DISTINCTLY DISTANT: GEOGRAPHIC AND COGNITIVE DISTANCE IN CROWDFUNDED MICROLENDING (INTERACTIVE PAPER)

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Recommended Citation

Available at: https://digitalknowledge.babson.edu/fer/vol34/iss18/8

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Principal Topic

This study examines the assumptions of geographic proximity germane to the entrepreneur-investor dyad in the context of crowdfunded microfinance. Research has suggested that entrepreneurs and investors form geographic clusters due to monitoring costs and investor involvement in management (Chen et al., 2010). In crowdfunded microfinance, monitoring is often conducted by third parties and, thus, investors’ monitoring costs are low and uniform. Therefore, it is unlikely that the traditional geographic proximity relationships hold. We investigate the role of distance in funding outcomes for high-poverty entrepreneurs seeking crowdfunding. Cognitive distance suggests that geographic distance can have a positive effect on organizational outcomes due to the creation of novelty. Thus, we hypothesize that increasing geographic distance between investors and entrepreneurs will be positively related to funding outcomes for high-poverty entrepreneurs. Because microlending is a value driven phenomena we propose value orientation alignment as a means of selection.

Method

Using data from approximately 4,500 entrepreneurs obtained from Kiva, we estimate the effects of distance on the speed of funding. We content analyze entrepreneur funding appeals, facilitator descriptions, and the reasons for lending given by the lender to extract the value orientation of each party. We use the organizational value orientation construct to capture value orientations, (e.g., Payne et. al, 2011). We control for country, loan characteristics, and industry effects in the analysis.

Results and Implications

As we predicted, we find that increasing geographic distance has a positive effect on fundraising outcomes. This finding is consistent with our cognitive distance hypotheses and contrary to what the traditional view of geographic proximity would predict. We argue that lending to high-poverty entrepreneurs who are farther away creates novelty that social lenders find appealing. We find support for the integrity dimension of value orientation in facilitating the speed of the loan. Our results suggest that when the integrity of the party administering the loan matches the lender's espoused integrity, then the lender is more comfortable in making the loan, which leads to better fundraising performance for the entrepreneur.

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