

From Investor Nudges to Small Business Resilience

Can investor messages help small businesses withstand financial shocks?

Subodha Kumar and his coauthors study whether digital nudges, messages that encourage action without restricting choice, can help small businesses withstand cash-flow disruptions. Their setting is revenue-based lending, where repayments are tied to business revenue. Their focus is financial slack: readily available cash that helps firms meet urgent expenses.

An eight-week field experiment on a major Asian lending platform randomly assigned 19,107 registered investors to six groups: four message types, a neutral message and no message. The main analysis examined 1,410 investors who invested during the study and repayment outcomes for the loans they funded.

Messages emphasizing the ease and convenience of investing increased investment activity, reduced borrower delinquency and shortened loan payoff periods. Messages about long-term financial goals had smaller, statistically weaker benefits. Competitive and cooperative messages did not significantly improve outcomes.

Follow-up experiments and interviews with 13 borrowers point to financial slack as the main mechanism. Borrowers described using timely funding to pay employees and suppliers and replenish inventory. For lending platforms, reducing investors' perceived effort can support a steadier flow of working capital, not just greater participation. The findings concern registered investors on one platform, not recruitment of new investors.

MAJOR TAKEAWAYS:

- Ease-and-convenience messages increased investment activity, reduced borrower delinquency and shortened loan payoff periods.
- Long-term goal messages produced smaller, statistically weaker gains. Competitive and cooperative messages showed no significant benefits.
- Follow-up evidence points to financial slack, or readily available cash, as the main mechanism supporting borrower resilience.

WHO NEEDS TO KNOW:

- Revenue-based lending platform managers
- Fintech marketing and product teams
- Small business owners and finance managers
- Small business financing advisers

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