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# The effect of entrepreneurial rhetoric on microlending investment: An examination of the warm-glow effect

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ABSTRACT

Microlending provides a valuable alternative to traditional financing for entrepreneurs in impoverished countries. Drawing from theory on political rhetoric and the concept of warm-glow giving, we examine characteristics of entrepreneurial narratives that are related to how quickly entrepreneurs receive funding. Using a sample of 6051 narratives from entrepreneurs in developing countries, we demonstrate that narratives higher in language indicating blame and present concern lead to more rapid funding, while narratives higher in accomplishment, tenacity, and variety lead to slower funding. Our findings suggest that the presentation of investment profiles should be carefully managed to maximize funding likelihood.



## 1. Executive summary

Acquiring capital investment is a crucial and challenging part of the entrepreneurial process (Cassar, 2004). In developing countries and among entrepreneurs living in desperate poverty the difficulty of acquiring capital is even greater given the absence of traditional sources of funding (e.g., Chen and Ravallion, 2004). In an effort to manage this dilemma, microlending has become a vital and valuable alternative to traditional financing for entrepreneurs living in desperate poverty (e.g., Bruton et al., 2011). An emerging form of microlending allows individuals to invest in microloans based on information contained in entrepreneurial investment profiles (Galak et al., 2011). These profiles contain an entrepreneurial narrative where the entrepreneur appeals to the investor to fund the loan by describing their venture, the purpose of the loan, and personal details of the entrepreneur.

One entrepreneurial investment profile highlights a Mongolian entrepreneur who, with his wife, runs a transportation business in Ulaanbaatar. Every day this entrepreneur makes ten trips through the city shuttling passengers while his wife announces stops. However, his wife's voice is starting to tire from years of making loud announcements and they, with their three-year-old daughter, continue to live in his father-in-law's house. To improve the condition of his van, this entrepreneur requested US$1380 to replace the motor and tires. With investors' help, the entrepreneur hopes to provide his family with a house of their own one day.

Appeals for individual investors to provide funding to entrepreneurs in need, such as those in the profile described above, draw attention to a gap in the literature on investor decision making. Few studies have examined how the language used in entrepreneurial narratives influences the funding of new ventures. Even in entrepreneurial narratives research (e.g., Martens et al., 2007), the language that entrepreneurs use and the effect this has on investor decisions has not been examined. Thus, there is a gap between what we know about how investors evaluate entrepreneurs' funding requests and what we need to know in order to better understand how entrepreneurs secure funding.

We use warm-glow theory as a lens to understand why the language used in entrepreneurial narratives – its rhetorical content – affects the speed with which microloans are funded by individual investors. Warm-glow theory suggests that people help others in order to feel good about themselves (Andreoni, 1990). We extend this logic by proposing that helping entrepreneurs living in

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desperate poverty by funding their loans is likely to result in individual investors feeling warm glow. Because these investors do not receive interest payments, how much warm glow a loan generates is likely to be an important motivation for lending.

We draw from research on political discourse to identify aspects of the rhetorical content of entrepreneurial narratives that may prime warm glow in individual investors. In politics, rhetoric is carefully crafted to convey information in a manner that encourages the support of a candidate or cause (Hart, 1984). For example, politicians use rhetoric to help raise money for campaigns (e.g., Flowers et al., 2003) and to garner their constituents' support for elections and other initiatives. Similarly, entrepreneurs creating entrepreneurial narratives for a microloan use rhetoric to influence individual investors to fund their venture.

The results of this study suggest that the language used in microlending entrepreneurial narratives influences how quickly loans are funded. Specifically, we find that narratives where entrepreneurs repeat few themes and use language conveying their confidence and accomplishments are associated with slower funding. We also find that narratives where entrepreneurs use language conveying blame and emphasizing the present are associated with faster funding. In an additional analysis we find that narratives where entrepreneurs use language highlighting the innovativeness of the venture are also associated with slower funding.

Our study extends warm-glow theory from the economics literature to examine how the content of entrepreneurial narratives influences microloan funding among entrepreneurs living in desperate poverty. We suggest that individual investors prioritize microlending investment opportunities based on anticipation of warm glow. We test this theory in a dataset of microlending entrepreneurial narratives using content analysis. Our sample includes over 6000 entrepreneurs from 39 countries. Thus we respond to calls in the literature for large-scale studies of microlending (e.g., Bruton, 2010). Overall, this is the first study to assess how the language used in microfinance funding appeals influences entrepreneurs' capitalization outcomes.

## 2. Introduction

Securing funds to build and grow new ventures is a challenging but vital part of the entrepreneurial process (Cassar, 2004). This task poses a formidable challenge in developing countries because traditional funding sources such as government programs, venture capital, angel investors, and banks are less viable and are often unavailable (Francesca, 1999). This problem is further compounded among entrepreneurs living in desperate poverty (e.g., Chen and Ravallion, 2004). Despite the potential for entrepreneurial activity to lift millions out of poverty through the identification and exploitation of new opportunities, this promise is not being realized through traditional sources of capital.

Microlending has emerged as a valuable alternative to traditional financing in impoverished countries. Microlending is a phenomenon where financial institutions make small, unsecured loans to entrepreneurs in poor communities where other sources of financing may be unobtainable (Bruton et al., 2011). While the idea of microlending has existed for over 100 years (e.g., Spooner, 1846), its practice has grown rapidly with the increasing visibility of Grameen Bank, Kiva, and other major microlenders.

One emerging form of microlending enables individual investors to base their funding decisions on entrepreneurial investment profiles that are made available for each microloan (Galak et al., 2011). These profiles include an appeal from the entrepreneur outlining why the funds are needed and encouraging the investor to fund the microloan (e.g., Galak et al., 2011). For example, in one profile, a Peruvian woman highlights the sacrifices she made to gain business experience, build a house, and prepare her house for the launch of a grocery store – all while raising three children on her own. This entrepreneur highlights how previous microloans have improved her quality of life and asks for investors to fund her US$850 loan in order to purchase initial inventory for her grocery store. This loan was funded in less than one day by individual investors through Kiva, a major microlender.

The appeals made in entrepreneurial investment profiles illuminate a key aspect of the process of securing funds for an entrepreneurial venture: the use of persuasive language with potential investors in order to secure their investment in the venture. While a substantial body of research has investigated how entrepreneurs secure funds (Cassar, 2004; Ebbers and Wijnberg, 2012), few studies have examined how the language used in entrepreneurial narratives influences the funding of new ventures (e.g., Martens et al., 2007). Thus, there is a gap between what we know presently and what we need to know about how entrepreneurs secure financing.

Research on warm-glow giving provides an overarching theoretical perspective to understand how the rhetorical content of entrepreneurial narratives influences the speed with which microloans are funded. The economic theory of warm-glow giving suggests that people help others in order to feel good about their contributions (Andreoni, 1990). In a similar vein, funding loans that help impoverished entrepreneurs should create warm glow for the lenders because in some microlending models such loans only reward investors through repayment of the principal of the loan (i.e., microloan investors receive no interest).

We draw from research on political discourse to understand how the language used in entrepreneurial narratives primes warm glow in lenders that make loans to entrepreneurs living in desperate poverty. In politics, rhetoric is used to convey ideas in a manner that encourages others to take action in support of a particular candidate or their ideals (Hart, 1984). For instance, politicians rely on rhetoric to raise funds for campaigns (Flowers et al., 2003). Entrepreneurs also use rhetoric in fundraising for the launch and growth of their ventures, making political discourse a valuable lens for examining the language used in entrepreneurial investment narratives.

This paper makes two primary contributions in order to build knowledge concerning how the use of political rhetoric influences microlending decisions under conditions of desperate poverty. First, we draw from warm-glow theory in the economics literature in conjunction with research in political rhetoric to understand how information contained in entrepreneurial investment profiles impacts how quickly microloans are funded. Second, we conduct the first large-scale empirical examination of microlending entrepreneurial narratives using content analysis. Specifically, we examine how the contents of narratives from 6051 entrepreneurs in 39 of the poorest countries relate to the likelihood and rate with which entrepreneurs receive funding. Overall, we provide the first empirical examination of how political rhetoric influences microlending investment decisions.

## 3. Pass-through microlending and the warm-glow effect

Microlending can be defined as "the issuance of small, unsecured loans for the purpose of business generation within poor communities" (Bruton et al., 2011: 718). Traditionally, microlenders used their own funds to make loans to low-income entrepreneurs (e.g., Grameen Bank). However, a new model for microlending has emerged whereby the microlender breaks the loan into multiple smaller loans and markets them to individuals (e.g., Galak et al., 2011).

This model has been referred to as "online microfinance," (Galak et al., 2011) because many microlenders using this model operate a website through which they offer these loans to individual investors. These individual investors choose to fund loans based on information in the entrepreneurial investment profile of the entrepreneur seeking funding. This model has also been referred to as "direct-to-borrower microfinancing," because individual investors appear to make loans directly to borrowers. Yet, both labels fail to capture the manner in which this model for microlending differs from the traditional model for microlending popularized by Grameen Bank.

The key characteristic of this new model for microlending is that the microlender acts as a pass-through agent that performs the back-office work of dividing loans and payments, and keeping records. This model is not truly "direct" because the microlender acts as an agent between the lender and the entrepreneur. Therefore, we refer to this novel model for microlending as "pass-through microlending." It is important to have an accurate term for this process due to its increasing popularity. Kiva, the largest organization using this model, has facilitated US$369 million in loans from 842,000 individual investors to 900,000 entrepreneurs around the world (Kiva, 2012a). Consequently, numerous other organizations such as Microplace, Zidisha, Lend for Peace, and others have also adopted this increasingly prominent and visible form of microlending. We outline the major steps in pass-through microlending in Fig. 1.

