CROWDFUNDING IN A PROSOCIAL MICROLENDING ENVIRONMENT: EXAMINING THE ROLE OF INTRINSIC VERSUS EXTRINSIC CUES

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ABSTRACT

Microloans garnered from crowdfunding provide an important source of financial capital for nascent entrepreneurs. Drawing on cognitive evaluation theory, we assess how linguistic cues known to affect underlying motivation can frame entrepreneurial narratives either as a business opportunity or as an opportunity to help others. We examine how this framing affects fundraising outcomes in the context of prosocial lending and conduct our analysis on a sample of microloans made to over 36,000 entrepreneurs in 51 countries via an online crowdfunding platform. We find that lenders respond positively to narratives highlighting the venture as an opportunity to help others, and less positively when the narrative is framed as a business opportunity.

Keywords: microlending; crowdfunding; cognitive evaluation theory; resource acquisition

INTRODUCTION

Financial capital represents a necessary ingredient for entrepreneurial survival and growth (Florin, Lubatkin, & Schulze, 2003). In order to support their startup and growth needs, impoverished entrepreneurs have traditionally accessed additional capital through personal savings or informal financial outlets, such as family members, individuals in their social networks, or moneylenders (Buckley, 1997). However, each of these sources is generally characterized by limitations. Personal savings, for example, may be difficult for entrepreneurs in emerging economies to accumulate due to kinship obligations, extreme poverty, or a general lack of access to formal banking services (Khavul, Bruton, & Wood, 2009; Khavul, Chavez, & Bruton, 2013). Although moneylenders may provide sufficient levels of financial capital to support startup and growth needs, these loans are often accompanied by interest rates that exceed 100 percent (Khavul, 2010).

Microlending has recently emerged as an attractive complement to these traditional means of accessing capital. The microlending process involves the issuance of relatively small, uncollateralized loans to individuals for the purpose of alleviating poverty through

entrepreneurial growth (Anthony, 2005; Battilana & Dorado, 2010). Microlending intermediaries link impoverished entrepreneurs with a broad set of prospective lenders, enabling many entrepreneurs access to relatively small amounts of financial capital, at low interest rates, to support entrepreneurial activity (e.g., Bruton, Ahlstrom, & Obloj, 2008; Galak, Small, & Stephen, 2011). Congruent with this mission, microlending institutions have provided over $25 billion in loans, largely to the world's most impoverished entrepreneurs, since the industry's initial conception in 1975 (Diekman, 2007). Although initially dominated by brick-and-mortar institutions, the microlending industry has since become populated by an array of internet-based crowdfunding intermediaries, greatly increasing the number of potential lenders. On many of these platforms, lenders do not receive interest payments from their loans, nor do they receive protection against borrower default. Given this unique contextual distinction, scholars have suggested that microfinance is a field of "prosocial lending" (Galak et al., 2011) in which lenders – ordinary people – evaluate prospective borrowers on both traditional lending criteria and prosocial, charitable criteria.

Central to crowdfunding microloan solicitation is the entrepreneurial narrative, which describes the entrepreneurs as individuals, their ventures, what the loan will be used for, and other personal details (e.g., Martens, Jennings, & Jennings, 2007). In examining the effect of entrepreneurial narratives on prosocial lending, some recent works have proposed that narratives enable lenders to form opinions about prospective borrowers and, thus, affect their decisions (e.g., Allison, McKenny, & Short, 2013; Herzenstein, Sonenshein, & Dholakia, 2011). While these studies and others have advanced our understanding of the role played by entrepreneurial narratives in microlending, we know relatively little about whether, or how, the content of these narratives influence the attractiveness of microloans to investors.

To address this gap, we draw upon cognitive evaluation theory (Deci & Ryan, 1985; 1991) to assess how microlenders respond to both intrinsic and extrinsic cues embedded within entrepreneurial narratives. Cognitive evaluation theory asserts that extrinsic rewards diminish intrinsic motivation by thwarting the satisfaction an individual receives for actions they would otherwise engage in (Deci, Koestner, & Ryan, 1999; Deci & Ryan, 2000, 2012). While prior research on resource allocation generally suggests that extrinsic cues are associated with a positive investor response (e.g., Martens et al., 2007), cognitive evaluation theory suggests that, in prosocial contexts, investors are motivated by the action of providing capital itself. To test our theory, we employ a sample of over 36,000 entrepreneurs that sought funding through the crowdfunding-based, microlending intermediary Kiva.org.

This research makes three contributions to theory and entrepreneurship research. First, we introduce cognitive evaluation theory and its extension known as self-determination theory (Deci & Ryan, 2002, 2012; Ryan & Deci, 2000), as an overarching theoretical framework for explaining why people choose to engage in crowdfunding. Research on crowdfunding and crowd-funded microfinance has so far has focused on individuals' biases as influencing their crowdfunding decisions, but we know less about the fundamental motivations driving crowdfunding decisions. This research moves beyond bias and similarity effects (cf. Galak et al., 2011) to propose that investors in crowd-funded prosocial microfinance are intrinsically motivated and this underlying motivation is altered through intrinsic and extrinsic cues that frame the funding appeal. Second, we apply theory to explain how the language contained within microlending entrepreneurial narratives conveys intrinsic and extrinsic cues to lenders. In doing so, we provide a means by which scholars can assess how the presence of cues in microlending entrepreneurial narratives may stimulate intrinsic motivation. Finally, we compare the relative

effects of intrinsic and extrinsic cues and their effect on lender preferences for some

crowdfunding opportunities over others. We offer a potential contribution to cognitive evaluation

theory by proposing that self-selection into an activity will tend to make intrinsic cues more

salient in determining investor preferences than manipulations of extrinsic cues (e.g., Deci,

1972).

MICROLENDING THROUGH CROWDFUNDING

Financial capital is generally viewed as a vital resource supporting entrepreneurial

activities (Florin et al., 2003). However, the attainment of necessary financial capital from

external sources or through personal savings is particularly difficult for impoverished

entrepreneurs in both developing and developed countries. Increasingly, impoverished

entrepreneurs can instead seek out external capital through a process known as microlending

(e.g., Bruton, 2010). Microlending refers to the issuance of relatively small, uncollateralized

loans to individuals for the purpose of spurring entrepreneurial growth (Anthony, 2005; Battilana

& Dorado, 2010). While the concept of microlending is a relatively old idea (e.g., Spooner,

1846), the origin of today's microlending industry is generally traced back to 1975 when

Professor Mohamed Yunus founded Grameen Bank in Bangladesh (Battilana & Dorado, 2010).

