THE IMPACT OF BEHAVIORAL FINANCE ON INVESTMENT DECISION MAKING ON SMALL MEDIUM ENTERPRISES(SMEs) CASE STUDY: MUKONO DISTRICT

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UGANDA CHRISTIAN UNIVERSITY

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DECLARATION

I RWIRIRIZA SARAH declare that this is my original work and to the best of my knowledge, it has never been submitted to any University or institution for a degree award.

Signed .....

Date 14th/04/2026

APPROVAL

This is to certify that this research report was done by Rwiririza Sarah, Reg No: M23B05/102 on a topic "The Impact of Behavioral Finance on Investment Decision-Making on Small and Medium Enterprises (SMEs): Case Study of Mukono District" under my supervision and I hereby approve it for submission for the award of the degree of Bachelor of Business Administration of Uganda Christian University

SIGNATURE.....

NAME OF SUPERVISOR: AKINYI LORRAINE

Date 10/04/2026

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DEDICATION

I dedicate this research report to my beloved parents, and my family, for their unwavering support, encouragement, and guidance throughout my academic journey. I also dedicate it to all SME owners and managers who inspired this study through their dedication and hard work in contributing to the growth of small and medium enterprises in Uganda

TABLE OF CONTENT

ABBREVATIONS

A. – Agree

CIPS – Chartered Institute of Procurement & Supply

DA. – Disagree

MSMEs – Micro, Small, and Medium Enterprises

NS – Not Sure

PHD. – Doctor of Philosophy

SA. – Strongly Agree

SDA. – Strongly Disagree

SDV – Standard Deviation Value

SMEs – Small and Medium Enterprises

SPSS – Statistical Package for Social Sciences

ABSTRACT

This study examined the impact of behavioral finance on investment decision-making in Small and Medium Enterprises (SMEs) in Mukono District, Uganda. The study specifically aimed to investigate how specific behavioral biases, herd behavior, and behavioral finance principles influenced investment decisions and risk-taking among SME owners. The research adopted a descriptive and quantitative design, targeting 25 SME owners and managers within Mukono District, with a final sample size of 24 respondents determined using Slovin's formula. The data collection techniques used in the study were structured questionnaires and descriptive statistics like frequencies, percentages, mean, and standard deviations among others. The results indicated that overconfidence, loss aversion, anchoring, and confirmation biases had significant impacts on the investment decision-making process. Specifically, they led to the use of judgmental techniques in decision making, avoidance of risky investments, and the use of past information. Herding behavior played a key role in terms of when and what type of investments should be made by the owners of small and medium-sized enterprises since they followed market trends and replicated other people's businesses. Principles of behavioral finance such as overconfidence, optimism and loss aversion also influenced the risk behaviors adopted by the SMEs owners whereby they opted for investments that would give profit and minimize any losses. Generally, it can be noted that the behavior biases and principles had considerable impacts on the investments and risk-taking practices. Therefore, the study recommends that the owners of SMEs develop better processes for evaluating investments and minimize dependency on market trends and herding behaviors. Financial education is also recommended to help reduce the effects of behavior biases.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The discussion in this chapter was related to the presentation of the problem of the research including its background, the histo Brical background of the organization, the statement of the problem and the objectives of the study, conceptual framework and scope. The chapter also discussed the importance and significance of the study based on the effect of behavioral finance in investment decision making.

1.1 Background of the Study

Business management especially among small and medium enterprises (SMEs) involves investment decision-making as a significant aspect. All decisions concerning resource allocation in terms of expanding operations, attaching new technologies, and diversification of products had long term effects on growth, profitability and sustainability. Traditional financial theories presupposed that investors were rational and they made decisions to maximize utility using available information. Nevertheless, psychological, emotional, and social factors proved to be more likely to make people not act rationally (Kahneman and Tversky, 2019; Barberis, 2020). Consequently, behavioral finance was identified as a cross-disciplinary area that integrated the knowledge of psychological and economic sciences when it came to understanding the role of cognitive biases in shaping financial and investment decisions (Luu, 2020).