Before any loans are made, pass-through microlenders often partner with non-governmental organizations in the countries they will service. These non-governmental organizations interact directly with the entrepreneurs in the associated country on behalf of the microlender. Thus, there are four parties involved in the pass-through microlending process: the entrepreneur, the pass-through microlender, a non-governmental organization with whom the pass-through microlender has partnered, and the individual investors.

The pass-through microlending process begins when the entrepreneur in a developing country approaches the non-governmental organization to apply for a loan (Step 1). After collecting information about the entrepreneur and their venture, the non-governmental organization evaluates the application to determine whether a loan should be made (Step 2). If the non-governmental organization does not approve the loan, the process ends and no money changes hands. However, if the non-governmental organization approves the loan, the entrepreneur receives the principal from the non-governmental organization's funds (Step 3).

Once the loan is made, the non-governmental organization and entrepreneur work together to create a profile that will be used to solicit individual investors' support for the loan (Step 4). These profiles highlight several aspects of the loan. First, the profiles typically describe the entrepreneur, providing demographic information as well as a brief history and description of their economic situation. Second, the profiles generally provide a summary and brief history of the entrepreneur's venture. Finally, the profiles outline specifics of the loan itself, including financial aspects such as the amount and term of the loan as well as how the money will be used.

After the profile is created, the non-governmental organization sends this narrative to the pass-through microlender who makes the profile available to individual investors (Step 5). For instance, Kiva posts these profiles on their website. Individual investors are then able to search through, view, and evaluate these profiles to determine whether they will fund the loan (Step 6). While individual investors may fund the entire loan, in pass-through microlending investors typically fund only a fraction of the loan.

Investors are able to view the loan profile until it is either fully funded or the loan expires after a preset time period (e.g., 30 days). If the loan is fully funded, the pass-through microlender forwards the investors' money to the non-governmental organization and no further individual investments may be made (Step 7). In exchange for reimbursing the non-governmental organization, the individual investor becomes the creditor for the proportion of the loan they funded.

Loans are repaid by entrepreneurs on a monthly basis or in a balloon payment at the end of the loan term. Interest on the loan, if part of the terms of the loan, is kept by the non-governmental organization. Annual interest rates range from 8% to 80% and vary by country and non-governmental organization; however, most investors are unaware of these interest rates (e.g., MacFarquhar, 2010). These interest payments cover the non-governmental organization's cost of operations and provide insurance against currency fluctuations and loan default risk. Loan repayment is made by the entrepreneur to the non-governmental organization (Step 8). Principal owed to individual investors is then forwarded to the pass-through microlender (Step 9) who divides the payment among the individual investors proportionate to the amount they contributed (Step 10). If the entrepreneur does not repay the loan, the individual investor loses their investment. In securitizing these loans, pass-through microlenders ask individual investors to take a risk on an entrepreneur based on information presented in their investment profile. Thus, it is clear that the individual characteristics of each entrepreneur, venture, and loan will be important to the individual investors' decisions.

Pass-through microlending combines elements of charitable giving and traditional investment to create a unique venture financing structure (e.g., Galak et al., 2011). In this structure, individual investors do not accrue interest from their financing of the microloan as all interest is captured by the local non-governmental organization. However, these individuals are still exposed to the risk that the entrepreneur may default on the loan as well as the foreign exchange risk present in many impoverished countries. Thus, the decision to fund a microloan is likely not made based on traditional return on investment/net present value criteria as traditional interest-accruing loans would always be favored over microloans using these criteria.

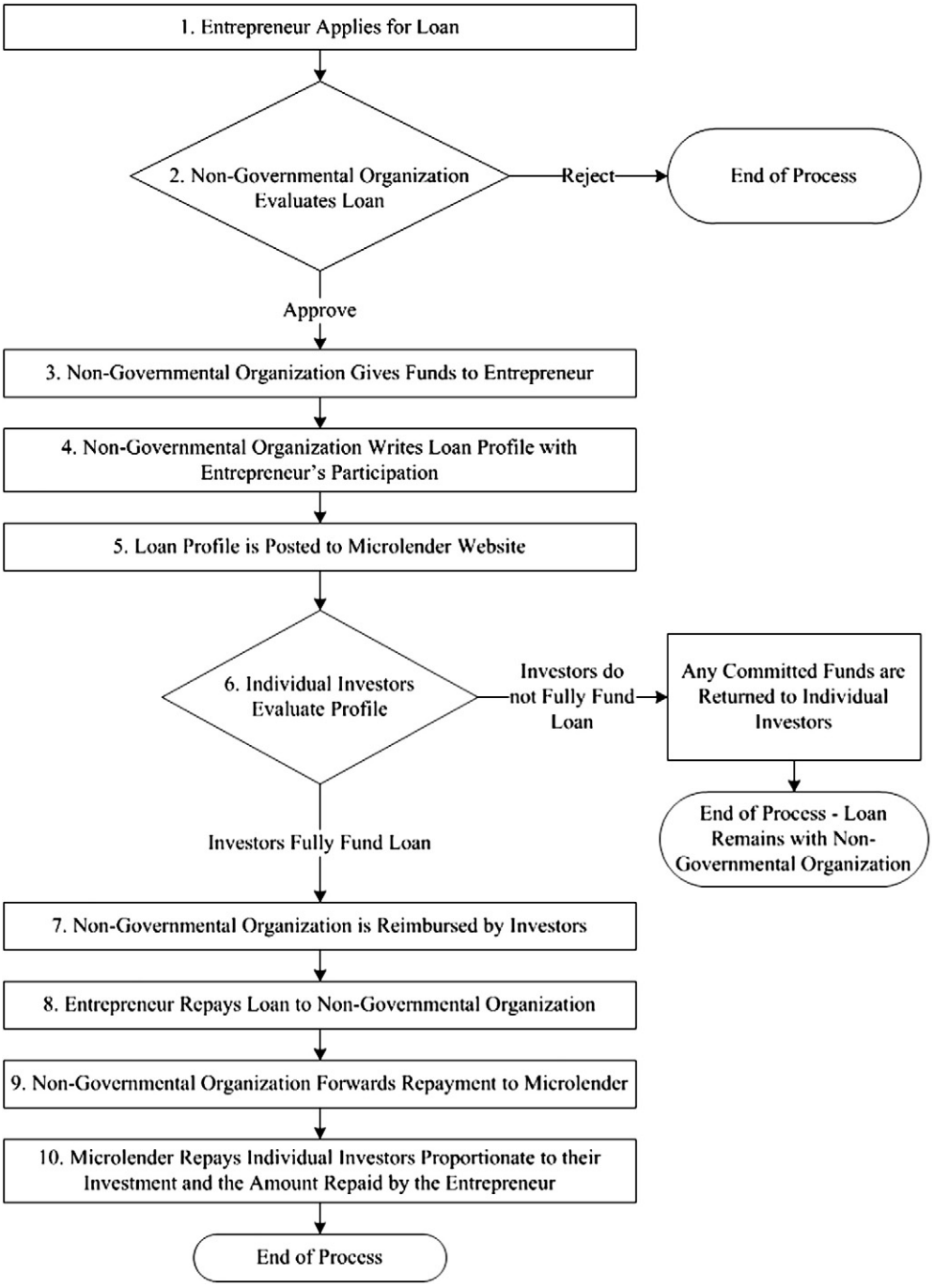


**Fig. 1.** Major steps in the pass-through microlending process.

### *3.1. Warm-glow giving and warm-glow lending*

The economics literature has traditionally explained contributions to charity as being driven by altruistic or egoistic motives (Simon, 1993). Altruistically-motivated giving is driven by the desire to help others without consideration of personal benefit, whereas egoistically-motivated giving is driven by the promise of external reward or the avoidance of external punishment. A third motive, warm glow, was introduced as a compromise between these two extremes to explain giving behavior not explained by pure altruism or egoism (Andreoni, 1990). Warm-glow-motivated giving is driven by the pursuit of the positive affective state one feels following actions taken to help those in need (Andreoni, 1990; Cialdini et al., 1973). Warm-glow theory has been supported by neural evidence indicating that helping others activates the reward centers of the brain (Harbaugh et al., 2007).

Warm-glow theory is frequently used to examine charitable giving. However, warm glow can also be used to explain charitable lending where no interest is received by the lender. 'Warm-glow lending' thus refers to lending where an individual loans money to another in anticipation of the warm-glow feeling they will receive. In pass-through microlending, investors do not receive interest on the funds they loan (Galak et al., 2011); consequently, investors are not motivated by financial returns. Warm-glow theory provides an explanation for the decisions of individual investors to fund these loans by suggesting that actors will prioritize decisions that maximize warm glow when other factors are held constant (Andreoni, 1990). Consequently, anticipation of warm glow should differentiate individual investors' microlending decisions.