Given the social and practical importance of microlending in the fight to reduce global

poverty through entrepreneurship, scholarly examination of microlending has recently begun to

flourish (e.g., Bruton, 2010). For example, scholars have recently examined microlending at the

industry level in terms of how the overall industry's institutional logic has shifted from a

development-based logic to a relatively more market-based logic (Khavul et al., 2013). Similarly,

others have examined the rise of commercial lenders in the microfinance domain and how the

organizational form of those lenders have attempted to accommodate the development and

market-based logics of the industry (Battilana & Dorado, 2010). In addition, scholars have also

examined the end user (i.e., the entrepreneur) in terms of how entrepreneurs' demands for microloans respond to fluctuations in lender interest rates (Karlan & Zinman, 2008), the role of group identity, sanctions, and reciprocity in facilitating group cooperation within microcredit groups (Anthony, 2005), and how network ties influence the ability of entrepreneurs to access such groups (Khavul et al., 2009). However, few studies have sought to examine factors that may cause loans to be more or less attractive to lenders within the microlending context, particularly in terms of lenders that provide capital through crowdfunding-based microlending platforms (e.g., Galak et al., 2011).

Although initially dominated by formal lending institutions such as Grameen Bank, internet-based microlending intermediaries that utilize crowdfunding platforms have become increasingly popular sources of funding (Needleman, 2010). Unlike formal brick-and-mortar lending institutions, crowdfunding-based microlending intermediaries operate as pass-through agents, allowing lenders in developed countries to invest in entrepreneurs worldwide (e.g., Allison et al., 2013). There are a growing number of crowdfunding platforms that provide microloans to impoverished entrepreneurs, including intermediaries such as Kiva Microfunds, Microplace, World Vision Micro, and Prosper.

EXTRINSIC AND INTRINSIC FACTORS INFLUENCING PROSOCIAL LENDING

In a study of microlender decision-making on crowdfunding platforms, Galak and colleagues (2011) suggested that the lending decision is a hybrid decision form. Crowdfunded microlending as most widely practiced incorporates aspects of both traditional investment decision-making and psychological factors that influence charitable-giving decisions (e.g., Galak et al, 2011; Small, Loewenstein, & Slovic, 2007). Given this unique contextual distinction, they suggested crowdfunded microfinance might be understood to be "prosocial lending" (Galak et

al., 2011). This suggests that lenders weigh both the extrinsic factors germane to traditional investments (potential future rewards, whether for themselves or others), as well as the intrinsic factors germane to prosocial and charitable decisions (the desire to help others, whether altruistically or to feel good about oneself).

Cognitive Evaluation Theory and Self-Determination Theory

In general, the motivation provided by external rewards can increase the likelihood of desired behaviors (e.g., Skinner, 1953); however, this may not always be the case (Deci et al., 1999). For example, investors in traditional contexts may be motivated to provide capital by the prospect of receiving future financial gains (i.e., extrinsic rewards), while charitable donors may be motivated to invest due to psychological gains (i.e., intrinsic rewards) that are garnered from the process of investing itself (e.g., Andreoni, 1989, 1990). Consequently, investors may be best viewed as being extrinsically motivated, while donors are likely to be intrinsically motivated. When participants are extrinsically motivated, they are not driven by the activity itself, but by the extrinsic consequences associated with performing the activity (e.g., cash payment, verbal feedback). Alternatively, when participants are intrinsically motivated they choose to engage in a given activity because they perceive it to be interesting and are able to gain some level of simultaneous satisfaction from the activity itself (Gagne & Deci, 2005).

Cognitive evaluation theory asserts that an (1) individual's level of intrinsic motivation is determined by the basic psychological needs for autonomy and competence; and (2) the effects of a given reward an individual's motivation depends how the recipient interprets the reward in relation to their own need for autonomy and competence (Deci, 1971; Gagne & Deci, 2005). As such the overall effect of a given reward (i.e., in terms of intrinsic motivation) is contingent upon how it affects an individual's perceived competence and autonomy (Deci & Ryan, 1980, 1985).

Rewards that provide for autonomy and/or serve as indicators of competence tend to increase intrinsic motivation; rewards that do not provide an indication of competence or are perceived to be controllers of behavior tend to reduce intrinsic motivation (Deci et al., 1999). Stated differently, individuals are likely to experience sustained or enhanced levels of intrinsic motivation when both the need for autonomy and competence are satisfied; however, intrinsic motivation is likely to be undermined if either need is not satisfied, or if rewards are perceived to be controlling.

Controlling rewards create an environment in which participants are no longer motivated to perform a given task at some level of self-directed effort or performance. Instead, participants are motivated to perform the task at some externally defined level of effort or performance. For example, providing a number of participants with open-ended instructions, such as 'go run one lap around the track,' would be relatively non-controlling. While the task itself is clearly defined (i.e., run a single lap), the level of effort expended on the task, or the amount of time taken to complete the task, are left up to the participant. Furthermore, because no extrinsic reward is provided either for completing the task, or failing to do so, the participants rely on internally derived motivation (i.e., intrinsic). Alternatively, if the instructions provided to the participants were modified to state 'go run one lap around the track in two minutes or less and win five dollars,' the situation becomes more controlling. The introduction of a time limit requires the participants to meet or exceed some level of performance (i.e., completing the lap in two minutes or less) in order to obtain some level of extrinsic reward (i.e., five dollars). Similarly, in the context of crowdfunding, a more controlling situation is one in which potential future extrinsic rewards are revealed via extrinsic cues in the framing of the entrepreneurial narrative.

While cognitive evaluation is a theory framed in terms of rewards that may *undermine* intrinsic motivation, its extension, known as self-determination theory, is framed in terms of factors that may *facilitate* intrinsic motivation (Ryan & Deci, 2000). Importantly, this language illustrates the underlying assumption of both theories that intrinsic motivation is activated, as opposed to being caused, when conditions are conducive towards its expression (Ryan & Deci, 2000). Self-determination theory extends cognitive evaluation theory by providing a third basic need: relatedness (an addition to the original two postulated by cognitive evaluation theory: competence & autonomy). Relatedness refers to the need of individuals to connect with other people (Baumeister & Leary, 1995). Similar to the other two basic needs of competence and autonomy, relatedness is viewed as a need which – when unmet – will lead to reduced levels of intrinsic motivation (Deci & Ryan, 2000). For example, if a person engages in prosocial behavior on his or her own accord, relatedness is likely to be supported because the action is attributed to connection or caring; however, if the activity were controlled relatedness is likely to be undermined, and intrinsic motivation reduced.