SMEs were considered key innovation drivers, job creators, and economic growth generators with the majority of businesses in developed and developing economies (Nguyen and Nguyen, 2021). Although SMEs were economically important, they faced problems in accessing capital, risk management and development of managerial skills. These limitations predisposed their investment choices in particular to behavioral biases including overconfidence, herd behavior, and loss aversion. Overconfident entrepreneurs could also overrate their skills and underestimate possible risks, while herd behavior made them follow peers without analyzing independently (Raut, Das, and Kumar, 2021). Similarly, loss aversion made SMEs avoid profitable opportunities due to the fear of loss (Nduka, 2023).

African SMEs played a crucial role in both employment and industrialization. However, despite this significance, they made decisions regarding investments from intuition rather than analyzing the numbers as they lacked financial information and consultations (Kiprop & Kibet, 2020). In turn, this resulted in the prevalence of cognitive biases that included overconfidence and herd behavior, which led to poor investment outcomes. For example, herd behavior was reported when entrepreneurs jumped into a hot industry like retail or transportation, and the market became saturated with poor returns (Ayeni, 2022). Likewise, overconfidence resulted in premature expansion and under-analysis of the venture by business people, whereas loss aversion made them hesitant to engage in risky but potentially rewarding projects (Munyua & Njenga, 2023).

The SMEs constituted the largest proportion of businesses in the Ugandan scenario, being employers of millions of citizens as well as significant contributors to the country's GDP. Nonetheless, the small firms encountered problems associated with lack of finances, proper risk management, and low financial literacy among their owners (Nalukwago, 2022). The aforementioned issues made cognition and emotions play an important role when deciding to invest in certain assets. In some cases, small entrepreneurs based their decisions on overconfidence and imitation of others, which

could be considered manifestations of the discussed behaviors (Kasozi & Mugisha, 2024). Moreover, loss aversion prevented entrepreneurs from engaging in promising industries owing to fear of losses.

While behavioral finance has continued to receive more global recognition in the recent past, there was no adequate literature on the impact of psychological factors that have an effect on investment decisions of small and medium enterprises in Uganda. Majority of the local researches concentrated on factors like financing difficulties and market competition ignoring behavioral finance issues, thus making the study necessary (Nduhura, 2021; Tumwesigye, 2024).

1.2 Problem statement

In the case of investment decisions in SMEs, it was found that the factors influencing these decisions were more behavioral than logical financial considerations. These biases included overconfidence, herd behavior, and loss aversion, which impaired entrepreneurs' decision-making abilities, resulting in overinvestment, copying others, or avoiding profitable yet risky investments (Barberis, 2020; Rahawarin, 2023). In developing countries, this attitude affected the outcome of their investment decisions and hindered growth (Munyua & Njenga, 2023). In the case of Uganda, SMEs encountered similar problems since their decision-making depended on their instinctive behavior and peer influence without considering financial facts (Nalukwago, 2022). Nevertheless, prior literature mostly covered structural factors like financing and taxation without addressing psychological elements behind investments (Tumwesigye, 2024). This created a gap in understanding how cognitive biases shaped SME investment decisions. Therefore, this study examined the impact of behavioral finance on investment decision-making among SMEs in Mukono District, Uganda.

1.3 General objective

i. To investigate the impact of behavioral finance on investment decision-making in Small and Medium Enterprises (SMEs) in Uganda

1.4 Specific objectives of the study

i. To analyze how specific behavioral biases impact financial and investment outcomes in SMEs.
ii. To assess the impact of herd behavior on the timing and selection of investment opportunities among SMEs.
iii. To evaluate the impact of behavioral finance on SMEs' risk-taking.

1.5 Research questions

i. How **do** specific behavioral biases impact financial and investment outcomes in SMEs?
ii. How **does** herd behavior impact the timing and selection of investment opportunities among SMEs?
iii. How **do** behavioral finance principles impact SMEs' risk-taking?

1.6 Scope of the study

The scope of the study covered three dimensions that is; content, geographical and time and these were discussed in detail below.

1.6.1 Content scope

The study focused on the influence of behavioral finance on investment decisionmaking among Small and Medium Enterprises (SMEs) in Uganda. Specifically, it analyzed how specific behavioral biases affected financial and investment outcomes in SMEs, financial planning, and the role of herd behavior in shaping investment decisions in SMEs.

1.6.2 Geographical scope

The study focused on Small and Medium Enterprises (SMEs) in Mukono District, Uganda. There were many active SMEs in this area, which suited the investigation of the influence of behavioral factors on investment decisions.

1.6.3 Time scope

The analysis focused on the years 2019 to 2025, as this involved the latest trends and developments in behavioral finance and how it influenced investment decision making among Small and Medium Enterprises (SMEs).