Research on political rhetoric (e.g., Gastil, 1992) provides a valuable lens to examine how language is used to induce investors to fund microloans by creating the anticipation of warm glow. The careful use of rhetoric is paramount in politics, leading many politicians to use professional speechwriters to craft their messages (e.g., Kavanagh, 1995). Politicians use rhetoric to influence individuals, organizations, and institutions to take action and contribute funds in support of their agenda (Flowers et al., 2003; Hart, 1984). This is analogous to the creation of investment profiles in pass-through microlending, where the entrepreneur and local non-governmental organization work together to create an investment profile crafted to encourage individual investors to provide funds to support the entrepreneur. The political discourse literature also suggests that certain rhetorical strategies are effective in soliciting an affective commitment to a cause (Willner, 1984). Thus, the use of certain types of political rhetoric may encourage individuals to believe that acting on the narrator's (i.e. politician or entrepreneur) behalf would create a feeling of warm glow.

Political rhetoric in entrepreneurial narratives is likely to influence the anticipation of warm glow in the potential investor while other motives such as altruism and egoistic motives are less likely to be affected. Altruism can be defined as the desire to help others without regard to personal benefits (Simon, 1993). This definition has been called "pure altruism" by scholars because the definition excludes reward-driven motivation. Because obtaining a warm-glow feeling from lending is a reward (Andreoni, 1990), pure altruistic motivation is less likely to be influenced by rhetoric that leads to warm glow. Warm glow also differs from egoistic motivation, a concept that can be defined as the desire to engage in some action for external rewards, such as social recognition and reputation (Avolio and Locke, 2002). Compared to traditional charitable giving, pass-through microlending provides few tangible or social rewards to investors (cf. Harbaugh, 1998). Accordingly, exposure to political rhetoric in entrepreneurial narratives associated with pass-through microlending is unlikely to affect the potential investor's anticipation of external rewards and thus is unlikely to influence egoistically-motivated lending.

The warm-glow literature suggests that anticipation of warm glow leads people to prefer to invest in high warm-glow opportunities over low warm-glow opportunities (e.g., Andreoni, 1990). This suggests that in microlending, a loan that creates more anticipation of warm glow will attract a greater number of potential investors. Thus, in pass-through microlending when entrepreneurial narratives use rhetoric that creates more anticipation of warm glow, the loan should be funded faster. This is consistent with prior microlending research that has examined funding speed as an important measure of fundraising success (e.g., Galak et al., 2011).

We examine three well-developed themes of political rhetoric – immediacy of need, identification, and clarity of purpose – that are important to the operation of rhetoric on audiences. Immediacy in political rhetoric provides a rhetorical argument for action by providing reasons why action is needed to change the future (cf. Dunmire, 2005). Our immediacy of need theme comprises three elements: accomplishment rhetoric, blame rhetoric, and present concern rhetoric. We propose that accomplishment and blame rhetoric shape whether the entrepreneur is viewed as legitimately needy (e.g., Small et al., 2007). Present concern rhetoric determines whether a call to action is immediate (e.g., Chang and Lee, 2009). Identification in political rhetoric draws together the speaker and audience; by creating overlap between the experiences of the speaker and the audience, identification makes action more likely (Heath, 2001). The identification theme comprises two elements of rhetoric: leveling and concreteness. Leveling rhetoric plays down individual differences (Hart and Childers, 2004) while less concreteness rhetoric makes the message more relatable and inspiring (e.g., Shamir et al., 1993). Thus, both have the effect of helping the audience identify with the communicator. Finally, clarity of purpose is vital to making a convincing argument (Jerit, 2006). Politicians refer to this as staying "on message" – repeating words and themes to strengthen the importance of a point (Jerit, 2006). We assess this in two elements: tenacity rhetoric and rhetorical variety. Tenacity rhetoric comprises confidence in the message (Hart and Childers, 2004), while rhetorical variety examines whether the rhetoric uses many different message forms or repeated message forms (cf. Hart, 2010).

### *3.2. Accomplishment rhetoric in entrepreneurial narratives*

Highlighting political accomplishments is a commonly used rhetorical strategy for both political candidates as well as incumbents (e.g., Olson, 1989). For example, the president of the United States discusses the previous year's accomplishments during the annual State of the Union address in a bid to encourage Congress and the broader public to rally behind the causes presented (e.g., Ragsdale, 1984; Seyranian and Bligh, 2008). In general, accomplishment rhetoric draws attention to completed tasks, organized actions, capitalistic transactions, modes of expansion, and the general functioning of an organization or individual (Hart, 2010). Highlighting accomplishments creates a sense of efficacy (e.g., Bandura, 1977), which positively influences followers' evaluations of a leader (Chemers et al., 2000). For politicians this is beneficial because the politician is elected to act on behalf of a constituency that has a limited role in the day-to-day legislative process.

However, for entrepreneurs receiving microloans, creating a perception of efficacy may decrease the extent to which they appear to need help from others, which may decrease anticipation of a warm-glow feeling from funding their loan. To the extent that an entrepreneur conveys accomplishment by discussing achievements, expansion, and the success of their enterprise in their

investment profile, they may be seen as needing less assistance, diminishing the anticipated warm-glow feeling. Since people who do not need assistance are not viewed as legitimate recipients of charity (Small et al., 2007), lending to such individuals should provide a diminished warm-glow feeling. Therefore, assuming that individual investors have limited funds to distribute through microlending, warm-glow theory (Andreoni, 1990) suggests that accomplishment rhetoric in entrepreneurial investment profiles will decrease the likelihood that investors will choose to fund the microloan. Thus, greater amounts of accomplishment rhetoric will lengthen the time it takes for the entire loan to be funded. Stated formally:

**Hypothesis 1.** There is a negative correlation between use of accomplishment rhetoric and the speed with which individual investors fund microloans.

### *3.3. Blame rhetoric in entrepreneurial narratives*

Research in political rhetoric has noted that politicians are vigilant in managing how their constituents and donors assign responsibility for events that take place during their terms because these attributions influence evaluations of the politician's success (Rudolph, 2003). Language related to blame is an important rhetorical device used by politicians to redirect attributions of responsibility for negative events (Weaver, 1986). For instance, to avoid being held accountable for negative outcomes politicians may deflect blame onto others, diminishing the focus on their own mistakes (Weaver, 1986). By shifting blame to others, the politician is more likely to create a favorable affective response leading to future support (e.g., Weiner, 1980).

The use of blame rhetoric in investment profiles may encourage individual investors to fund microloans. Calling attention to the aspects of the entrepreneur's context that limit the ability of the entrepreneur to be successful places the individual investor in a position where they feel that their investment will make a difference for the entrepreneur. This primes the investor to feel warm glow upon funding the microloan. This is consistent with research in attribution theory that suggests that when an individual believes a negative condition is the result of an external cause beyond the control of the victim, they are more likely to feel sympathy and concern for, and provide help to those being victimized (Weiner, 1980). Stated formally, we suggest:

**Hypothesis 2.** There is a positive correlation between use of blame rhetoric and the speed with which individual investors fund microloans.

### *3.4. Present concern rhetoric in entrepreneurial narratives*

Political rhetoric emphasizing present concern is frequently used to inspire audiences to act by drawing connections between the current state of affairs and future goals (Seyranian and Bligh, 2008). Present concern rhetoric also has the effect of creating energy and immediacy (Hart, 2002), both of which are vital in soliciting public support. By creating a sense of immediacy, present concern rhetoric suggests to constituents that acting in support of the politician will hasten the realization of personal and societal goals.

The use of present concern rhetoric may also influence individual investors' decisions. Entrepreneurs who use greater present concern rhetoric in their investment profiles demonstrate that they know what actions they will take once funds are received while also demonstrating that action will be taken quickly. These factors are likely to increase the warm glow felt as a result of lending. This assertion is supported by experimental research on charity appeals that shows how temporal framing affects donations (e.g., Chang and Lee, 2009). By including present concern rhetoric in investment profiles, entrepreneurs signal to investors that the funds provided will help the entrepreneur immediately. Since anticipation of warm glow is contingent on the investor helping the entrepreneur (e.g., Jankowski, 2002), and finance research finds that people value desirable outcomes received sooner greater than those received later (e.g., Benzion et al., 1989), we suggest that greater present concern rhetoric will be related to faster loan funding. Formally:

**Hypothesis 3.** There is a positive correlation between use of present concern rhetoric and the speed with which individual investors fund microloans.

### *3.5. Leveling rhetoric in entrepreneurial narratives*

Political scientists have noted that political discourse frequently contains ‘leveling’ terms that eschew thinking about individual differences by making references to a politician's constituents as a whole while emphasizing permanence and resoluteness (Hart and Childers, 2004). Leveling terms have also been suggested to enable followers to identify with their leader (e.g., Bligh et al., 2004). Since identification with an individual increases the likelihood that one would act on that person's behalf (e.g., Levine et al., 2002), the use of leveling terms in political discourse may be effective in generating political support.

The use of leveling terms in investment profiles may influence the speed with which microloans are funded. Because entrepreneurs receiving microloans are predominantly located in poor communities (Bruton et al., 2011), the use of leveling rhetoric in their investment profiles encourages investors to identify with these entrepreneurs, making their economic situation more salient in the mind of the investor. This increased awareness of the entrepreneur's disadvantaged state increases the perceived need in the mind of

the investor, which encourages the perception that helping the entrepreneur would result in a greater warm-glow feeling. Thus, we suggest that:

**Hypothesis 4.** There is a positive correlation between use of leveling rhetoric and the speed with which individual investors fund microloans.