Microlending and Prosocial Investment Cues

Microfinance began as a means to alleviate poverty through entrepreneurship (Khavul, 2010). This overarching purpose has remained relatively constant throughout the history of microlending, and past research suggests that the goal of poverty alleviation plays a prominent role in the decision-making process of individual microlenders (Galak et al., 2011; Allison et al., 2013). As such, the extent to which microlenders are motivated to fund microloans may be influenced by the extent to which they perceive their engagement in the activity of microlending to actually help needy entrepreneurs and/or reduce poverty. From a cognitive evaluation theory lens, this suggests that funders may seek out both competence affirmation and self-determination

alignment, with regard to their ability to effectively contribute to the overarching purpose of –

and be intrinsically motivated to participate in – microlending. For example, a lender's perceived

competence, in terms of their ability to perform the task of microlending well and contribute to

poverty reduction, may be supported by actions such as a microloan being funded (to the extent

that it ensures the entrepreneur receives needed funds) or an entrepreneur eventually repaying

their loan (as it may reflect venture success). Similarly, because microlenders' self-directed

choice to engage in microlending is based on helping needy entrepreneurs (e.g., Galak et al.,

2011; Allison et al., 2013), simply engaging in the prosocial activity of microlending (i.e.,

helping needy entrepreneurs for no financial gain) should support lenders' self-direction.

Alternatively, in traditional investment contexts, individuals are motivated to provide

capital to needy entrepreneurs in the hopes of receiving a financial return on their investment.

However, the ability of investors to reap future financial gains, in return for their investment, is

contingent on the future financial performance of the venture (e.g., Certo, 2003). The core

elements of an investment proposal – whether an IPO prospectus or a business plan – are risk

and reward. These define how much profit an entrepreneur anticipates and how much risk is

planned (MacMillan, Siegel, & Narasimha, 1986). Given that a presentation on this basis directs

focus towards a specific goal (i.e., future financial gain) that can only be attained by investors

who successfully select, and provide funds to, above average ventures (i.e., successful

entrepreneurs), traditional investment contexts may best be viewed as activities in which the

participants (i.e., investors) are motivated by performance contingent rewards (cf. Ryan, Mims,

& Koestner, 1983). Importantly, the controlling nature of performance contingent rewards

constrain intrinsic motivation – and thus activate extrinsic motivation – in that investors are

required to meet or exceed some given performance level (i.e., in order to receive some level of

financial reward) rather than performing the task according to their own self-direction, (e.g., Ryan et al., 1983).

Unlike traditional investors, the intrinsic motivation of microlenders is near absolute as they provide funds to needy entrepreneurs without the possibility of future financial awards (Galak et al., 2011). However, the way in which individual microloan presentations are framed varies across entrepreneurs, and task framing is known to impact motivation (e.g., Cimpian, Arce, Markman, & Dweck, 2007). Specifically, microloans may be framed in a way that suggests the existence of an extrinsic performance-contingent reward: the extent to which the entrepreneur portrays their venture as a good investment that is likely to succeed financially and/or repay its debt (e.g., Harackiewicz, Manderlink, & Sanson, 1984). The literature on cues has demonstrated that the ways in which language is framed can influence motivation, accordingly we refer to these as *extrinsic cues* (e.g., Cimpian et al., 2007). A microloan presentation on this basis suggests the existence of a performance-contingent reward (e.g., Deci et al., 1999) because it directs focus towards a specific goal (i.e., future repayment or venture success) that can only be attained by investors who successfully select and provide funds to above average ventures (i.e., successful entrepreneurs). Despite their ability to reaffirm the psychological need for competence (i.e., the reward is contingent on performance), performance-contingent rewards generally constrain intrinsic motivation because they are often deemed as highly controlling.

The likelihood of business success (i.e., entrepreneurs' ability to repay a loan / future financial success of the venture) likely represents an important consideration for the majority of microlenders; particularly given their underlying desire to help needy entrepreneurs and alleviate poverty (e.g., Galek et al., 2011). Thus, the question becomes: can it be assumed that the

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attractiveness of a microloan to investors will not be influenced by a microlending presentation framed in a way that focuses on the risk and return aspects of a venture? Cognitive evaluation theory suggests this is not the case. Rather, while eventual business success and/or loan repayment may serve to reinforce lenders' competence in their ability to help need entrepreneurs or alleviate poverty, the opposite is likely to be true for lenders' need for self-direction. Specifically, extrinsic cues in the entrepreneurial narrative will frame the opportunity in terms of how good of a business it is by focusing on extrinsic (monetary) rewards (i.e., the financial success of the venture). This is likely to be perceived by lenders as controlling, even if the reward is only the return of the invested principal (e.g., Deci et al., 1999). Thus, a microlending presentation that is framed as a traditional investment call (i.e., focused on potential future extrinsic rewards), through the use of extrinsic cues is likely to be less appealing to investors (e.g., Harackiewicz et al., 1984) and have worse fundraising performance. Stated formally:

> **Hypothesis 1a:** Greater degrees of profit language are associated with a decrease in the attractiveness of microloans among prosocial investors.
>
> **Hypothesis 1b:** Greater degrees of risk taking language are associated with a decrease in the attractiveness of microloans among prosocial investors.

Cognitive evaluation theory typically focuses on undermining: how extrinsic cues (rewards) - whether promised or given, tangible or verbal - diminish the intrinsic motivation to perform a task (Deci et al., 1999). Less appreciated is whether and how the way in which a task is presented can in fact facilitate intrinsic motivation. An extension of cognitive evaluation theory, self-determination theory, asserts that intrinsic motivation can be *facilitated* by environmental factors, and that humans have a third basic need: relatedness (Deci & Ryan, 2000; Ryan & Deci, 2000). More specifically, self-determination theory asserts that controlled social

environments constrain intrinsic motivation (by constraining relatedness), while less controlled social environments facilitate intrinsic motivation (Deci, Eghran, Patrick, & Leonne, 1994).

