Caught up in the AI rat race: Does technological peer pressure fuel AI washing or hushing?

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ABSTRACT

The SEC has cautioned public firms against artificial intelligence (AI) washing—overstating AI investments in corporate disclosures. Legal experts expect AI washing to increase as firms face intensified competitive pressures to deploy AI, but disclosure theory suggests competition may instead lead to AI hushing—understating AI investments in disclosures—due to proprietary cost concerns. My paper examines whether technological peer pressure (TPP) fuels AI washing or hushing. Using a word embedding machine learning model, I construct AI and investment dictionaries, and measure AI washing or hushing as the difference between a firm's decile rank in retrospective AI investment discussions (from annual reports or earnings calls) and its decile rank in actual AI investment among peer firms in a year. To mitigate endogeneity, I exploit a plausibly exogenous increase in peers' R&D intensity to capture a focal firm's TPP. I find that TPP induces AI washing, particularly among firms that opportunistically overstate AI investment, benefit more from capital market rewards, or gain strategic competition advantages from inflated disclosure. Overall, my findings shed light on how technological competition affects the *discordance* between corporate AI use disclosure and investment, highlighting a pressing regulatory concern given the SEC's mandate to ensure full, fair, and truthful disclosures for efficient capital allocation.

Keywords: technological peer pressure; technological competition; AI washing; AI hushing; disclosure of AI investment; actual AI investment; proprietary disclosure costs; AI-skilled employees; managers; AI-related patents.

Data Availability: Data are available from the public sources identified in the text.