### 3.6. Concrete rhetoric in entrepreneurial narratives

Research in political discourse has examined 'concrete' rhetoric that focuses on tangible objects, individuals, and organizations (Hart, 2010). Organizational scholars have suggested that political rhetoric that is low in concreteness, by being heavier in imagery and symbolism, encourages followers to support the goals and objectives of the leader (Shamir et al., 1993). Because concreteness focuses on the tangible, flawed world, narratives with less concrete rhetoric are more inspiring (Emrich et al., 2001). Rhetoric that is low in concreteness eschews problematic material realities and evokes stronger emotional reactions (Seyranian and Bligh, 2008). Scholars examining the language of leadership find that individuals seek to support leaders who articulate a vision for a better and more prosperous future (e.g., Shamir et al., 1993). Thus, narratives with less concreteness rhetoric are better able to inspire followers to agree with the goals of the leader (Shamir et al., 1993) and to take supporting action (Emrich et al., 2001).

In microlending, the use of rhetoric that is low in concreteness may similarly serve to inspire investors to believe in a better future and to act to bring this future to fruition (e.g., Seyranian and Bligh, 2008). The incorporation of symbolic language characteristic of rhetoric low in concreteness should encourage investors to embrace the entrepreneur's vision for a better future. Solidarity with the entrepreneur's vision should increase the anticipation of warm glow and lead to faster loan funding. Stated formally:

**Hypothesis 5.** There is a negative correlation between use of concrete rhetoric and the speed with which individual investors fund microloans.

### 3.7. Tenacity rhetoric in entrepreneurial narratives

Rhetoric communicating tenacity in the political science literature has been argued to impart constituents with a sense of confidence and totality (Hart and Childers, 2004). When individuals are seen as confident, they lower others' perceptions of the riskiness of their plans, inspiring action from followers (Siegrist et al., 2005). For instance, politicians may use tenacity rhetoric in times of crisis to inspire confidence and rally support.

In microlending, the use of tenacious language in investment profiles may influence individuals to invest in an entrepreneur's microloan. Investors in microloans frequently do not have detailed knowledge of the entrepreneurial venture (Navajas et al., 2003). Accordingly, investors rely on the narrative contents in making an assessment of the extent to which their funds will be effective in alleviating problems faced by the entrepreneur. When entrepreneurs convey tenacity and confidence, they decrease investor perceptions of risk that the funds will not significantly aid in the realization of the entrepreneur's goals (cf. Siegrist et al., 2005). Consequently, such language should increase anticipation of warm glow from funding the entrepreneur's microloan. Put formally, we suggest:

**Hypothesis 6.** There is a positive correlation between use of tenacity rhetoric and the speed with which individual investors fund microloans.

### 3.8. Variety of rhetoric in entrepreneurial narratives

In political discourse research, variety of rhetoric is a measure of the extent to which the narrative favors the use of many different words rather than the use of repetition (Hart, 2010). The use of repetition places an emphasis on key themes, reinforcing the importance of these themes in the minds of the audience (Atkinson, 1984; Heritage and Greatbatch, 1986). Consequently, messages with less variety are generally more effective in convincing the audience to take action to support the speaker (e.g., Williams and Trammell, 2005). For example, Barack Obama's often repeated campaign slogan "yes we can" served as a simple, unifying message associated with his successful presidential campaign (La Ganga, 2008).

The use of repetition in investment profiles should influence the speed with which individual investors fund entrepreneurs' microloans. Warm-glow theory requires the giver to know that their funds are going to a worthy cause (e.g., Harbaugh et al., 2007). This makes understanding how funding a microloan will help the entrepreneur an important prerequisite for the anticipation of warm glow from investing. Narratives that stay on topic, highlighting the importance of the loaned funds to the entrepreneur, should benefit from their use of repetition. This rhetorical strategy should be particularly effective in pass-through microlending because individual investors only have the investment profile from which to assess the impact contributing funds would make. In contrast, greater variety does not reinforce key themes, making it less likely that the

investor will understand how their funds will help the entrepreneur. This decreases anticipated warm glow and makes investment less likely. Formally:

**Hypothesis 7.** There is a negative correlation between use of rhetorical variety and the speed with which individual investors fund microloans.

## 4. Research design

Our hypotheses examine how the rhetoric used in entrepreneurial narratives affects how quickly loans to entrepreneurs in developing countries are funded. To explore this question empirically, we sought to construct a database consisting of microloans where such narratives would play a key role in funding outcomes for entrepreneurs in countries where a high proportion of the population lives in desperate poverty. Since "there is no established convention for the designation of 'developed' and 'developing' countries or areas," (United Nations, 2012), we follow Bruton et al. (2011) practice of using a sample that includes countries where a large number of persons are living under conditions of desperate poverty.

To enable the use of a broad sample that included multiple countries with variance on the degree to which desperate poverty exists we drew our sample from Kiva (Kiva.org), a well-known microlender using the pass-through microlending model (Strom, 2009). Kiva was the world's first microlending website and is currently the largest such organization, having facilitated US$369 million in loans since its founding (Kiva, 2012a). Kiva is a valuable source for microlending data because they provide rich information regarding entrepreneurial narratives on their website and they track the time (in days) that passes before a loan is funded. Microlending data from Kiva has been used in the marketing literature to examine how characteristics of borrowers affect lender decision making (Galak et al., 2011).

We acquired a dataset of 8204 loans from Kiva. We then eliminated loans made to entrepreneurs in countries whose per-capita gross domestic product (GDP) was greater than the global average. The selection process yielded 39 countries, decreasing our sample to 6051 loans. The countries included in our sample are shown in Table 1. According to the World Bank, desperate poverty refers to a situation where individuals live on less than US$1.25 per day (Chen and Ravallion, 2004). Countries represented in our sample include the Democratic Republic of the Congo (88% of population living on less than $1.25 per day), Liberia (84% living on less than $1.25 per day), Mozambique (60% living on less than $1.25 per day), Rwanda (63% living on less than $1.25 per day), and Cambodia (23% living on less than $1.25 per day). On average, the countries in our sample have 24.6% of their populations living on less than $1.25 per day.

While the proportion of the population living in desperate poverty varies from country to country in our sample, research suggests that microloans themselves are typically important to the very poor (e.g., Bruton, 2010) and that microlending may be one tool to help solve the problem of desperate poverty (e.g., Bruton, 2010). Kiva is a valuable sampling frame for loans made to entrepreneurs living in desperate poverty for three reasons. First, Kiva requires their local NGO affiliate organizations to have a strong emphasis on social impact, which often includes targeting poorer entrepreneurs within their countries (Kiva, 2012b). Second, many of these NGO affiliates focus specifically on poverty alleviation by selecting entrepreneurs from among the poorest communities in the country (Kiva, 2012b). Some of the approaches used to target the very poor include selecting entrepreneurs from rural locations or urban slums where the proportion of the population living in desperate poverty is higher (Kiva, 2012b). Third, Kiva NGO affiliates also encourage the poorest individuals to apply by making use of poverty evaluation tools and by offering loan terms that attract poorer borrowers. Therefore, the entrepreneurs receiving loans on Kiva are generally more likely to be in a desperate poverty condition than is the average entrepreneur in the same country.

### 4.1. Data for content analysis

The entrepreneurial narratives were created through collaboration between the entrepreneur and the non-governmental organizations. These narratives provide details such as: the entrepreneur's name and age; family details and a limited life history; a description of the entrepreneur's venture and the purpose of the loan; an exhortation to the lenders considering the loan or a sentence about the entrepreneur's hopes, dreams, and aspirations; and how a loan would improve the entrepreneur's life and the success of their business.

### 4.2. Dependent variables

Because we employ a type of survival analysis, two dependent variables are required. One variable indicates whether the event of interest has occurred. The other indicates how long it took for that event to occur. These variables are considered jointly by the statistical model. The dependent variables are thus a set consisting of a dichotomous variable, "Funded," which takes on a value of 1 for loans that are fully funded and remains 0 otherwise; and a continuous variable, "Days to Fund," indicating the number of days from when the funding request was first released until the date it is fully funded (or the date the study closed). Requests funded on the same day of their release are considered to have duration of 0.5 since none of the loans in our sample were funded instantaneously. Together, these two variables allow the measurement of whether funding occurs and how long it takes for funding to occur.