Need for relatedness refers to the need to feel close to others; this attribute is generally found across cultures (Baumeister & Leary, 1995), and increases intrinsic motivation when met (Weinstein & Ryan, 2010). When individuals feel close to others, it becomes more likely that cooperation will occur (Abele & Stasser, 2008), and even relatedness at an unconscious level may increase empathy and general liking (e.g., Chartrand & Bargh, 1999). Social bonds, which form the basis for relatedness, form easily (Baumeister & Leary, 1995). For example, individuals may feel close to others based on varying dimensions of social commonality (Abele & Stasser, 2008), such as family or unique personal characteristics.

Given that individuals generally form initial impressions during the first few minutes of interaction (e.g., Dougherty, Turban, & Callender, 1994), we suggest that entrepreneurs can support microlenders' need for relatedness through specific language embedded within entrepreneurial narratives – *intrinsic cues* that influence underlying motivation through framing the fundraising appeal (e.g., Cimpian et al., 2007). First, the entrepreneur may identify people to which prospective lenders can feel connected. Such individuals might consist of the entrepreneur themselves as well as their family and meaningfully close friends or associates. We propose that using human interest language – language that references the social environment of the entrepreneur seeking funds – will serve to satisfy lenders' need for relatedness (e.g., Hart, 2010). Second, the entrepreneur can identify individuals in such a way that they are distinct and distinguishable; we propose that using language emphasizing the diversity of the people in the microlending entrepreneurial narrative will serve to satisfy the need for relatedness since it is easier to feel connected to a well-defined person (e.g., Hart, 2010). Intrinsic cues in the narrative

– greater amounts of diversity language and human-interest language – focus the tone of the narrative on information that is salient to the microlending investors' reasons for investing. Thus, the presence of such language will be associated with improved fundraising outcomes. Formally:

> **Hypothesis 2a:** Greater degrees of human interest language are associated with an increase in the attractiveness of microloans among prosocial investors.

> **Hypothesis 2b:** Greater degrees of diversity language are associated with an increase in the attractiveness of microloans among prosocial investors.

Research on cognitive evaluation theory and self-determination theory tends to suggest that the effects of extrinsic rewards undermine intrinsic motivation, while verbal praise – which enhances intrinsic motivation and thus may be cognitively inseparable from internal feelings of satisfaction – tends to increase intrinsic motivation (Deci, 1972). A handful of prior studies have examined which effect tends to be stronger. In a study of time spent solving a puzzle when not required to do so, Deci found that the effect of extrinsic motivation was generally stronger than the effect of intrinsic motivation-strengthening verbal praise (1972). Similarly, in a study of intrinsic and extrinsic motivations to use an internet-based learning platform, extrinsic motivations were found to have a stronger effect than intrinsic motivations (Lee, Cheung, & Chen, 2005).

Prior work on cognitive evaluation theory has always studied participants with little inherent motivation to engage in the focal task (Deci, 1972; Lee et al., 2005). For example, participants are asked to solve a puzzle. Yet, these observations may not generalize well to the actual task environment of people. Often people perform tasks that they have partially determined themselves. For example, microlenders have selected themselves into a platform that provides loans for pro-social and thus naturally intrinsic motives (e.g., Galak, et al, 2011; Ryan

and Deci, 2000). Thus, they may tend to be more attuned to variations in information on microloans; further, given their desire to connect with a borrower and fulfill the need for relatedness, they may be relatively less susceptible to the undermining effect of extrinsic motivation (e.g., Deci et al., 1999). In summary, we propose that microlending investors will tend to respond more strongly to microlending entrepreneurial narrative intrinsic cues than they do to extrinsic cues, as indicated by the relative effects of each. Formally:

Hypothesis 3: The positive effect of overall intrinsic cues will be larger than the negative effect of overall extrinsic cues among prosocial investors.

METHOD

Data

In this study, we focused on a set of entrepreneurs that sought microfinancing on the U.S.-based crowdfunding platform Kiva.org. Kiva has been cited as the largest crowdfunding platform of microloans (Needleman, 2010). As such, it represents a valuable context for the study of microlending. Microlending represents an important source of financial capital for impoverished entrepreneurs, and has provided over $25 billion in loans since the industry's initial conception in 1975 (Diekman, 2007). Since its initial inception in early 2005, Kiva has facilitated more than $381 million in loans to over 927,000 entrepreneurs in 69 different countries. While the loans are uncollateralized, the historic repayment rate within the platform exceeds 98%, and the average Kiva lender has made nine loans (Kiva, 2012).

Data from Kiva has been used in prior microlending research in both marketing (Galak et al., 2011) and entrepreneurship (Allison et al., 2013). Importantly, Kiva maintains detailed records of facilitated loans, including entrepreneurial narratives, loan funding outcomes, time to loan funding, as well as data on objective loan risk measures and information. Our sample consists of 36,665 loans that were made to entrepreneurs who were based in 51 different

countries. These entrepreneurs sought funding for an average amount of USD 628.18 (standard deviation of USD 571.99). For a detailed listing of the countries included in the sample and the number of entrepreneurs requesting funds via microlending from each, please see Table 1.

'Insert Table 1 Here'

Measures

Independent variables

Data for the independent, control, and dependent variables were obtained directly from the Kiva.org platform, using the Kiva Microfunds Application Programming Interface (API) (Kiva.org, 2012). As such, our dependent and control measures were developed from objective data points produced by the platform. The data associated with our independent measures was collected directly from each entrepreneurial narrative and analyzed through the use of a content analysis methodology known as computer-aided text analysis (Short, Broberg, Cogliser, & Brigham, 2010). A detailed description of each measure follows.