1.7 Significance of the study

This study was important as it provided insight into the impact of behavioral finance on investment decision-making, which revealed how cognitive bias impacted the assessment of risks, financial planning, and evaluation of investment opportunities. Through such behavioral factors, owners of SMEs were able to make better and more rational investment decisions, minimize the probability of poor decision-making and increase business sustainability. Also, the results helped policymakers and financial institutions implement specific interventions, training programs and financial products to deal with the influence of cognitive biases on investment behavior. The study had academic value because it was one of the few studies on behavioral finance in Uganda that provided evidence on the practical value of how behavioral finance could be

applied in investment decisions and formed a basis for future research in emerging markets.

1.8 Limitation of the study

i. The research was restricted to SMEs in the Mukono District that can limit the possibility of generalizing the results to other regions or sectors.
ii. It depended on the information given by the owners of SMEs, which is subject to personal views or inaccurate memory.
iii. The study was confined to select behavioral bias of overconfidence, loss aversion, and herd behavior unlike other aspects that influence investment choices.

CHAPTER TWO

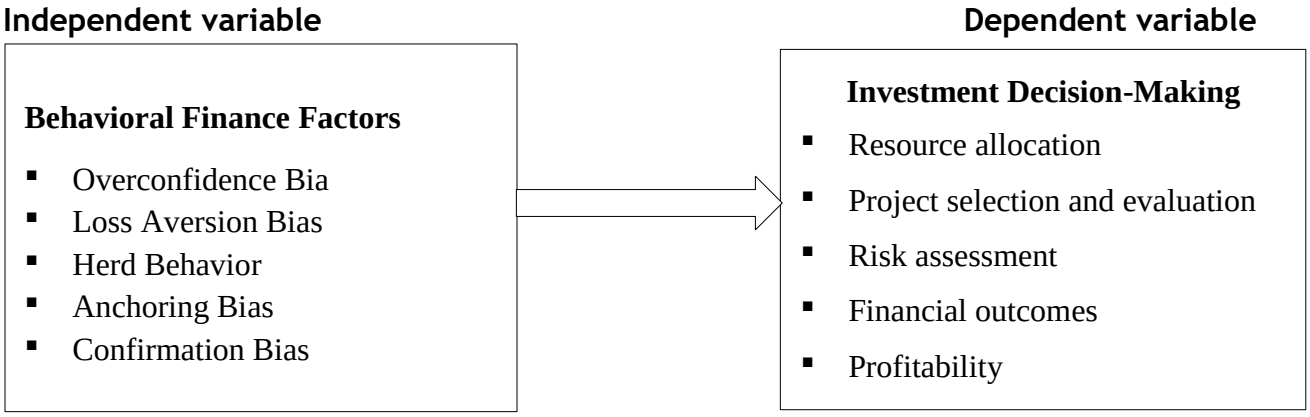
LITERATURE REVIEW

2.0 Introduction

This chapter showed the literature review on the objectives of the study. It involved the generalization of the key ideas and empirical survey on the aims of the research objectives of the study.

2.1 Conceptual Framework

Figure 1: Conceptual Framework



Source: Adapted from Benayad & Aasri (2020)

The conceptual framework demonstrated the connection between SMEs of behavioral finance and investment decision making and the extent that cognitive biases affected financial choices. SME proprietors were influenced by behavioral biases such as overconfidence, loss aversion, herd behavior, anchoring, and confirmation bias with

respect to how each factor affected the process of opportunity evaluation, resource allocation, and risk analysis. Overconfidence resulted in overestimates of knowledge or underestimates of risk and led to overinvestment or poor project choice. The fear of loss made owners reluctant to venture into areas with huge potential but at the same time high risks. Herd behavior ensured that the investments made by competing firms were followed, creating crowded markets or lost chances. Anchoring and confirmation bias affected the decision-making process since they made the decision-making process depend on historical data or confirmation bias. The effect of these biases was seen in significant ways in various aspects of investment decisions including resource allocation, project selection, and risk management, and ultimately in the growth and sustainability of the firms.