**Table 1**
Sample representation and country statistics.[a]

| Country | GDP PPP$/capita | GDP PPP/capita rank | % of population living on less than $1.25/day | Sample count |
|---|---|---|---|---|
| Democratic Republic of the Congo | $ 300 | 193 | 87.7% | 9 |
| Liberia | $ 500 | 191 | 83.8% | 123 |
| Afghanistan | $ 900 | 182 | N/A | 5 |
| Sierra Leone | $ 900 | 182 | 53.4% | 70 |
| Togo | $ 900 | 182 | 38.7% | 87 |
| Mozambique | $ 1000 | 178 | 59.6% | 44 |
| Rwanda | $ 1100 | 176 | 63.2% | 31 |
| Haiti | $ 1200 | 172 | 61.7% | 4 |
| Mali | $ 1200 | 172 | 50.4% | 8 |
| Nepal | $ 1200 | 172 | 24.8% | 28 |
| Uganda | $ 1300 | 171 | 38% | 268 |
| Tanzania | $ 1400 | 169 | 67.9% | 52 |
| Benin | $ 1500 | 167 | 47.3% | 60 |
| Kenya | $ 1600 | 165 | 43.4% | 193 |
| Senegal | $ 1900 | 158 | 33.5% | 105 |
| Tajikistan | $ 2000 | 157 | 6.56% | 176 |
| Cambodia | $ 2100 | 155 | 22.8% | 447 |
| Kyrgyzstan (Kyrgyz Republic) | $ 2200 | 153 | 6.23% | 23 |
| Cameroon | $ 2300 | 151 | 9.56% | 9 |
| Sudan | $ 2300 | 151 | 19.8% | 132 |
| Ghana | $ 2500 | 144 | 28.6% | 407 |
| Nigeria | $ 2500 | 144 | 68% | 310 |
| Nicaragua | $ 3000 | 139 | 11.9% | 313 |
| Vietnam | $ 3100 | 137 | 16.9% | 24 |
| Philippines | $ 3500 | 134 | 18.4% | 1804 |
| Mongolia | $ 3600 | 133 | N/A | 74 |
| Honduras | $ 4200 | 128 | 17.9% | 20 |
| Indonesia | $ 4200 | 128 | 18.1% | 10 |
| Bolivia | $ 4800 | 123 | 15.6% | 98 |
| Guatemala | $ 5200 | 117 | 13.5% | 30 |
| Paraguay | $ 5200 | 117 | 7.16% | 54 |
| Samoa | $ 5500 | 114 | N/A | 79 |
| Armenia | $ 5700 | 113 | 1.28% | 7 |
| Ukraine | $ 6700 | 107 | .06% | 57 |
| El Salvador | $ 7200 | 103 | 8.97% | 125 |
| Ecuador | $ 7800 | 99 | 4.61% | 19 |
| Dominican Republic | $ 8900 | 92 | 2.24% | 62 |
| Peru | $ 9200 | 91 | 4.91% | 653 |
| Palestine | N/A | N/A | N/A | 31 |
| World averages | $ 10,700 | | 26% | |
| Weighted average of sample | $ 3774 | | 24.6% | |

[a] Data IMF, World Bank, CIA World Factbook (2010). Percent living on less than $1.25 per day (PPP$) is the latest figure from the period 2006–2011 (data are collected irregularly for many countries on this list). N = 6051. 6020 for GDP PPP$ capita figures; 5862 for percent living on less than $1.25 per day.

### *4.3. Measuring political rhetoric using DICTION*

We used DICTION 6.0 to measure levels of political rhetoric in our sample of entrepreneurial investment profiles. DICTION is a computer-aided text analysis program that compares the text in narratives to a set of thematic dictionaries composed of over 10,000 words to measure different aspects of political discourse (Hart, 2010). The DICTION software is particularly valuable for this study because it was developed and validated by a political discourse scholar to analyze the verbal tone of political narratives such as presidential speeches and political advertising (Hart, 2001). DICTION has been used broadly outside of the political science literature. For example, scholars have used DICTION to examine the influence of narrative content on phenomena of interest in strategic management (e.g., Short and Palmer, 2008), marketing (e.g., Zachary et al., 2011), and entrepreneurship (Short et al., 2010).

Our independent variables were operationalized using standard dictionaries from DICTION 6.0 (Hart, 2010). Table 2 presents the Hart (2010) definition, of each of the seven dictionaries we use, along with an excerpt of a narrative from our sample. In each of these narrative excerpts, words appearing in the corresponding dictionary are bolded to show how the dictionary captures the rhetorical content. We measured accomplishment rhetoric using DICTION's accomplishment word list. The accomplishment word list measures references to task completion, organized behavior, capitalistic transacting, expansion modes, general functionality, and the programmatic language of narratives (Hart, 2010). Words indicative of accomplishment include ‘achievement’, ‘succeed’, and ‘results’. We measured blame rhetoric using DICTION's blame word list. The blame word list measures references to social inappropriateness, evil, denigrations, unfortunate circumstances, and unplanned vicissitudes in narratives (Hart, 2010). Words indicative of blame include ‘frustrating’, ‘grim’, and ‘hard’.

We measured tenacity rhetoric using DICTION's tenacity word list. The tenacity word list measures references to confidence and totality in narratives (Hart, 2010). Words indicative of tenacity include ‘they'll’, ‘must’, and ‘will’. We measured leveling rhetoric

**Table 2**
Examples of political rhetoric in investment profiles.

| Dictionary | Hart (2010) description | Representative narrative excerpt |
|---|---|---|
| Accomplishment | "Words expressing task-completion (establish, finish, influence, proceed) and organized human behavior (motivated, influence, leader, manage). Includes capitalistic terms (buy, produce, employees, sell), modes of expansion (grow, increase, generate, construction) and general functionality (handling, strengthen, succeed, outputs). Also included is programmatic language: agenda, enacted, working, leadership." | "When she **started** her business she actually had no car but now due to her **success** and **increased** working capital she has bought a car to **expand** her territory." |
| Blame | "Terms designating social inappropriateness (mean, naive, sloppy, stupid) as well as downright evil (fascist, blood-thirsty, repugnant, malicious) compose this dictionary. In addition, adjectives describing unfortunate circumstances (bankrupt, rash, morbid, embarrassing) or unplanned vicissitudes (weary, nervous, painful, detrimental) are included. The dictionary also contains outright denigrations: cruel, illegitimate, offensive, miserly." | "Managing a general store is quite **difficult** says Gimalyn due to the factors to consider such as credit, health, and calamities. However she remains intent on doing the business because she wants to help her husband uplift their **poor** living situation." |
| Tenacity | "All uses of the verb to be (is, am, will, shall), three definitive verb forms (has, must, do) and their variants, as well as all associated contraction's (he'll, they've, ain't). These verbs connote confidence and totality." | "She **has** always been fighting to get her children ahead in spite of the difficulties that **have** faced her, she **has** been able to give them all that is necessary." |
| Leveling | "Words used to ignore individual differences and to build a sense of completeness and assurance. Included are totalizing terms (everybody, anyone, each, fully), adverbs of permanence (always, completely, inevitably, consistently), and resolute adjectives (unconditional, consummate, absolute, open-and-shut)." | "In this way **everyone** does his or her part to help the family make headway because they know together with a lot of hard work and dedication they will achieve their goals" |
| Present Concern | "A selective list of present-tense verbs extrapolated from C. K. Ogden's list of general and picturable terms, all of which occur with great frequency in standard American English. The dictionary is not topic-specific but points instead to general physical activity (cough, taste, sing, take), social operations (canvass, touch, govern, meet), and task-performance (make, cook, print, paint)." | "Mara Ofelia Corea **makes** a **living** preparing and selling tortillas in the Mayoreo market in the city of Managua. She **makes** her tortillas by hand and sells them to customers at her establishment." |
| Concreteness | "A large dictionary possessing no thematic unity other than tangibility and materiality. Included are sociological units (peasants, African-Americans, Catholics), occupational groups (carpenter, manufacturer, policewoman), and political alignments (Communists, congressman, Europeans). Also incorporated are physical structures (courthouse, temple, store), forms of diversion (television, football, CD-ROM), terms of accountancy (mortgage, wages, finances), and modes of transportation (airplane, ship, bicycle). In addition, the dictionary includes body parts (stomach, eyes, lips), articles of clothing (slacks, pants, shirt), household animals (cat, insects, horse) and foodstuffs (wine, grain, sugar), and general elements of nature (oil, silk, sand)." | "Shunkhlai works as a **carpenter** and makes wooden products and some **iron** crafts." |
| Variety[a] | "A high score indicates a speaker's avoidance of overstatement and a preference for precise, molecular statements. The ratio of descriptive to functional words." | "Alma is 32 years old and she is married to Rodrigo. The couple is thankful because they are blessed with three children Michael, 13 years old Mary Jane, 10 years old grade VI and Melody Joy, 8 years old. Expanding her store is the best thing that she can do in order to generate bigger income said by Alma." |

[a] Variety is calculated as the number of different words in the passage divided by the number of total words in the passage.

using DICTION's leveling word list. The leveling word list measures references to totalization, permanence, and resoluteness in narratives (Hart, 2010). Words indicative of leveling include 'everybody', 'altogether', and 'unquestionable'. We measured present concern rhetoric using DICTION's present concern word list. The present concern word list measures references to physical activity, social operations, and task performance in narratives (Hart, 2010). Words indicative of present concern include 'get', 'request', and 'live'.

We measured concrete rhetoric using DICTION's concreteness word list. The concreteness word list measures references to tangible and material items such as sociological units, occupational groups, political alignments, physical structures, entertainment forms, accountancy, transportation modes, body parts, clothing, household animals, food, and elements of nature (Hart, 2010). Words indicative of concreteness include 'markets', 'expenses', and 'dollar'. Finally, we measured rhetorical variety using DICTION's variety calculation. Variety is calculated following the linguistic Type-Token Ratio (Johnson, 1951) which is a ratio of the number of different words in a narrative to the total number of words (Hart, 2010). Narratives high in variety exhibit language with precise statements (Short and Palmer, 2008).

### *4.4. Control variables*

We take a broad approach to control for alternative explanations concerning the determinants of lenders' microlending decisions. First, we follow the approach of strategy researchers examining the determinants of firm performance who note that key influences

emanate from the organization, industry, and country levels of analysis (Makino et al., 2004). To control for organizational-level factors we include the non-governmental organization's risk rating, a measure which has been previously used in microlending studies (Galak et al., 2011). To control for industry-level factors we include 14 sector classification dummy variables derived from the North American Industrial Classification System (NAICS) developed by the US Census Bureau. We used NAICS because research in accounting has found that NAICS classifications provide a more cohesive classification of industries than the older SIC structure (Krishnan and Press, 2003). To control for country-level factors we created dummy variables for the 39 countries represented in our sample.