We measured the *intrinsic* language cue items, *human interest language* and *diversity language* by drawing on research in rhetorical analysis. This research originated to measure the persuasive language of politicians (Hart, 1984, 2002) but has spread to the management literature to explain how the language in business plans may influence potential investors, how leaders' language may motivate their followers, and how language in corporate communications may influence market participants (Allison, McKenny, & Short, 2014; Shamir, Arthur, & House, 1994; Short & Palmer, 2008). Human interest language is operationalized using the HUMAN INTEREST dictionary developed and validated by Hart (1984, 2001, 2010) to assess the extent to which a narrative concentrates on people and their activities. This wordlist includes words for family members (wife, cousin, grandchild, uncle), as well as generic terms that refer to humans (baby, friend, human). Diversity language is operationalized using the DIVERSITY dictionary

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developed by Hart. This wordlist is designed to assess the extent to which a narrative expresses that a person or group of persons stands out from the norm (Hart, 1984). Because the goal is to assess diversity, not any normative judgment, the dictionary includes both normatively positive (e.g., unique, individualistic, exceptional), as well as normatively negative (e.g., deviance, quirky, extremist) language. We calculate the variable *overall intrinsic cues* by standardizing each of the two dictionary measures and taking their sum. Below is an example of a microlending entrepreneurial narrative with high levels of overall intrinsic cues. This appeal focuses on the people the loan will help. It provides a clear picture of the borrower, Juana, and discusses those individuals around her that are likely to benefit:

> Juana, age 48, is a good, kind, and very enterprising woman. She is a woman who is not afraid of the difficulties encountered along the way to her destiny. She was able to raise her only daughter by herself. She gave her daughter an education. She separated from her live-in partner, and from that time on she has been in charge of her household. She lives with her only daughter and her grandson in her own house. Every day they share the desire and enthusiasm of getting ahead and having a better quality of life.

To measure the *extrinsic* language cue items using content analysis, we drew from content analysis research on market orientation again using previously validated measures (Zachary, McKenny, Short, & Payne, 2011). We operationalized *profit language* by using the PROFITABILITY dictionary, which includes words such as gains, profitable, and revenue, and is designed to assess the extent to which an entrepreneur or firm is focused on generating profits (Zachary et al., 2011). We operationalized *risk taking language* by using the RISK TAKING dictionary. This is a previously validated measure that includes words such as risky, chance, and

bold and is designed to assess the extent to which a firm or entrepreneur takes risk in their enterprise (Zachary et al., 2011). We calculate the variable *overall extrinsic cues* by standardizing each of the two dictionary measures and taking their sum. Below is an example of microlending funding appeal with high levels of extrinsic cues:

> Mubinakhon is the honest and loving mother of three children. She is married and her husband is a businessman. For more than five years she has working drying fruit, and she has sufficient experience to develop this business. With profits she has received, she has provided for her family. Part of the profits she used to buy a radio and furniture for her home. Mubinakhon would like to receive a loan of $1200 to process dried fruits to sell them at a profitable price and make more money. She wants to thank all the lenders for their support and encouragement.

Control variables

Given a general lack of research within the microlending context, and a general diversity within the population of entrepreneurs that seek microloans through crowdfunding platforms, we drew upon past research in the area of strategy, which suggests that the determinants of firm performance arise from country, industry, and organizational factors (Makino, Isobe, & Chan, 2004). Accordingly, we controlled for country, industry, and organizational considerations. We operationalized *country* by creating dummy variables that corresponded to the 51 countries represented in the sample. For *industry*, we created dummy variables corresponding to the 15 industry sectors in which our sample's microlending entrepreneurs were classified, using the NAICS system (e.g., Krishnan & Press, 2003). We measured risk unique to the field partner facilitating the loan by including *field partner risk rating*, which indicates how likely loans

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through a given field partner are to be repaid. Finally we measured risk specific to the individual

loan using three measures. First a set of two dummy variables to measure *foreign exchange risk*

coverage. There are three levels of this variable – the first indicates, that the lender will not be

exposed to any possible losses associated with exchange rate valuation; the second indicates that

field partner is expected to cover any loss associated with exchange rate variation. However, risk

still exists, as lender protection is contingent on the field partner fulfilling the agreement. Finally,

the final level indicates that the lender will be exposed to losses caused by currency exchange

variations if those losses exceed 10% of the principle. However, any loses below 10% are

covered by the field partner. Our second individual loan risk factor was the number of monthly

repayments the entrepreneur would take to repay the loan. Our third and final individual loan risk

control was the entrepreneur's requested *loan size*. Prior microlending research has suggested

that *loan size* - the amount of funds requested - is an important factor in funding success (Galak

et al., 2011). Accordingly, we include the natural log of the size of the requested loan to control

for this potential alternative explanation. Finally, given the importance of storytelling and

narratives in entrepreneurship research (e.g., Cornelissen & Clarke, 2010; Martens et al., 2007;

Zott & Huy, 2007), we control for a set of seven aspects of entrepreneurial rhetoric that previous

microlending research has found to be important to resource acquisition performance (Allison et

al., 2013). These are political rhetoric in funding appeals, in the form of accomplishment, blame,

tenacity, leveling, present concern, concreteness, and variety language (Allison et al., 2013).

Following prior work, we measured these using the DICTION 6.0 software package (Hart, 2010)

and included them as control variables.

Dependent variable and statistical analysis

Our dependent variable, *Time to Funding*, operationalizes the attractiveness of the loan to the pool of prosocial investors by measuring how long it takes the loan to be funded. It is measured continuously in days and indicates how many days that it took for each loan to become fully funded. Time to Funding is an indicator of lender preference; loans that fund more rapidly while controlling for loan size are typically more attractive to lenders on average (Galak et al., 2011). This measure is consistent with prior microlending research which has used time to funding as a measure of the attractiveness of loans to funders (Galak et al., 2011; Allison et al., 2013), as well as the broader entrepreneurship literature which has used time to funding as a measure of entrepreneurial performance in timely acquiring resources (Chatterji, 2009). Prior research has suggested that how long it takes to get needed resources is an important type of entrepreneurial performance since without the resources, the venture cannot launch or grow (e.g., Chatterji, 2009). This is especially true in crowdfunding and crowdfunded microlending as such platforms often use an all-or-nothing model (e.g., Allison et al., 2013; Mollick, 2014). In these all-or-nothing models, if the loan is not fully funded within a preset timeline (most often 30 days), the investors do not make any investment at all. This all-or-nothing structure is a ticking-clock that gives slow fundraising real consequences.

