

The Effect of FOMO on Stakeholder Enrollment

For many new ventures, acquisition of needed resources such as financing, marketing or product development capabilities, human capital, or access to important networks, cannot occur through simple market transactions, because new firms often lack the capital and/or legitimacy required to do so. These ventures must induce stakeholders to form a rich psychological bond with the venture, known as stakeholder enrollment: “the process of getting essential groups or individuals to accept, invest, and act in ways associated with entrepreneurial efforts to advance an uncertain endeavor.”

Stakeholder enrollment is usually viewed as a positive feat. However, less is known about the process when the venture has amoral intentions. Much of the literature assumes that stakeholders will engage in proper due diligence by evaluating and monitoring the venture, and that stakeholder enrollment cannot occur unless there is trust, reciprocity, and transparency between venture and stakeholders. Nevertheless, to gain resources and survive an entrepreneur must tell a story that appeals to stakeholders, even if that story is not completely true. Entrepreneurial lying—“an entrepreneur's intentional misrepresentation of the facts in an effort to encourage stakeholders to deem them a legitimate entity”—works because entrepreneurs have the advantage of information asymmetry over outsiders.

It is presumed that entrepreneurs who lie to investors will suffer repercussions from anger and retaliation to venture failure, which should act as a check to prevent excessive entrepreneurial lying from occurring. Yet examples exist where a venture has built strong psychological bond with stakeholders, despite basing the venture’s vision on half-truths or lack of technological feasibility. Such cases could not occur unless stakeholders were willing to accept a lying entrepreneur's words as truth. Thus, we ask: *why are enrolled stakeholders so willing to accept entrepreneurial lying?*

To examine this question, we use stakeholder theory to argue that stakeholders’ “fear of

missing out” (FOMO) on the opportunity will rise as their perception of the venture’s legitimacy and acceptance of the entrepreneur’s lie increases, even while their knowledge of the venture’s true capabilities decreases due to information asymmetry. The greater stakeholders’ FOMO, the more likely they will enroll with the venture. In turn, stakeholders are willing to accept more information asymmetry to stay enrolled, consequently reversing the typical power asymmetry between stakeholder and entrepreneur. We employ the extreme, revelatory case of the now defunct disruptive biotech startup Theranos because its deceit, the resultant high valuation, the longevity of the deception and subsequent downfall are all very well documented. Theranos enrolled many crucial and distinguished stakeholders over 15 years, reaching a valuation of over \$10 billion, through deceit. We use publicly available data on Theranos from various news outlets (e.g. NY Times), regulatory reports and filings (e.g. FDA), and other online sources (e.g. Crunchbase), as well as critical work from Wall Street Journal investigative reporter John Carrey.

This study extends our knowledge in several ways. First, we establish stakeholder enrollment has a dark side, where amoral entrepreneurs can use entrepreneurial lying and opportunism to gain resources for an illegitimate venture. Second, we challenge the boundaries of stakeholder enrollment and identify the construct of stakeholders’ FOMO as a previously overlooked enrollment mechanism. Third, we extend the entrepreneurial lying literature by demonstrating that entrepreneurial deceit can continue long past the pre-legitimate phase of a startup. We contribute to research on entrepreneurial legitimacy by revealing how entrepreneurs can fabricate signals of legitimacy, which can accumulate over time, to enroll even more stakeholders. Finally, while stakeholders are typically viewed as the victims of the lie, our work illustrates how stakeholders also bear the responsibility of holding the venture accountable by conducting their own due diligence, a practical implication of this research.