

The Startup Exaggeration Paradox

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Abstract

Exaggerations, embellishments and “fake it till you make it” have become common issues in the startup scene. While social and business norms typically demand neutral language and accurate reporting, these requirements don’t seem to apply for early-stage ventures. We call this phenomenon the startup exaggeration paradox. The current study investigates if and how the framing of startup value propositions affects the funding decisions of potential investors. Through an incentive-compatible lab experiment and three online scenario experiments we find evidence that hyperbolic value propositions negatively affect the funding of startups. This effect is partially mediated by lower return expectations of potential investors. Adaption to rationality myths functions as a boundary condition to the found negative effects, i.e., accepting exaggerations when other startups with hyperbolic value propositions have already been funded successfully.

Keywords: *startups; exaggeration; equity-based crowdfunding*

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