Previous microlending research also emphasizes the importance of controlling for loan characteristics. Consequently, we follow a precedent set by previous research and control for total loan amount (logged, in US dollars), repayment term (in months) (Galak et al., 2011), whether repayment is made monthly or in a lump sum at the end of the loan (dichotomous, where 1 indicates monthly repayment and 0 otherwise) (e.g., Schreiner, 2001), and foreign exchange risk (dichotomous, coded 1 when the individual investor is exposed to principal loss due to fluctuations in exchange rates and 0 when loan terms shield the investor from foreign exchange risk) (Crabb, 2004). We also follow research on lending to small firms and include dummy variables to control for the stated loan purpose (e.g., Cowling and Mitchell, 2003). We adopted the categories used by the United States Small Business Administration to classify the uses for subsidized loans to small enterprises (Craig et al., 2005). The largest number of loans – 4809 – fell into the "Long-term working capital" SBA classification. "Purchase of equipment, machinery, furniture, fixtures, supplies, or materials" was second with 683 loans, followed by "The purchase of land or buildings, [or] to cover new construction" with 316 loans. "Short-term working capital," "Refinancing of existing business indebtedness", "To purchase an existing business," and "Financing against existing inventory," accounted for 207, 14, 1, and 0 loans, respectively. Thirty loans (0.3%) did not fall into one of these classifications and were coded as "Other".

### 4.5. Statistical analysis

We use a Cox proportional hazards model (Cox, 1972) to model funding rates. This analytical technique can be thought of as estimating the probability of an event occurring given the values of the independent variables (Spruance et al., 2004). In most studies examining how long it takes for an event of interest to occur, the final state of some cases will remain unknown at the close of the study. Using OLS regression with such data is likely to result in significant bias (Spruance et al., 2004). Thus, the value of the Cox proportional hazards model is in its ability to correct for biases that may arise due to the censoring of duration data at the close of the study (right censoring). The Cox-proportional hazards model deals with right censoring by estimating the effect of the independent variables on the probability of receiving funding for each time period. None of the cases observed in our sample had begun to seek funding prior to our study window; thus, our data are not left-censored. The nature of the funding request, in that the loan has already been made once the funding request is released, also eliminates the occurrence of random censoring due to drop-outs.

Cox models output exponentiated beta values ($e^{\beta}$) which indicate the effect that each independent variable has on the speed and probability of the event (funding of the loan) happening. Exponentiated betas of greater than one for a given independent variable indicate that the variable increases the probability of funding. Exponentiated betas of less than one indicate that the variable decreases the probability of funding. It is also appropriate to interpret exponentiated betas as signifying that the event tends to occurs more quickly for $e^{\beta}$ values greater than one and less quickly for $e^{\beta}$ values less than one (Spruance et al., 2004). This estimation technique has been used in marketing research on microlending where the similarity of the borrower to the lender was used to predict time to funding (Galak et al., 2011).

## 5. Results

The microlending entrepreneurial narratives we examined ranged from 27 to 1370 words in length, with an average length of 163 words (standard deviation of 96 words). Descriptive statistics and correlations are presented in Table 3. All correlations among the rhetorical characteristics of the narrative were less than 0.80, suggesting that each construct measures a distinct aspect of political rhetoric (cf. Short et al., 2010). The Cox regression was completed in two steps. All control variables were entered in Model 1, followed by the independent variables in Model 2. Model 2 demonstrated a greater fit with the data than Model 1 ($\Delta\chi^2 = 45.35$; $p<0.01$), suggesting that the incremental variance explained by rhetorical characteristics is significant. The results of both models are presented in Table 4.

Hypothesis 1 proposed that accomplishment rhetoric would reduce the speed with which microloans are funded. Our analyses suggest that accomplishment rhetoric reduces the speed of funding from individual investors ($e^{\beta} = 9.95\times10^{-1}$; $p<0.01$), supporting Hypothesis 1. Hypothesis 2 proposed that blame rhetoric would increase the speed with which microloans are funded. Our analyses suggest that blame rhetoric increases the speed of funding from individual investors ($e^{\beta} = 1.02\times10^{0}$; $p<0.05$), supporting Hypothesis 2. Hypothesis 3 proposed that present concern rhetoric would increase the speed with which microloans are funded. Our analyses suggest that present concern rhetoric increases the speed of funding from individual investors ($e^{\beta} = 1.00\times10^{0}$; $p<0.05$), supporting Hypothesis 3.

Hypothesis 4 proposed that leveling rhetoric would increase the speed with which microloans are funded. Our analyses suggest that leveling rhetoric did not significantly influence the speed of funding from individual investors ($e^{\beta} = 1.01\times10^{0}$; $p = 0.06$). Thus, Hypothesis 4 was not supported. Hypothesis 5 proposed that concrete rhetoric would decrease the speed with which microloans are funded. Our analyses suggest that concrete rhetoric did not materially influence the speed of funding from individual investors ($e^{\beta} = 9.98\times10^{-1}$; $p = 0.07$). Thus, Hypothesis 5 was not supported.

**Table 3**
Correlations, means, and standard deviations.[a]

| | | Mean | SD | Min | Max | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | NGO's risk rating | 3.18 | 0.95 | 0.00 | 5.00 | | | | | | | | | | | | | |
| 2 | Repayment term (mos.) | 10.35 | 4.24 | 3.00 | 38.00 | 0.11 | | | | | | | | | | | | |
| 3 | Repayment in installments | 0.91 | 0.29 | 0.00 | 1.00 | −0.07 | 0.11 | | | | | | | | | | | |
| 4 | Foreign exchange risk[b] | 0.60 | 0.49 | 0.00 | 1.00 | −0.05 | −0.16 | 0.14 | | | | | | | | | | |
| 5 | Loan amount (logged)[c] | 6.06 | 0.83 | 3.91 | 8.52 | 0.12 | 0.33 | 0.03 | −0.01 | | | | | | | | | |
| 6 | Accomplishment | 30.33 | 10.66 | 0.00 | 80.19 | −0.04 | 0.01 | 0.18 | 0.09 | −0.04 | | | | | | | | |
| 7 | Blame | 1.34 | 1.97 | 0.00 | 12.40 | −0.05 | −0.07 | 0.08 | −0.01 | −0.14 | 0.12 | | | | | | | |
| 8 | Tenacity | 30.56 | 9.12 | 0.00 | 74.63 | 0.01 | −0.01 | 0.01 | 0.00 | 0.01 | −0.05 | −0.05 | | | | | | |
| 9 | Leveling terms | 3.23 | 3.70 | 0.00 | 27.78 | 0.15 | 0.00 | 0.05 | 0.15 | 0.14 | −0.02 | −0.03 | 0.00 | | | | | |
| 10 | Present concern | 14.69 | 7.09 | 0.00 | 58.22 | 0.01 | 0.01 | 0.04 | 0.04 | −0.13 | 0.05 | 0.08 | −0.17 | 0.01 | | | | |
| 11 | Concreteness | 27.58 | 12.05 | 0.00 | 105.26 | −0.02 | −0.01 | −0.10 | −0.13 | 0.18 | −0.14 | −0.23 | 0.01 | −0.03 | −0.11 | | | |
| 12 | Rhetorical variety[d] | 0.63 | 0.07 | 0.31 | 0.94 | 0.11 | 0.05 | −0.15 | −0.02 | 0.11 | −0.02 | −0.29 | 0.03 | 0.04 | −0.03 | 0.17 | | |
| 13 | Days to fund[e] | 3.77 | 6.36 | 0.50 | 30.00 | 0.05 | 0.21 | 0.04 | −0.02 | 0.38 | 0.00 | −0.07 | 0.03 | 0.05 | −0.07 | 0.11 | 0.07 | |
| 14 | Funded[f] | 0.85 | 0.35 | 0.00 | 1.00 | −0.05 | −0.17 | −0.07 | 0.00 | −0.28 | −0.07 | 0.02 | −0.04 | −0.03 | 0.04 | −0.05 | −0.05 | −0.61 |

[a] N = 6051. Correlations that exceed |0.025| are significant at $p \leq .05$.
[b] Indicates whether loan is exposed to Foreign Exchange risk or protected by Foreign Exchange hedge. Dummy variable set to 1 when risk present.
[c] Logged loan amount. Level form ranges from US$50 to $5000.
[d] Calculated as: (number of unique words used/total words used).
[e] Number of days to full funding of loan amount. Loans funded in-full on first day of offering are treated as 0.5.
[f] Dummy variable indicating whether loan was fully-funded.