2.1 Theoretical Literature Review.

2.1.1 Prospect Theory

One of the theories in the research was the Prospect Theory that was formulated by Kahneman and Tversky (1979). Prospect Theory contrasted with traditional models, which postulated that people assessed possible gains and losses considering them in relation to a reference point instead of absolute wealth. Notably, loss was viewed as more painful than receiving an equivalent gain was pleasant, a concept referred to as loss aversion. In the case of SMEs, this meant that where an investment had high potential returns, the owner could reject it on the basis of being exposed to loss, although the total expected returns were positive. Prospect Theory also stressed probability weighting whereby individuals tended to overestimate slim chances of extreme events and underestimate those that were likely to occur. Practically, an SME might overrate the risk of catastrophic failure and, as a result, underinvest in other potentially successful ventures. The theory was directly related to behavioral biases such as loss aversion and risk misperception and was therefore applicable in investment decision-making.

2.1.2 Bounded Rationality Theory

Bounded Rationality Theory was coined by Herbert Simon (1957). This theory stated that decision-makers did not make decisions using all possibly available information, time, and mental capacity. They did not attain perfect rationality, but they attained decisions that were satisfactory, what Simon termed as satisficing. As applied to SME owners, bounded rationality described the reliance on heuristics, intuition and rules of thumb over exhaustive financial analysis. When there were limited resources and market uncertainties, it was not feasible to realize all options to completion. This limitation created room for biases like anchoring, confirmation bias, and overconfidence to impact decisions. This theory supported the point of view that behavioral finance offered a more realistic explanation of the ways SMEs made investment decisions by recognizing that rationality was inherently constrained.

2.1.3 Overconfidence Theory

Another theory that offered understanding of SME investment behavior was the Overconfidence Theory. It indicated that people tended to believe that they had more knowledge, predictive power, and control over occurrences (Barber and Odean, 2001). In SMEs, overconfident managers spent more money on business without careful examination of risks, considering that their intuition or past performance would yield returns in future. Although entrepreneurship required some level of confidence, overconfidence caused failure in resource allocation, wrong project selection, and resulted in financial burdens. The theory was relevant to the study as it demonstrated how distorted rational decision-making in investment was caused by biased selfperceptions.

2.1.4 Herding Theory, the Anchoring and Adjustment Theory

Herding Theory and the Anchoring and Adjustment Theory provided another valuable point of view as they highlighted external factors and mental shortcuts in SME investment patterns. Herding Theory explained how businesses tended to imitate the moves of others instead of acting independently (Bikhchandani and Sharma, 2001). Practically, SME owners followed others believing they were more informed, which reduced uncertainty but often led to inefficiencies such as overpopulation in industries and ignorance of new opportunities. Anchoring and Adjustment Theory focused on people's dependence on reference points when making judgments and their insufficient adjustment despite new information (Tversky and Kahneman, 1974). For SME owners, this bias appeared in decisions based on historical performance or expected prices, leading to outdated assumptions that did not support effective decision making. Combined, these theories explained how social influence and mental anchors restricted rationality and directed SMEs toward decisions that were safe but not necessarily strategic.

2.2 Empirical Review

2.2.1 To analyze how specific behavioral biases impacts financial and investment outcomes in SMEs.

The overconfidence bias entailed the propensity for individuals to overestimate themselves in terms of information, skill or ability to influence outcomes. In the case of SMEs, the bias led to an excessively optimistic view of available opportunities and culminated in poor investment decisions. In recent times, there have been many research findings on the substantial impact of overconfidence bias on the decisionmaking process of investing by SMEs. For instance, Karki (2024) conducted research on overconfidence bias and found that overconfident managers over-invested and failed to take into account critical market cues but rather made judgments from subjective perceptions. On a similar note, Lamptey et al. (2020) found out that

overconfident managers in SMEs overestimated future sales and underestimated future variations in cash flow. As a result, there was too much inventory investment and possible financial problems for the businesses. Benayad (2023) investigated the impacts of optimism, overconfidence, risk-aversion, mimicry, and intuition bias on SME managers in Morocco. The findings suggested that the overconfidence bias had an impact on investments, but it was insignificant. Loss aversion bias, which is the idea that losses are weighed more than gains psychologically, was another behavioral bias that had a negative impact on investment activities for SMEs. According to Jia Zhou (2023), loss aversion was associated with irrational reluctance from making investments. The same effect was highlighted by Van Dolder (2024) who stated that people paid more attention to avoiding losses rather than earning more. In case of SMEs, the issue arose when entrepreneurs were reluctant to expand their businesses because of loss avoidance. In addition, according to Rafinda et al. (2024), knowledge about loss aversion and other types of behavior biases was crucial to improving investment decision-making in SMEs. The same was reported by Almansour (2023) whose research was based on a cross-country study and proved that loss aversion had a significant influence on investment behaviors. Finally, anchoring bias was defined as the need of a person to anchor themselves to some point when making decisions. Anchoring in SMEs resulted in poor financial forecasts and project choices due to the dependence on previous data. In a similar manner, Mardiana et al. (2025) found that anchoring effect depended on interactions with other types of cognitive bias.

