

## Manuscript Summary

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### **Values Homophily in Action: Co-founder authentication processes during team formation**

#### **OVERVIEW**

Impact-focused venture founders engage in a process of team formation where they evaluate the skills and professional experience of co-founders as well as the extent to which these individuals affirm values-based commitments to social and environmental impact. Yet, as resource flows towards impact-focused entrepreneurship increase, so too has the growing pool of potential entrepreneurs who while performing interest in impact creation, vary significantly in their personal values. This poses a challenge for founders seeking to form skillful, values-aligned teams capable of creating both substantial environmental and/or societal impact as well as financial profit. This study uniquely contributes to the field of sustainability entrepreneurship by revealing the previously opaque process of how founders authenticate co-founders' values during early-stage team formation, particularly in settings prone to values misalignment.

#### **METHODOLOGY**

Through an 18-month ethnographic study of a climate technology accelerator, we explore the role of values authentication processes during early-stage venture team formation. This unique setting allowed us to examine how founder participants (n=59) in a single impact-focused cohort performed their values, as well as how the surrounding community of stakeholders assisted founders in the process of authenticating potential co-founders' values alignment. This study took place during ongoing Covid-19 pandemic restrictions, resulting in an exceptionally rich dataset of digital, hybrid, and in-person traces not previously observed in qualitative studies of early-stage venture team development. Our study employs a rigorous ethnographic approach combining participant observations (approx. 35-90 hours/week), semi-structured interviews (n=62), and analysis of extensive digital traces and artifacts. Data analysis followed established techniques for grounded theory building, with iterative cycles between data collection and analysis. To address potential biases, we triangulated data sources and engaged in member checks with participants.

#### **FINDINGS**

Our findings reveal a community-based process whereby founders' values are authenticated through intensive scrutiny across three layers of public and private social arenas. Within the first public 'field level' arena, founders engage with publicized scripts to demonstrate alignment with climate tech entrepreneurship norms. A second 'public backstage' arena involves initial team formations and the establishment of peer-based membership thresholds. Here, founders engage in a "gut categorization" of potential co-founders based on perceived skill complementarity and initial values alignment. This arena also sees the emergence of community auditing processes, where stakeholders collectively evaluate founders' consistency in values performance. In the final 'private backstage' arena, more nuanced calibration of community membership thresholds occurs. Founders gain access to these restricted groups based on authenticated values alignment among members. Here, richer performances and evaluations take place, allowing for more accurate assessment of founders' underlying shared values.

The co-founder authentication process involves iterative cycles of performance, evaluation, and community feedback. Founders continuously signal their alignment through four key dimensions: a shared community identity; routine community maintenance practices; demonstrated commitments to a higher-order mission; and agreement on acceptable values boundary rigidity versus flexibility. Those who fail to authenticate their values alignment face exclusion from venture teams or the broader community, while successfully authenticated founders may reform teams or maintain community membership even if their

original venture team dissolves. Unexpectedly, we found that founders were more harshly judged for misalignment in financial values (e.g., prioritizing personal gain over impact) than for misalignment in social or environmental impact targets (i.e., where prioritized over financial impact).

## **CONTRIBUTIONS**

Our study makes three main contributions to the literature on values homophily in venture teams, the role of community in early-stage venture team formation processes, and impact-focused entrepreneurship. First, we challenge existing thought on the role of values homophily in early-stage team formation processes. Our findings suggest that in settings prone to values misalignment, both rational instrumental and social-psychological models are at play in a sequential process. Initially, a gut-based instrumental selection occurs, driven by founders' previously learned cognitive models supporting categorical identity evaluations. This is followed by a longer, social-psychological selection process drawing on community-authenticated perceptions of founders' value homophily. Next, we extend the literature on the role of community in early-stage venture team formations by describing how and what type of relevant evaluations take place by different stakeholder groups within the entrepreneurial ecosystem. Our findings highlight the critical role of a broader community in authenticating founders' values through a process of iterative performance, evaluation, and feedback across multiple social arenas. This community-based authentication process serves as a novel mechanism for reducing potential resource misallocation during early-stage venture development within impact-focused contexts. Finally, we extend the literature on impact-focused entrepreneurship by offering a conceptualization for how entrepreneurs in settings prone to values misalignment navigate the challenge of resource misallocation posed by variation in co-founders' values. Our process model of founder values authentication illustrates how entrepreneurs leverage community evaluations and norms to ensure alignment in their founding teams.

## **PRACTICAL IMPLICATIONS AND FUTURE RESEARCH**

This research offers critical insights for multiple stakeholders engaging in the development of successful impact-focused entrepreneurship. Building on our findings, accelerators and incubators can implement structured activities that facilitate authentic values alignment among founders, develop assessment tools to more quickly evaluate founders' values consistency across different types of stakeholder interactions, and create mentorship programs that emphasize both business acumen and values alignment in impact-focused ventures. Entrepreneurs can recognize the importance of consistent values performance beyond initial team formation, engage actively in community-building practices to establish credibility within their entrepreneurial ecosystem, and develop strategies for transparently communicating values alignment to potential co-founders and stakeholders. Investors can incorporate values authentication processes into due diligence procedures for impact-focused ventures, consider the stability of founding teams' values alignment when assessing long-term venture potential, and support initiatives that foster authentic values-based entrepreneurship especially within impact-focused venture communities.

Finally, while our single-site ethnography provided rich insights, its limitations also open exciting avenues for future research. For example, future studies might explore the observed values authentication processes within non-accelerator entrepreneurial ecosystems, across different cultural contexts, or for other impact-focused sectors beyond climate tech. Longitudinal studies, meanwhile, might explore how early-stage values alignment influences venture success, pivot decisions, and impact creation on longer time scales than the 18 months of this ethnography. Developing and testing quantitative measures of values authentication could also complement our qualitative findings, offering methods of scalable assessment. Finally, investigating these processes in “traditional” vs. impact-focused accelerators could also highlight unique challenges in sustainability-oriented entrepreneurship and offer further insight into how investors, mentors, and other ecosystem players influence and perceive the co-founder values authentication process.