**Table 4**
Results of Cox proportional hazards model for loan funding.[a]

| Variables | Model 1: controls $e^{\beta}$ | Model 2: full model $e^{\beta}$ |
|---|---|---|
| Country controls[b] | | |
| Armenia | $2.61\times10^{0}$ | $3.58\times10^{0*}$ |
| Bolivia | $3.50\times10^{-1*}$ | $4.64\times10^{-1}$ |
| Samoa | $3.53\times10^{-1*}$ | $3.85\times10^{-1*}$ |
| Industry controls[c] | | |
| Manufacturing NAICS 31–33 | $1.23\times10^{0**}$ | $1.23\times10^{0**}$ |
| Retail Trade NAICS 44–45 | $7.40\times10^{-1***}$ | $7.53\times10^{-1***}$ |
| Transportation & Warehousing NAICS 48–49 | $6.90\times10^{-1***}$ | $6.69\times10^{-1***}$ |
| Educational Services NAICS 61 | $1.81\times10^{0*}$ | $1.75\times10^{0*}$ |
| Health Care and Social Assistance NAICS 62 | $2.64\times10^{0***}$ | $2.66\times10^{0***}$ |
| Non-governmental organization control | | |
| NGO Partner Risk Rating | $1.05\times10^{0}$ | $1.04\times10^{0}$ |
| Loan controls | | |
| Repayment term (mos.) | $9.71\times10^{-1***}$ | $9.71\times10^{-1***}$ |
| Repayment in installments | $9.44\times10^{-1}$ | $9.28\times10^{-1}$ |
| Foreign exchange risk | $8.86\times10^{-1**}$ | $8.54\times10^{-1***}$ |
| Loan amount (logged) | $5.38\times10^{-1***}$ | $5.27\times10^{-1***}$ |
| Use: purchase equipment[d] | $1.14\times10^{0}$ | $1.13\times10^{0}$ |
| Use: inventory/working capital | $1.07\times10^{0}$ | $1.07\times10^{0}$ |
| Use: seasonal financing/export production | $9.63\times10^{-1}$ | $1.01\times10^{0}$ |
| Use: refinance | $8.50\times10^{-1}$ | $8.21\times10^{-1}$ |
| Use: purchase business | $1.14\times10^{0}$ | $1.26\times10^{0}$ |
| Use: other | $1.27\times10^{0}$ | $1.28\times10^{0}$ |
| Independent variables | | |
| Accomplishment | | $9.95\times10^{-1**}$ |
| Blame | | $1.02\times10^{0*}$ |
| Present concern | | $1.00\times10^{0*}$ |
| Leveling terms | | $1.01\times10^{0}$ |
| Concreteness | | $9.98\times10^{-1}$ |
| Tenacity | | $9.96\times10^{-1*}$ |
| Variety | | $3.99\times10^{-1**}$ |
| Model $\chi^2$ | $1.40\times10^{3***}$ | $1.44\times10^{3***}$ |
| Df | 62 | 69 |

[a] N = 6051; 890 right-censored. Hazard is of receiving funding. Exponentiated regression coefficient ($e^{\beta}$) values beyond 1 indicate a positive effect on funding probability; below 1, negative effect.
[b] 39 Countries, 38 controls. 35 Non-significant controls not reported. Reference country: Afghanistan.
[c] Reference industry: Agriculture, Forestry, Fishing and Hunting NAICS 11. Non-significant industry dummy variables not reported: Mining, Quarrying, and Oil and Gas Extraction NAICS 21; Utilities NAICS 22; Construction NAICS 23; Wholesale Trade NAICS 42; Professional, Scientific, and Technical Services NAICS 54; Administrative, Support, Waste Management & Remediation Services NAICS 56; Accommodation and Food Services NAICS 72; Other Services NAICS 81.
[d] Reference loan purpose: "Purchase Land/Buildings." * $p<.05$ ** $p<.01$ *** $p<.001$.

Hypothesis 6 proposed that tenacity rhetoric would increase the speed with which microloans are funded. Our analyses suggest that tenacity rhetoric decreases the speed of funding from individual investors ($e^{\beta}=9.96\times10^{-1}$; $p<0.05$). Thus, while tenacity rhetoric did influence the speed with which individual investors fund microloans, it did so in the opposite direction. Thus, Hypothesis 6 was not supported. Hypothesis 7 proposed that rhetorical variety would decrease the speed with which microloans are funded. Our analyses suggest that rhetorical variety decreases the speed of funding from individual investors ($e^{\beta}=3.99\times10^{-1}$; $p<0.01$), supporting Hypothesis 7.[1]

### 5.1. Post-hoc analysis

Our results suggest that the political rhetoric used in entrepreneurial investment profiles influences the rate with which individual investors fund microloans; however, other types of rhetoric may be influential as well. For example research in entrepreneurial

[1] To examine the robustness of our findings to alternate conceptualizations of borrower desperate poverty, we ran an additional analysis using only those loans in our sample that meet the US Government's definition of aid to the poorest individuals. The Microenterprise for Self-Reliance and International Anti-Corruption Act of 2000 required the United States Agency for International Development (USAID) to use half of all funds allocated for microenterprise development to benefit the very poor (USAID, 2012). This act, as amended in 2003, defined the very poor as those living on less than $1 per day at purchasing power parity (USAID, 2012). USAID defines loans to the poorest by assessing average loan size for the microenterprise loans made by the organization according to region. For Eastern Europe and former Soviet states the average loan size is $1000. For Latin America the average loan size is $400. For the rest of the world the average loan size is $300. Accordingly we restricted our sample to loans under $1,000. This resulted in an average loan amount of $426.39 with a standard deviation of $252.98 across 5230 loans. We ran the full model on this sample and found results similar to those obtained with the unrestricted sample. For accomplishment, tenacity, and variety rhetoric the direction of effect and significance levels were identical. Leveling terms and concreteness remained non-significant. The exponentiated beta values for blame and present concern rhetoric were identical to those in the unrestricted sample; however, the significance level dropped below 0.05 (blame: $p=0.068$; present concern: $p=0.202$). This may be the result of reduced power. The consistency across both analyses suggests our findings are robust to alternate metrics of desperate poverty.

orientation has generally found a positive relationship with firm performance (Rauch et al., 2009); however, the effect of entrepreneurial rhetoric on performance in the microlending context (i.e., capitalization) has not been examined. An entrepreneurial orientation can be defined as the strategic predisposition for an organization to engage in entrepreneurial activity, and consists of five dimensions: autonomy, competitive aggressiveness, innovativeness, proactiveness, and risk taking (Lumpkin and Dess, 1996). We measured the rhetoric associated with an entrepreneurial orientation in our sample of entrepreneurial investment profiles using a computer-aided text analytic measure developed and validated using organizational narratives (Short et al., 2010).

We entered the dimensions of entrepreneurial orientation into a Cox regression equation using the same control variables as the main analysis. Only innovativeness influenced the rate of funding ($e^{\beta} = 0.97$; $p < 0.01$). While our examination is *post hoc*, one interpretation of this finding is that words reflecting innovativeness (e.g., creative, invention, novel) may make investors less certain about the likelihood that their funds will help the entrepreneur. The innovation literature suggests that higher levels of innovation also entail higher levels of outcome uncertainty (Sorescu et al., 2003). Thus, when an entrepreneur uses language conveying innovativeness, the individual investor may perceive a greater risk that the innovation being funded will not succeed and discount the anticipated warm glow.

## 6. Discussion

Microlending represents a valuable mechanism where entrepreneurs in poor communities can secure funds to help build their ventures (Bruton et al., 2011). However, our understanding of how the language used by entrepreneurs seeking microloans influences the funding of their ventures is limited. This study begins to close this knowledge gap by investigating how the political rhetoric used by entrepreneurs in microlending investment profiles influences the speed of funding for microloans associated with the entrepreneur. In doing so, we make two key contributions to the entrepreneurship literature. Our first contribution is that we draw from warm-glow theory (e.g., Andreoni, 1990) to explain why political rhetoric influences the speed with which microloans are funded. Using warm-glow theory, we suggest that characteristics of political rhetoric in entrepreneurial narratives prime the investor to anticipate more or less warm glow upon investing in a venture, influencing the likelihood of investment. Our second contribution is to provide the first large-scale empirical examination of microlending entrepreneurial narratives using content analysis. Our findings suggest that the political rhetoric contained in these narratives influences the likelihood of securing investment. Specifically, we find that rhetorical variety and rhetoric associated with accomplishment reduce funding speed, whereas rhetoric associated with blame and present concern increase funding speed.

In our study we failed to find support for our predictions about the effect of leveling rhetoric, concrete rhetoric, and tenacity rhetoric on the speed at which microloans are funded. Hypothesis 4 suggested that leveling rhetoric would increase the identification of the lender with the entrepreneur, increasing the funding speed. Our analyses suggest that leveling rhetoric – rhetoric that plays down the differences between the communicator and the audience – did not have a significant effect. We suggest that this may be due to a countervailing influence. While leveling rhetoric may increase identification of the lender with the entrepreneur, if it does so by presenting the entrepreneur as being like the lender this may make the entrepreneur seem less desperate and thus less worthy as a loan recipient (e.g., Small et al., 2007). Hypothesis 5 posited that concrete rhetoric would be negatively associated with microloan funding speed because more symbolic language tends to be more effective in soliciting support (e.g., Emrich et al., 2001). However, there is an implicit tradeoff in concreteness because less concrete language may also reduce the tangibility of the entrepreneurs' appeal for funds which would diminish the influence of this rhetoric on funding speed. Contrary to Hypothesis 6, we found that tenacity rhetoric decreased the speed with which individual investors funded microloans. While unexpected, this finding is consistent with research on entrepreneurial cognition suggesting that entrepreneurs are prone to overconfidence (Busenitz and Barney, 1997). Warm-glow theory suggests that, in general, investors will reward confidence. However, investors may perceive that entrepreneurs who use a lot of tenacity rhetoric are overconfident and be less likely to fund their microloans, resulting in an inverted U-shaped relationship between confidence and time to funding. Given that entrepreneurs tend to be prone to overconfidence in general, the finding that tenacity rhetoric decreases the speed with which individual investors fund microloans may reflect the downward sloping side of a curvilinear relationship. This is analogous to research in optimism that finds that the relationship between optimism and firm performance is inverted-U shaped in general, but frequently negative among entrepreneurs (Hmieleski and Baron, 2009).