We observed the underlying variations in the time it took for loans to fund in seconds; therefore, the theoretical minimum value of this variable is a small fraction of an hour (one second). The average time to fund for loans was 7.29 days (standard deviation 9.96). The time it took for loans to fund ranged from 1 minute (for small loans of $25-$50) to 55.88 days. Our research design allows us to assess entrepreneurs' microloan funding outcomes in terms of lender preference for some loans but not others as indicated by how long it takes for the loan to be funded while controlling for loan size and other attributes. All loans in our study were posted

on the site at the same time and thus potential funders had a choice between which to fund. There is no significant outside promotion of the loans other than the lending profile posted on the website. We used ordinary least squares regression as there was no censoring in our data. To guard against multicollinearity, we mean-centered the six variables testing our five hypotheses. Our regression diagnostics indicated no multicollinearity issue for any of the models, even when using un-transformed variables.

RESULTS

Table 2 presents descriptive statistics and correlations for our variables. Table 3 presents the results of our regression analysis. All control variables were entered in Model 1. The four measures of intrinsic cues and extrinsic cues were entered in Model 2. Model 3 adds the composite measures of intrinsic cues and extrinsic cues.

'Insert Tables 2 and 3 Here'

Hypothesis 1a stated that greater degrees of profit language would be associated with an increase in the time needed to fund a microloan. We find support for this hypothesis ($B = 0.15$; $p < 0.01$). The underlying variable ranges from 0 to 14 and thus the full range of difference in investor preferences is up to 28% in the data. Hypothesis 1b stated that greater degrees of risk taking language would be associated with an increase in the time needed to fund a microloan. We find support for this hypothesis as well ($B = 0.20$; $p < 0.01$). This variable ranges from 0 to 5 and thus the full range of difference in investor preferences is up to 12% in the data. As expected, we found that increasing focus on these extrinsic motives embedded in the entrepreneurial narratives significantly diminished investor interest in the loans all other factors being equal.

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Hypothesis 2a stated that greater degrees of human interest language would be associated with a decrease in the time needed to fund a microloan. We find support for this hypothesis (B = -0.10; $p < 0.01$). This variable ranges from 0 to 92 and thus the full range of difference in investor preferences is up to 112% in the data. Hypothesis 2b stated that greater degrees of diversity language would be associated with a decrease in the time needed to fund a microloan. We fail to find support for this hypothesis (B = 0.04; $p = 0.59$).

Finally, our results lend support to Hypothesis 3, where we suggested that the positive effect of overall intrinsic language would outstrip the negative effect of overall extrinsic language. Overall intrinsic language (B = -0.52; $p < 0.01$) and overall extrinsic language (B = 0.13; $p < 0.01$) were both significant predictors of investor preferences, but the intrinsic cue effect was five times stronger than the extrinsic cue effect (standardized regression coefficient beta values: $\beta_{intrinsic} = -0.08$; $\beta_{extrinsic} = 0.02$; $p < 0.01$).[1]

DISCUSSION

Microlending represents an increasingly important conduit through which impoverished entrepreneurs, particularly those in emerging or underdeveloped economies, can access financial capital (e.g., Bruton, 2010). Since the industry's conception, microlending institutions have provided over $25 billion in loans, largely to the world's most impoverished entrepreneurs

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[1] We conducted three post-hoc analyses to demonstrate the robustness of our results. First, we conducted a Cox regression to ensure that our ordinary least squares (OLS) results match those from a non-parametric estimator (e.g., Cox, 1972; Cox & Oakes, 1984). For all hypotheses, our results were identical in terms of sign and significance. Second, we conducted a post-hoc analysis in order to assess the extent to which our results are also present in smaller samples (cf. Kirk, 1996). We selected a 1% random subsample of our dataset; we ran all models and found support for all hypotheses that were significant in the main analysis except for hypothesis 1b, which was not significant (B = -0.01; $p = 0.99$). This non-significance appears to be due to reduced variance in the smaller sample. Third, we collected additional data to demonstrate that fundraising speed is positively related to investors' thoughts about loans. We collected a sample of 239 loans where the funders made positive comments about the loan at the time of investing. We compared this data to a sample of randomly selected loans without positive comments at the time of investing. We found that loans with positive comments raised funds at a rate of 2.4 days for each $10,000, while loans without positive comments raised funds at less than half that rate: 7.3 days per $10,000, a significant difference (t = -2.50; $p < 0.05$).

(Diekman, 2007). In this study, we attempted to gain a deeper understanding of whether investor attraction to certain loans is influenced by intrinsic and extrinsic cues embedded in entrepreneurial narratives. By doing so, we not only provide the first examination of the role played by different types of cues in microlending-platforms, but also suggest that cognitive evaluation theory can serve as a theoretical framework for predicting the investment decisions of microlenders (e.g., Deci et al., 1999).

Our findings support prior research using cognitive evaluation theory by suggesting that extrinsic cues impair intrinsic motivation, and extend the applicability of this theory by examining it in the emerging crowd-funded microfinance context. Given the increasing importance of both crowdfunding and microfinance, it is vital to develop theory-based understandings of these fields (e.g., Gaggioli & Riva, 2008; Prentice, 2012; Torrens, 2012). We also suggest that the effect of external cues in strengthening preexisting intrinsic motivation which has previously been examined in the form of verbal praise (e.g., Deci, 1972) may be due to the need for relatedness (e.g., Ryan & Deci, 2000). Using a content analysis methodology we find evidence that this may be the case. Finally, we compare the relative effects of intrinsic and extrinsic rewards. We find that, in crowd-funded microfinance at least, the effect of intrinsic cues is stronger than extrinsic cues. We suggest that this may be due to the relative importance of intrinsic cues among a group of lenders who are intrinsically motivated and self-select into participating in crowd-funded microfinance.

In our analysis, we did not find a significant effect of diversity language on intrinsic motivation. While we cannot interpret a non-significant result, it may be that diversity does not help someone feel connected to another, and thus, fails to fulfill the need for relatedness. This may be partially attributed to the existence of group and similarity effects (e.g., Galak et al.,

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2011), which may offset the increased connection one develops from knowing more about a person. On the other hand, it appears that the implicitly personal language of family and friends may fulfill this need to feel connected to the person who is under consideration to receive a loan.

Taken together, this study opens new avenues of research on both microlending and the decision-making considerations that influence the choice of individuals, as lenders, to provide capital to needy entrepreneurs. Our findings underscore the importance of supporting the intrinsic motivation of resource providers in microlending. We found that entrepreneurial narrative language likely to bolster intrinsic motivation had a stronger effect than language likely to undermine intrinsic motivation (i.e., language associated with extrinsic motivation). We suggest that this occurs because crowd-funded microfinance investors self-select into a platform where their motivation is exclusively or nearly exclusively intrinsic. Future research may develop this finding further by examining whether self-selection in participating in an activity for intrinsic reasons affects the susceptibility of the subject to the undermining effect of extrinsic motivation in other contexts.