The term “confirmation bias” referred to the propensity to search for information confirming existing views while neglecting data refuting them. This type of bias led SME investors to give preference to data supporting their original ideas. Confirmation bias made SME investment decisions inefficient due to the reinforcing role of this type of cognitive bias (Sahetapy, 2025; Shunmugasundaram, 2025). The coexistence of anchoring and confirmation bias led to greater mistakes in decision-making processes. SMEs’ owners focused on initial assumptions and selectively processed information, leading to ineffective management of resources and missed opportunities (Rafinda et al., 2024).

2.2.2 To assess the impact of herd behavior on the timing and selection of investment

Herd behavior referred to the propensity by either individuals or firms to adopt behaviors similar to other players rather than make independent judgments based on market analysis. For SMEs, herd behavior entailed entrepreneurs emulating their competitors or adopting the latest practices in the industry. The result of this imitation was overinvestment in certain industries as well as lack of innovation. Literature reviewed revealed that SME owners emulated their counterparts particularly when there were economic uncertainties (Raut, Das, and Kumar, 2021; Kiprop & Kibet, 2020).

Literature reviewed further indicated that herd behavior had an effect on the timing and nature of investments by entrepreneurs. This was because entrepreneurs tended to invest in certain industries following their successes in specific fields (Kengatharan and Kengatharan, 2023). Nonetheless, this herd behavior led to over-saturation of the industry as well as unstable profits. Entrepreneurs operating in areas like Mukono engaged in projects believed to yield profits, such as retail businesses and mobile money transactions, because of social influence and lack of credible market information (Mugume, 2025). Herd behavior also influenced the periods in which investors made their investments, whereby they invested in periods of prosperity and withdrew during economic downturns (Nduka, 2023).

Social networks facilitated the phenomenon of herd behavior among entrepreneurs because investors relied on information from their peers rather than market research (Rahmawati and Raharja, 2023). Investors' perception of better information from their peers motivated them to emulate them (Tan, 2023). Quantitative analyses confirmed herd behavior through methods such as cross-sectional absolute deviations and time series analysis (Indars, Savin, and Lubloy, 2019). It was observed that SMEs would enter the industry en masse after seeing successful projects initiated by pioneers (Adnan, 2023).

Regional studies also confirmed herd behavior among African SMEs. Businesses such as retail shops, transport services and mobile money outlets were commonly imitated due to perceived profitability (Nalukwogo, 2022). Limited access to market intelligence encouraged reliance on word-of-mouth communication and social media (Kasozi and Mugisha, 2024). The economic consequences of herd investment behavior were significant. High concentration in certain sectors reduced profits and limited innovation (Benayad and Aasri, 2020). However, improved financial literacy and access to advisory services helped reduce herd behavior (Saltik et al., 2024). Training programs and mentorship encouraged entrepreneurs to make independent investment decisions based on proper analysis (Indi, 2025).

2.2.3 To evaluate the impact of behavioral finance on SMEs' risk-taking.

The behavioral finance was a helpful way to view the role of psychological factors in the attitude of entrepreneurs toward risk taking. Contrary to other conventional financial theories (that all investors were purely rational), behavioral finance focused on the significance of emotions, perceptions, and cognitive biasness in making financial decisions. When making investment decisions, entrepreneurs were often guided not only by objective financial data but also by beliefs, experiences, and social influences. Overconfidence, optimism, loss aversion, and herd bias affected the timing and behavior of investments, business sectors, and resource distribution in SMEs (Barberis, 2020). SMEs tended to have these biases to a greater extent since they were in

resourceconstrained situations with market uncertainty coupled with a lack of access to expert financial advice (Benayad, 2023).