Our research informs the literature examining the use of narratives in securing investor funding. Research in this area has suggested that the identities entrepreneurial firms construct in their narratives influence fundraising success (Martens et al., 2007). Our study builds on these findings by examining how the rhetorical content of entrepreneurial narratives influences investor funding. Specifically, we demonstrate that the use of political rhetoric in these narratives has a significant effect upon how quickly a venture is able to raise funds. This finding opens new avenues for researchers investigating the role of business plans in investor decision making. Prior work has suggested that business plans largely serve symbolic (Honig and Karlsson, 2004; Zott and Huy, 2007) and ceremonial (Kirsch et al., 2009) roles in the decision to fund an entrepreneurial venture. Our study suggests that the rhetorical characteristics of narratives may significantly influence investment. Future research could build on our findings to investigate the extent to which the rhetorical content of other narratives, such as business plans, influences investor decision making processes critical to entrepreneurial activities such as venture capital investment (e.g., Kirsch et al., 2009).

### 6.1. Limitations

Although this study makes several contributions to the entrepreneurship literature, these contributions should be understood in light of the study's limitations. One limitation arises from the content analytic technique used in this study. Computer-aided

text analysis relies on a count of the number of times words associated with specific dictionaries are used in a narrative to assess rhetorical strategy. This makes computer-aided text analysis susceptible to the use of words out of context. Additionally, some ability to gather rich understanding inherent in narrative documents is sacrificed in order to evaluate thousands of texts with perfect reliabilities (Duriau et al., 2007). Despite such trade-offs, computer-aided text analysis provides a valuable alternative to human-coded content analyses by enabling researchers to investigate how the narrator uses language without being distracted by the message of the narrative itself (Hart, 2001). Future research might complement this study by using manual or computer-assisted coding techniques to examine how more complex rhetorical devices and strategies are used in entrepreneurial narratives.

This study finds that the language used in entrepreneurial narratives influences microloan funding decisions. The microlending context inherent in our study provides a unique perspective on entrepreneurship in poor communities (Bruton et al., 2011). However, the uniqueness of this context also limits our ability to generalize our study's findings. Future research might examine the external validity of our results by measuring the effect of rhetoric used in entrepreneurial narratives on investment decisions in other contexts. For example, we eliminated several more economically prosperous countries from our sample to focus on the most impoverished countries. Future studies could replicate our analyses in a sample of more prosperous countries to shed light on how the economic prosperity of the entrepreneur's country influences these findings.

Our decision to sample from Kiva.org represents an important research tradeoff in our work. We selected Kiva because it was the most widely-used platform for pass-through microlending at the time this study was conducted, enabling us to implicitly control for pass-through microlending platform-level confounding factors while still providing a large cross-section of international microlending activity. While Kiva data allows for the identification of countries that exhibit general characteristics of extreme poverty, the use of Kiva made it impossible to examine the degree to which individual entrepreneurs exhibited desperate poverty conditions. Also, it is possible that there are platform-level effects on microlending outcomes. Entrepreneurship research has used variance decomposition techniques to examine the extent to which variance in new venture performance is predicted by industry-, firm-, and time-level factors (e.g., Short et al., 2009). These techniques could also be used in the microlending literature to examine what aspects of the pass-through microlending platform, country of the entrepreneur, or the entrepreneur/loan have the greatest impact on microlending outcomes such as funding speed, number of investors, or size of investment per investor.

This study focused on how political rhetoric might lead to investor loan preferences through anticipation of warm glow. While research in economics suggests that warm-glow motivation is conceptually distinct from altruistic motivation (e.g., Andreoni, 1989, 1990), the two constructs are related. Future research might empirically examine the discriminant validity of altruism and warm glow and develop a computer-aided text analytic measure for each to encourage additional research in this area (cf. Short et al., 2010). For example, content analysis has been used to ascertain the discriminant validity of the psychological capital construct with respect to ambivalence by examining the extent of their correlation (e.g., McKenny et al., 2012). Future research develop survey measures assessing warm glow and altruistic motives. The research could then employ nested confirmatory factor analysis to assess discriminant validity. This analysis would allow researchers to examine the discriminant validity of altruism with warm glow and the convergent validity of the two methods of measuring the constructs.

### 6.2. Implications for theory building

The concept of warm glow has primarily been used in the economics literature to explain charitable giving behavior (e.g., Andreoni, 1990). This study presents evidence suggesting that the warm-glow concept can also explain lending behavior. Future studies might further extend warm-glow theory to examine other entrepreneurial investment behaviors where prospective financial return is not the only criterion for deciding whether to invest. For example, social venture capital is dedicated to identifying, funding, and developing socially responsible ventures (e.g., Silby, 1997). Warm-glow theory could be applied to investigate how social venture capitalists select portfolio firms and social entrepreneurs (e.g., Zahra et al., 2009) to suggest that ventures and entrepreneurs that show the most promise for improving societal well-being would be favored.

Although we rely on warm-glow theory to provide an overarching theoretical perspective to understand how the rhetorical content of entrepreneurial narratives influences the speed with which microloans are funded, other theories might also shed light on this relationship. For example, signaling theory (e.g., Spence, 1973) may provide insights concerning entrepreneurs' use of narratives to communicate with potential investors. Signaling theory suggests that economic actors acquire and display credentials that communicate information to others. Signaling theory has previously been applied to investor decision-making and firm funding in traditional financing contexts (Higgins and Gulati, 2006). Because entrepreneurial narratives include signals about the quality of the venture (e.g., Lounsbury and Glynn, 2001; Martens et al., 2007), it is reasonable to expect that these signals are also present in a microlending context. Future microlending research might examine signals that are believed to be related to funding outcomes. For example, an entrepreneur's education or support from other experienced entrepreneurs may be related to venture funding outcomes.

### 6.3. Implications for theory testing

Our analyses suggest that several characteristics of political rhetoric influence the rate of investor funding. However, an examination of the correlation matrix revealed significant relationships among the characteristics. This could indicate the presence of more complex rhetorical strategies involving two or more rhetorical characteristics. Future research could build on our work by examining more complex patterns between rhetoric and key outcomes of interest. For example, the negative relationship between blame rhetoric and rhetorical variety shown in our correlation matrix may suggest that entrepreneurs faced with negative outcomes attempt to shift attributions of blame to an external cause by emphasizing the role of that external cause through repetition of language rather than

using a variety of language. We also detected a negative relationship between blame rhetoric and concreteness rhetoric. This relationship may reflect a more complex rhetorical strategy to blame external causes for the plight of the entrepreneur, while attempting to show how the provision of funds will make the external cause less salient to the success of the entrepreneur. Examining such patterns may shed light on whether some rhetorical patterns are superior in securing investor funding, thus responding to scholars who call for increased use of configurations logic in entrepreneurship research (e.g., Short et al., 2008).

Our sample of microlenders was relatively homogeneous in terms of language and culture. Of the lenders included in our study, 66.1% were from the United States, and another 14% were from Canada, Great Britain, or Australia. Thus, our findings highlight the effect of political rhetoric on microloan funding speed in western, predominantly English-speaking cultures. However, the use of language and semantics can vary significantly across cultures, influencing what rhetoric is identified as being political and the way in which political rhetoric is interpreted (cf. Carroll, 1956). This suggests that individuals from non-western and non-English-speaking cultures might interpret the same entrepreneurial narrative differently, influencing the anticipation of warm glow. Future research might replicate our study in a sample of investors from different cultures to examine the generalizability of our findings to non-western settings.

### *6.4. Implications for practice*

Our results suggest implications for non-governmental organizations (NGOs) and entrepreneurs in both developing and developed countries. Each NGO-entrepreneur dyad essentially competes with other entrepreneurs' loans for funding (cf. Kogan and Morgan, 2010). Because entrepreneurs receive funds regardless of whether the microloan is funded by individual investors, NGOs may have strong incentives to write their microloan entrepreneurial narratives in ways that trigger anticipation of warm glow. As microlending evolves, this may become an important implication for entrepreneurs in developing countries as well. For example, new microlending services have begun to allow low-income entrepreneurs in developing countries to write their own loan request and post it for funding on the Internet. Our results suggest that authors of loan requests should avoid discussing their past accomplishments and that they should emphasize their problems that are the result of blamable external causes. Further, microlending entrepreneurial narratives tend to perform better when they focus on only a few key themes and are written to emphasize the present and current plans for using the microloan proceeds. For individuals in some non-western cultures, these rhetorical strategies may not be normatively employed. This difference may place them at a disadvantage compared to individuals in cultures where these forms of rhetoric are common. Thus, entrepreneurs from these cultures may be more successful if their entrepreneurial narratives were created with the help of an individual who understands the impact of western political rhetoric. Our results also suggest two implications for entrepreneurs in developed countries. First, we provide evidence that website content matters and can influence the decisions individuals make in interacting with organizations. This is consistent with recent research that found claims made by an organization about positive employee relations are related to how attractive the firm is to potential employees (Walker et al., 2012). Second, our results suggest that ventures in the developed world that are likely to trigger anticipation of warm glow from investors (e.g., social ventures) should be aware of how political rhetoric affects fundraising via the warm-glow effect.

## 7. Conclusion

Our study represents the first empirical examination of how the rhetorical characteristics of entrepreneurial narratives influence capitalization outcomes. Our analyses suggest that several characteristics of political rhetoric influence entrepreneurs' success in securing microloans. For entrepreneurship scholars, our study suggests that the language used in entrepreneurial narratives may influence the decision to invest in a new venture. For entrepreneurs, our study suggests that entrepreneurial narratives be carefully crafted to maximize the likelihood of securing funds from potential investors.

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