Our contributions should be viewed in light of the limitations of this study. This study uses a content analysis method known as computer-aided text analysis, which measures constructs using dictionary-based calculations in the form of counts of word occurrences in an analyzed text. Limitations of this method are that it can fail to detect out of context use of words (e.g., Loughran & McDonald, 2011) and that the rich meaning that can be assessed in a smaller number of narratives through more qualitative methods is sacrificed. We made these tradeoffs in our design in order to secure a number of benefits. First, since tested and high-quality content analysis dictionaries are preexisting for our measures, our confidence in the validity of our measures is high (e.g., Loughran & McDonald, 2011). With strong dictionaries, computer-aided

content analysis allows the researcher to measure constructs in thousands of documents with perfect reliability (Duriau, Reger, & Pfarrer, 2007). Our study does not suffer from variations in reliability arising from the direct use of human coders. Prior research has suggested that human coders' evaluations of narratives can be captivated by the message of a text (Hart, 2001) and thus fail to reliably code the construct of interest.

Limitations notwithstanding, our findings have valuable implications for both research and practice. In this study, we focused on the effect of different cues on microlending funding outcomes. While well-established constructs such as those assessed here benefit from computerized measurement, the application of traditional, manual content analysis to microlending entrepreneurial narratives may reveal additional nuance and constructs for future investigation. For example, future studies might employ constant comparative analysis (e.g., Neuendorf, 2001) to explore how other intrinsic and extrinsic cues may affect fundraising outcomes. Yet, the method of content analysis is not limited to text and written language, but can also be applied to multimedia data such as audio, photos, and video content (e.g., QSR International, 2010). In this study we study narratives, but not the material artifacts present in the funding appeals. This may form an important opportunity for future research. For example, prior microlending research has already used content analysis of photographs to investigate the role of borrower gender (Galak et al., 2011) and ethnicity/race (Pope & Snydor, 2011) on microlending funding outcomes. Future research might examine the extent to which nonverbal communication present in entrepreneurs' images (i.e., the photo(s) included within each funding solicitation) influence the way resource providers in the microfinancing or crowdfunding contexts perceive information communicated textually through the entrepreneurial narrative (e.g., Ray & Smith,

2012). By doing so, scholars might gain further insights into the role played by impression management within the prosocial lending context.

Our research could be extended by examining how manipulations of intrinsic and extrinsic cues in microlending narratives influence psychometric measures of motivation to invest. One important attribute of crowdfunded microlending is that lay-investors are the primary audience (e.g., Allison et al., 2013). Crowdfunded microlending operates primary through websites, and there is growing interest in understanding role of websites in firm outcomes (e.g., Chandler, Broberg, & Allison, 2014; Walker et al., 2012). Given this, a crowdfunding study could be designed as a lab experiment could be performed using fabricated microlending profiles on a dummy microlending website to examine lenders' behaviors in detail. Given the growing interest in the They could be presented with varying types of appeals, their clicking and lending behavior tracked, and have their motivation directly assessed using psychometric instruments.

Another opportunity for future research is in applying qualitative methods to understanding the presence, role, and impact of analogical and metaphorical reasoning in microlending and crowdfunding appeals. Research suggests that entrepreneurs make sense of opportunities by reasoning with analogies and metaphors to familiar contexts (e.g., Weick, 1995). This in turn is used to impart meaning about the venture to potential resource providers. Thus, future crowdfunding and microlending research could qualitatively assess, using a method such as manual content analysis, how the occurrence of metaphor and analogy in entrepreneurial funding appeals influences fundraising outcomes. This study could be paired with an experimental or conjoint study to assess how the presence of metaphor and analogy influences how resource providers make sense of the funding appeal (e.g., Cornelissen & Clarke, 2010).

An opportunity for future research lies in following lenders over time to discern their investing patterns. Research on entrepreneurial resource acquisition has long sought to understand resource provider decision-making. While a number of studies have been able to do so (e.g., Zacharakis & Meyer, 1998), crowdfunded microlending would provide an opportunity to follow investors through dozens of investing decisions. This study could perform a discriminant analysis to determine whether investors fall into discernable behavioral pattern groups in terms of their longitudinal investing behavior.

A further opportunity for future research is in examining the role of intrinsic and extrinsic motivators in crowdfunding contexts outside of the prosocial lending environment we examined in this study. On a prosocial crowdfunding platform, there may be self-selection that results in a higher than average propensity toward prosocial behavior. This may be a function of the unique role that such social entrepreneurs play in the greater entrepreneurial landscape (Short, Moss, & Lumpkin, 2009). Consequently, this may influence the relative effects of intrinsic and extrinsic motivators. In particular, our results suggest that factors thought to be generally positive in attracting investment (e.g., emphasizing profits) appear to be detrimental for entrepreneurs in a prosocial funding environment. Future research can examine whether this holds in reward-based crowdfunding environment (e.g., Kickstarter) and in equity-based crowdfunding.

Implications for Practitioners

For practitioners, crowdfunding platforms represent a valuable tool for bolstering entrepreneurial activity through microcredit. Our results suggest that entrepreneurs obtaining funding via microlending will tend to achieve the highest probabilities of loan funding when their appeals for funding are framed to appeal to the intrinsic reasons microlenders provide capital – to help others. Further, our research suggests that focusing on the business aspects of a

venture is likely to be counterproductive for fund-seeking entrepreneurs. Moreover, our findings underscore the potential danger of introducing extrinsic cues into microlending platforms. Schemes such as 'gamification' seek to make activities more 'fun' by adding features such as leader boards, badges, virtual tokens, and points in return for completing an activity (e.g., Deterding et al., 2011). These features need to be carefully tested in crowdfunding. While some, such as leaderboards, may function analogously to verbal feedback (e.g., Deci, 1972) in strengthening intrinsic motivation, others such as rewards, badges, and points may function as extrinsic cues and undermine intrinsic motivation. Our findings based on cognitive evaluation theory suggest that such a strategy is likely to result in diminished microlending participation. Furthermore, there may also be a danger to crowdfunding/microlending shifting to a traditional investment model where interest is paid or equity returns are promised. Thus, it may be that attempts by microlending platforms to entice lender participation, may actually have the opposite effect.

