

## AI Ventures And Resource Mobilization: You Call It Seeking Resources; I Call It Hype!

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Hype around new tech start-ups is generally seen to bring more harm than good. In fact, many scandals including Theranos, FTX, Frank, and Slync have been widely considered outcomes of hype. But can hype *always* bring unfavorable outcomes? When it happens, are there any associated benefits that come with it? To find out the answers to these questions, we study hype impact on start-ups' ability to gather resources, that would help them survive and grow.

Hype oftentimes comes with new technologies, for instance, in the recent years, there has been various drastic technologies that radicalize existing markets and promise for "enhanced" futures. Such include dot-com era, cryptocurrencies and non-fungible tokens (NFTs) and even most recently artificial intelligence (AI). As the excitement surrounding the impact of AI continues to expand and boom showing staggering fundings that are expecting to reach \$97.9 billion USD in 2023. Yet, despite all the many promises and expectations by those AI firms there is one main threat that haunts investors and stakeholders which is being let down realizing that at the end, it was just *hype!* Therefore, we go a few steps backward to understand why hype is created. By examining a sample of AI firms, we ask why and how is hype created? how are hyped ventures valued? and what factors affect such valuations?

### The Ultimate Dilemma of Gaining Legitimacy and Resource Mobilization

New technological and innovative ventures, like any new ventures generally face problems related to the being new and small. Yet, beyond that they also face the problem of lack of technological familiarity and even resistance to change from various stakeholders. Therefore, they face the burden of explaining their new technological offerings using various narratives and storytelling, to gain legitimacy and consequently support, funding and resources while at the same time trying to distinguish themselves. However, in quest of attaining legitimacy, entrepreneurs can **exaggerate** the potential impacts of their ventures leading to *firm hype* but the thing about hype is that it has a snowballing effect that leads to different stakeholders echoing the same the entrepreneurs claim. While hype may not be the initial intention, it can certainly become an outcome created by a *paradox* essentially aiming to achieve legitimacy, where entrepreneurs try to overcome obstacles faced due to their newness and end up overpromising many future possibilities.

However, investors- who are most likely the most important stakeholders at this stage for entrepreneurs- during the tricky times of hype seek to make an accurate assessment despite all the noise, claims and exaggerations. These assessments are affected by indirect signals that show that these start-ups are worthy of funding and financing. That said, we do not only study how firm hype affect resource accumulation but also, what impacts firm hype and valuations. We look at different factors that are firm-level such as firm age and firm growth signaling *credibility* and *feasibility* successively as well as category-level (the overall new technology impacts) such as media attention and the overall investor sentiments (or investors funding and acquisitions of other firms in the same technological category such as AI) signaling *comprehensibility* and *desirability* successively.

To understand the effect of these factors in the context of most recent hyped technologies, namely AI, we integrate a formative approach to examine how 305 entrepreneurial firms (totaling 905 funding rounds) describe their products in more than 19,900 press releases using web scraping and content analysis techniques. We later analyze media releases to understand how external hype can interact with firm hype.

### What Entrepreneurs Ought to Know About Firm Hype

1. Firm hype can help entrepreneurs receive resources to a certain extent. Yet too much of it can backfire and reduce funding valuations from venture capitalists. Be careful!

2. Older firms benefit more from high levels of firm hype than younger firms. Also, Firm growth does not really help with resource mobilization during high levels of firm hype, yet it is only effective when firms are older. So, make sure you do you have established some legitimacy and reputation before you hype your new AI product.
3. When there is high media attention such as newspapers toward AI in general, it helps AI ventures to receive resources than when there is low media attention. Thus, media propaganda matters!
4. Same case for investor sentiment, when it is high, it benefits AI ventures to receive resources than when there is low media attention. So, choose your timing wisely!
5. Taken together, firm hype largely depends on whether firm hype of the startup is justified. Afterall, start-ups even while using hype, still need to stand out in the crowd through distinctiveness to make sure they are seen and heard by investors.
6. Last but not least, do not mistake hype with deceit. There is a difference, so make sure to avoid the latter!

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