Overconfidence bias was the propensity of business people to overrate their capabilities, expertise, or business control. Such bias could provoke SME owners to underestimate potential risks and make excessively ambitious investment decisions. Confident and overconfident managers viewed their businesses or projects as being better than others and ended up putting too many resources into projects that were not proven to be successful or were expanded too early. A study in Vietnam demonstrated that overconfident managers of SMEs tended to take high risks in investments in situations when the market showed that it was not safe (Nguyen and Nguyen, 2021). On the same note, overconfidence resulted in managers failing to consider relevant market data and incurring unsustainable levels of debt as well as making poor expansion choices (Shah et al., 2024). In Uganda, the owners of SMEs often did not perform risk analysis and instead used intuition or recommendations from their peers, which made financial resilience vulnerable to market shocks (Nalukwigo, 2022).

Loss aversion bias was what happened when the perceptions of entrepreneurs were stronger regarding possible losses compared to potential gains. This bias habitually made the owners of SMEs shun innovative but doubtful investment chances due to the fear of financial failure. This led to many businesspeople opting to grow progressively and with lower risk instead of venturing into businesses that had higher potential. Research indicated that loss-averse SME owners tended to ignore profitable opportunities in order to reduce perceived financial risk (Lamptey et al., 2020). Sensitivity to losses was often high, which reduced profit potential and slowed business growth (Van Dolder, 2024). Decision-makers in most SMEs focused on preventing losses instead of pursuing new opportunities, which restricted innovation and revenue growth (Almansour, 2023).

Another important factor in SME risk-taking was herd behavior. Entrepreneurs occasionally followed the investment decisions made by their counterparts without conducting any market analysis. Such imitation resulted in coordinated entry into popular industries and led to market saturation. Research showed that herd mentality pushed SMEs to venture into seemingly lucrative markets without sufficient consideration of the demand situation (Shah et al., 2024). The imitation of highperforming ventures by SMEs was also observed to be more pronounced in contexts where reliable market information was limited (Jain et al., 2023). Entry into sectors such as retail trade and mobile-money services in Uganda was mostly observed when other SMEs had realised success in the same businesses, resulting in increased competition and reduced profit margins (Mugume, 2025).

Another reason that influenced entrepreneurial risk-taking was optimism bias. This was a type of bias in which entrepreneurs overestimated the chances of positive outcomes and underestimated potential threats. Optimistic SME managers were more willing to invest in risky projects because they were strongly confident that their businesses would be successful (Lamptey et al., 2020). Optimism stimulated innovation and growth, but excessive optimism also resulted in over-investment or unsustainable growth plans (Munyua & Njenga, 2023). The possibility of making poor financial choices and being exposed to market risk was high when optimism was combined with overconfidence.

SMEs in terms of investment were also affected by other forms of psychological bias such as the availability heuristic and framing effects. The availability heuristic occurred when entrepreneurs made judgments about opportunities using information that was easiest to recall, such as recent success stories or noticeable business trends. This led SME owners to allocate resources to areas that appeared promising on the surface instead of areas supported by objective analysis (Sudirman et al., 2023). Framing effects also influenced how entrepreneurs interpreted financial information, meaning that the way an opportunity or risk was presented influenced investment decisions (Cantarella et al., 2023). These psychological effects showed that SME decision-making was influenced not only by rational analysis but also by perceptions and the presentation of information

According to behavioral finance studies, the adverse consequences of cognitive bias could be mitigated through improved financial literacy, mentorship, and decisionsupport systems. More balanced and rational investment decisions were encouraged through training programs that provided entrepreneurs with structured financial tools and high-quality market information (Almansour, 2023). Sustainability, profitability, and innovation among SMEs could therefore be enhanced through access to advisory services and financial education, which helped entrepreneurs identify and control behavioral biases in decision-making (Rosyidah, 2022).

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

In this chapter, the research methodology that was used in the proposed study was presented as follows: The Impact of Behavioral Finance on Investment Decision-Making in Small and Medium Enterprises (SMEs). It presented the research design, the target population, sample size, sampling methods, data collection methods, data analysis, and ethical issues.

3.1 Research Design

The research used a descriptive and quantitative research design. Aquino et al. (2018) stated that a descriptive design entailed gathering and examining information to illustrate the nature of a group or a phenomenon in its form. The design was suitable since it allowed the researcher to extract factual data among SME owners and managers on the impact of behavioral factors on their investment decisions. It was in a quantitative approach and this permitted the gathering of numerical data from the respondents by use of structured questionnaires. This method enabled the statistical analysis and the establishment of relations between the biases of the behavior and the investment decision-making.