Our research also suggests the need to examine the factors that determine the extent to which ventures are perceived as attractive by investors in equity and debt crowdfunding platforms that are expected to emerge from the 2012 JOBS Act. While intrinsic motivators, such as interest in a product or cause, may continue to bring potential investors to crowdfunding platforms and build communities, the promised future monetary rewards on such platforms may be even more explicit than the narrative cues examined in this study. As such, these platforms will need to strike a delicate balance between extrinsic and intrinsic cues (e.g., Deci et al., 1999). If such a balance is not achieved, the increased performance and financial success on these platforms may undermine the intrinsic motivation that currently brings people to crowdfunding

rather than other investment options. With intrinsic motivation undermined, it is possible that the community and mission of such platforms may be impaired.

CONCLUSION

Our work is the first to assess how the extrinsic and intrinsic motivating cues in microloan entrepreneurial narratives impact funding outcomes. Our results suggest that, consistent with cognitive evaluation theory, the intrinsic motivation of lenders to provide capital is undermined when entrepreneurs focus on future extrinsic rewards associated with lending. For entrepreneurship researchers, our results suggest that microlenders behave according to this well-established theory of motivation. Future research might examine both whether and how other theories of motivation predict microlending, as well as the role played by other types of intrinsic and extrinsic motivational cues. For entrepreneurs, both in developing countries and social entrepreneurs, this study suggests that framing a microloan request as an investment opportunity is less effective than focusing on the reasons why funding the microloan would be intrinsically satisfying to the lender.

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Table 1
Sample Representation by Country

Country	N	Country	N
Armenia	237	Mali	108
Azerbaijan	322	Mexico	747
Benin	81	Mongolia	678
Bolivia	657	Mozambique	104
Burkina Faso	21	Nepal	86
Cambodia	1,354	Nicaragua	1,149
Cameroon	26	Pakistan	34
Chile	46	Palestine	262
Colombia	789	Paraguay	295
Congo	92	Peru	3,956
Costa Rica	246	Philippines	8,086
Dominican Republic	12	Rwanda	631
Ecuador	1,535	Samoa	377
El Salvador	1,330	Senegal	522
Georgia	204	Sierra Leone	262
Ghana	534	South Sudan	670
Guatemala	222	Tajikistan	989
Honduras	378	Togo	336
Indonesia	131	Turkey	26
Iraq	224	Uganda	1,453
Israel	28	Ukraine	217
Jordan	252	United States	65
Kenya	5,360	Viet Nam	492
Kyrgyzstan	218	Yemen	9
Lebanon	476	Zimbabwe	10
Liberia	326		

N = 36,665

Table 2
Correlations, Means, and Standard Deviations[a]

	Variable	Mean	SD	1	2	3	4	5	6	7	8	9
1	Time to Funding (in Days)	7.29	9.96									
2	Loan Amount (Logged)	6.16	0.75	0.39								
3	Field Partner Risk Rating	3.30	0.75	0.09	0.21							
4	Number of Payments	16.86	12.78	0.00	-0.12	-0.05						
5	Profit Language	2.08	2.12	-0.03	0.09	0.12	-0.06					
6	Risk taking Language	0.24	0.57	0.01	0.08	-0.01	-0.05	0.12				
7	Human Interest Language	22.34	13.24	-0.05	0.18	0.07	-0.25	0.32	0.18			
8	Diversity Language	0.35	0.67	0.03	0.10	-0.02	-0.09	0.10	0.07	0.27		
9	Overall Intrinsic Cues	-0.13	1.51	-0.02	0.17	0.04	-0.22	0.27	0.16	0.82	0.77	
10	Overall Extrinsic Cues	-0.08	1.42	-0.01	0.11	0.07	-0.07	0.75	0.75	0.33	0.11	0.29

[a] N = 36,665. Correlations that exceed |0.01| are significant at $p < .05$.

Table 3 - Results of OLS Regression Analysis for Loan Funding[a]

Variables	Model 1: Controls	Model 2: Components	Model 3: Overall
Country Controls[b]			
Industry Controls[c]			
Currency Risk Controls[d]			
Loan Amount (Logged)	5.76** (0.08)	5.84** (0.08)	5.82** (0.08)
Field Partner Risk Rating	-0.92** (0.11)	-1.04** (0.11)	-0.98** (0.11)
Number of Payments	0.05** (0.005)	0.05** (0.005)	0.05** (0.005)
Accomplishment	0.01** (0.004)	0.01** (0.004)	0.01** (0.004)
Blame	-0.03 (0.02)	0.01 (0.02)	-0.01 (0.02)
Tenacity	0.01 (0.004)	0.01 (0.004)	0.004 (0.004)
Leveling	-0.06** (0.01)	0.01 (0.01)	-0.02 (0.01)
Present Concern	0.001 (0.01)	0.01 (0.01)	0.005 (0.01)
Concreteness	0.001 (0.004)	0.003 (0.004)	0.001 (0.004)
Variety	4.22** (0.60)	1.07 (0.62)	2.89** (0.61)
Independent Variables			
Profit Language		0.15** (0.02)	
Risk taking Language		0.20** (0.08)	
Human Interest Language		-0.10** (0.005)	
Diversity Language		0.04 (0.07)	
Overall Intrinsic Cues			-0.52** (0.04)
Overall Extrinsic Cues			0.13** (0.03)
Constant	-26.50** (0.67)	-25.30** (0.67)	-25.98** (0.67)
Model R^2	0.35	0.36	0.35
ΔR^2	-	0.01**	0.004**
Model df	76	80	78
Residual df	36,588	36,584	36,586

[a] $N = 36,665$. * $p < .05$ ** $p < .01$. Standard errors in parentheses (#.##). All models compared to Model 1.
[b] 51 Countries, 50 dummy variables included in model but not reported in this table; Philippines reference category.
[c] 15 Industries, 14 dummy variables included in model but not reported in this table. Industries represented comprise the following NAICS codes: 11, 23, 31, 32, 33, 42, 44, 45 (reference category), 48, 51, 53, 61, 62, 71, 81.
[d] 3 Categories, 2 dummy variables included in model but not reported in this table.