

Crossing the line: 3 stages when entrepreneurship can go wrong



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Given the spate of high-profile frauds involving entrepreneurs, you could be forgiven for thinking that entrepreneurship attracts narcissists, liars and con artists. Yet telling a convincing story is a legitimate part of attracting early backers — just watch any episode of *Shark Tank* to realize the importance of the pitch.

However, what starts with the best of intentions can soon go off the rails if people aren't careful. And it isn't just the entrepreneurs themselves who are to blame. A cheerleading squad of investors, business partners and employees also bear responsibility for unquestioningly buying into and perpetuating the deception.

Use the insights from IESE professors (below), followed by a list of cautionary documentaries, to help keep entrepreneurial expectations firmly in check.

3 stages when it's time to watch out

By [Yuliya Snihur](#) & [Llewellyn D.W. Thomas](#)

How does benign framing by eager entrepreneurs lead to outright deception and a loss of legitimacy? With colleagues Raghu Garud (Smeal College of Business, Penn State) and Nelson Phillips (University of California, Santa Barbara), we identified three stages in the entrepreneurial journey when the wheels can come off the bandwagon.

Stage 1: Getting the story straight. To win early-stage support, entrepreneurs must be powerful storytellers. Especially with unproven tech, entrepreneurs must paint an inspiring and convincing picture of the future to win early buy-in — but they may be vague on specifics and downplay the risks. However, this is precisely when investors need to make choices based not on bedazzlement, but on the genuine credibility of the entrepreneur and the value proposition. They must see past flashy marketing and make sure that the story the entrepreneur is selling is fundamentally sound.

Stage 2: Proving the claims. When big promises don't pan out, investors, customers, partners and regulators start demanding interim proof that the groundbreaking product or innovative business model does indeed work. This is a make-or-break moment. Do you fess up and pivot to a more modest proposal? Or do you double down on a lie? This is when emotionally and financially invested stakeholders may revert to the old Silicon Valley mantra of "fake it till you make it." But make no mistake: when it all goes wrong, it's rarely the fault of "one bad apple," as burnt stakeholders may later try to claim.

Stage 3: Failure or fraud? Exposed entrepreneurs facing legal liability may try to paint any eventual business failure as an honest mistake rather than a calculated fraud. The line between the two may be razor thin, but all stakeholders can play an active role in drawing that line by staying alert, asking hard questions and doing their due diligence.

It's a shame that entrepreneurship is currently getting a bad rap, when it can have such a

transformative impact, ushering in positive economic and social change. By understanding how entrepreneurial deception works, we can build a cleaner entrepreneurial culture that grounds the hype and nips fraud in the bud.

SOURCE: "[The dark side of entrepreneurial framing](#)" is published in the *Academy of Management Review* (2023). Also read: "[Crossing the line: When entrepreneurial storytelling spirals into outright fraud](#)."

More resources

Symbolic actions: how to convince skeptical investors

This [article](#) by [Christoph Zott](#) (IESE) and Quy Huy (INSEAD) recognizes the reality that entrepreneurs with no track record have no choice but to big themselves up to attract resources to their ventures. Based on research on U.K. entrepreneurs (published in [Administrative Science Quarterly](#)), they tease out a winning repertoire of symbolic actions that help. But by "symbolic," they don't mean fluff. The storyline has to be substantive. As they write: "With the business world reeling from so many scams, once-bitten stakeholders will see right through any shallow maneuvers. That is why we emphasize that to be effective, each of these actions must be underpinned by *authenticity*. Don't overpromise what you can't deliver."

Fyre: the greatest party that never happened

This film [documents the failed Fyre Festival](#) of 2017, which lured young people to a Bahamian island on the promise of a luxury music festival, only to leave them stranded. Organizer Billy McFarland ended up pleading guilty to defrauding investors and went to prison; however, the filmmakers make it clear there was plenty of blame to go around, particularly for the supermodels and social media influencers who bought into and fueled the hype. In a telling postscript, after serving four years in prison, McFarland is back and in August 2023 announced he was seeking funds for his next event. Even sadder: he sold tickets. [As one commentator observed](#), "We all loathe the con artist, but we are also enthralled by the scale of their delusions and perhaps by our own willingness to be taken in. Most of us at one time or another want to belong to something, and the lure of leadership of any kind can be hard to resist."

The inventor: out for blood in Silicon Valley

[Chronicles the rise and fall of Theranos](#), the blood-testing company whose tech didn't actually work. Founder Elizabeth Holmes was once a Silicon Valley superstar; she began her 11-year prison sentence in May 2023 for defrauding investors. This 2019 documentary, produced before her trial in 2021, indicts not just Holmes but the whole Silicon Valley culture. Critics call it "a devastating warning of where unchecked messianic tendencies lead and the lives they can destroy along the way" and "a warning of how an apparent fraudster spouting tech jargon can bedazzle people who really should know better."

A more recent 8-part series on Hulu/Disney+, called [The Dropout](#), sees Amanda Seyfried playing Elizabeth Holmes. There is also reportedly another series and a movie in the works. It seems there is lots to pick over in this "unbelievable tale of ambition and fame gone terribly wrong."

Ruin: money, ego and deception at FTX

Bloomberg journalists narrate [this documentary about Sam Bankman-Fried](#) and the collapse of his cryptocurrency exchange, FTX, for which he was convicted of fraud in November 2023. The crypto industry would like to turn the page on what they say was an aberration, invoking the usual one-bad-apple defense. Yet the financial sector as a whole remains wary: crypto falls into a regulatory gray area, something that Bankman-Fried was able to exploit. Moreover, his stated ambition to fund "effective altruism" has tarnished the efforts of others to engage in social entrepreneurship. At the end, Kevin O'Leary (famous *Dragons' Den* and *Shark Tank* host and one-time FTX spokesman) makes a grim assessment: "Will this be the last of its kind? No! This is the nature of capitalism. Get over it."

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<https://www.iese.edu/insight/wp-content/uploads/sites/3/2023/12/Learn-how-to-detect-entrepreneurs-selling-a-false-dream-1.mp4>

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