along two analytical axes - control-oriented versus cognitive mechanisms, and design versus enactment - whose coherence is oriented by founders' ethical values. CG is thus understood simultaneously as a system of incentives and constraints and as a cognitive infrastructure organizing knowledge production, interpretation, and valuation. Third, the findings highlight a recursive dynamic between CG design and CG enactment. Enacted practices - particularly in relation to impact measurement, epistemic devices, and incentive calibration - feed back into and progressively reshape formal arrangements. In this process, founders' ethical values influence not only how CG mechanisms are activated, but also how those values, taken from two potentially conflicting axiological frameworks, are defined, redefined and articulated within organizational practice. For business ethics scholarship, the study contributes to ongoing efforts to conceptualize CG as a site where societal purpose and financial objectives are concretely articulated and mediated. For CG research, it demonstrates that governance mechanisms in hybrid settings are axiologically embedded rather than purely technical. For II research, it suggests that tensions between financial performance and social and environmental objectives are not resolved through measurement sophistication alone, but through governance processes oriented by founders' ethical values.

This research has two managerial contributions. For practitioners, the findings suggest that the ethical orientation of impact-oriented organizations cannot be assessed solely through mission statements, formal commitments, or standardized indicators. Attention must also be paid to how governance mechanisms are designed and enacted in practice, and to the evaluative orientations that guide these processes. Founders play a critical role not only in defining objectives, but in shaping governance arrangements that enable learning, reflexivity, and innovation under conditions of ethical uncertainty. A sound CG process can be instrumental in navigating the tensions created by values derived from competing axiological systems, such as shareholder value and sustainability. For investors and regulators, the study invites caution regarding an exclusive reliance on standardized governance templates and reporting requirements. While such tools may improve comparability and accountability, they may also obscure the situated and evolving nature of ethical judgment in impact-oriented activities. Governance arrangements that leave space for deliberation, experimentation, and adaptation may be more appropriate than rigid standardized templates in contexts characterized by plural values and unresolved ethical questions. These implications should not be read as prescriptions for superior governance models, but as analytical insights into how governance operates in ethically indeterminate situations.

This study has several limitations. First, it relies on a qualitative, interview-based design focusing on a limited number of cases. While well suited to capturing values, judgments, and governance practices in depth, this approach does not allow systematic assessment of how governance arrangements evolve over long time horizons or under changing market conditions. The findings should therefore be interpreted as analytically transferable rather than statistically generalizable (Yin, 2017). Second, although the analysis distinguishes clearly between the design and enactment of governance mechanisms, it does not empirically trace the dynamic feedback loops through which enacted practices subsequently reshape governance design. While the findings suggest that governance is iterative and learning-oriented, the cross-sectional nature of the data limits truly longitudinal observation of these dynamics over the long run. Third, the empirical setting is institutionally situated within the European II context. Regulatory frameworks, investor expectations, and governance traditions may differ in other regions, potentially influencing how values are embedded in governance arrangements. Caution is therefore required when extending the findings beyond comparable institutional environments. Finally, the analysis focuses primarily on founder-GPs' and LPs' perspectives and does not fully capture situations of persistent conflicts and governance breakdowns. Investigating such situations could provide further insight into the fragilities and limits of axiologically embedded governance.

These limitations open several avenues for future research. The first direction concerns longitudinal and process-oriented studies of II governance. Future research could examine more explicitly the feedback loops between governance design and enactment, analyzing how values are translated into governance arrangements, how these arrangements are enacted in practice, and how experience and learning reshape governance design over time. A second avenue involves investigating the conditions under which axiological governance is reinforced or weakened. Comparative studies could analyze how changes in leadership, investor composition, fundraising cycles, or scaling pressures affect the stability of the axiological core and the credibility of governance arrangements. A third direction concerns comparative institutional contexts. Cross-country or cross-market research could explore how different institutional contexts shape the space for values-based governance in investment organizations, thereby contributing to a more nuanced understanding of the relationship between institutions and ethical governance. More broadly, this study invites further inquiry into governance as a dynamic site of business ethics. Rather than approaching ethics as a static set of principles or outcomes, future research could examine how ethical commitments are continuously enacted, debated, negotiated, and revised through governance practices. Such work would deepen understanding of how organizations navigate moral complexity, uncertainty, and competing objectives over time.

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