3.2 Target population

This study focused on 25 owners and managers of Small and Medium Enterprises (SMEs) who were based within the Mukono District, Uganda. The choice of this population was based on the fact that SMEs in this region had a mix of sectors, including trade, manufacturing, services, and agricultural industry and hence provided a wide range of analysis regarding the impact of behavioral finance on investment decision-making. The sample size of the study was determined based on the total population of 25 SMEs.

3.3 Sample Size

Katamba and Nsubuga (2014) defined sample size as the section or part of the entire population. The sample size was calculated using the formula of Slovin:

$n = N / (1 + N(e)^2)$

The formula was used to calculate the sample size (n) with N being the entire population of 25 SMEs, and e, which was the margin of error, being 0.05.

$$n = \frac{25}{1 + 25(0.05)^2}$$

$$n = \frac{25}{1 + 25(0.0025)}$$

$$n = \frac{25}{1 + (0.0625)}$$

$$n = \frac{25}{1.0625}$$

n = 24

Therefore, the research was based on a population of 24 respondents, who were sampled among the owners and managers of SMEs within Mukono District.

Table 1: Target Population, Size and Selection

Category of Respondents	**Population**	**Sample Size**
Retail and Trade SMEs	13	13
Service SMEs	10	10
Manufacturing SMEs	2	1
Total	25	24

Source: Primary data 2025

3.4 Sample Techniques

A stratified sampling method was used in the study with convenience sampling in each stratum. The SMEs were initially clustered into three industry strata namely, retail, services, and manufacturing. In each stratum, the respondents were conveniently sampled in areas of high density, including markets, shopping malls as well as trading centers. This was used to guarantee that there was representation within various areas of the SMEs besides enabling convenient accessibility to the respondents, as it was difficult to go to all the individual businesses in Mukono District.

3.5 Data Sources

Both primary and secondary sources were used to collect data.

3.5.1 Primary Data Sources

Structured questionnaires were used to collect primary data directly from the owners, managers, and employees of SMEs in Mukono District.

3.5.2 Secondary Data Sources

Secondary data was obtained from existing literature, including textbooks, academic journals, published research papers, institutional reports, and credible online publications related to behavioral finance, investment decision-making, and SME management.

3.6 Data collection method

The study used both questionnaires and interview guide to collect primary data for the study.

Questionnaires

A questionnaire offered respondents the liberty to provide data in specifics due to the open-ended nature of some of the items it contained (Creswell, 2014). Since a sizable portion of the population was semi-illiterate, the researcher employed questionnaires. Because they were simple to complete, saved time, and helped respondents stay more focused on the topic, the researcher created both closed- and open-ended questions (Likert scale format).

The questionnaire was broken down into sections containing questions on the dependent variable, the independent variable, and personal information. Since questionnaires were the primary means of gathering data, they were used. This benefited the researcher because it took less time to cover a wide population. The questionnaires were the most effective tools for quantitative research since they allowed anonymity, which suggested that the answers were more truthful. The guidelines for how to approach and respond to the questions were made evident to the respondents. As a result, information from the chosen respondents was gathered via the questionnaire.

3.7 Data analysis

3.7.1 Analysis of quantitative data

After data collection, responses were coded and entered into the Statistical Package for Social Sciences (SPSS) for analysis. Descriptive statistics such as frequencies, percentages, and means were used to summarize the data. Analysis of the results from the survey through Likert scale was conducted to ascertain the extent of agreement among the respondents about the effects of each behavioral aspect on decision making. This analysis used tables, graphs, and charts to present the data for better understanding.

3.8 Ethical Considerations

The researcher made it clear that participation in the study was voluntary and that the respondent was free to decline or withdraw anytime during the research period.

The researcher guaranteed the participants that their information would never be made available to anyone who was not involved in the study and remained confidential for the purposes it was intended for.

3.9 Measurement of Variables

The study variables were measured using a five-point Likert scale ranging from 1 = Strongly Disagree to 5 = Strongly Agree. Overconfidence bias was assessed through indicators such as overestimation of knowledge and optimism in decision-making, while loss aversion focused on fear of risk and reluctance to invest in uncertain ventures. Anchoring and confirmation bias were measured by reliance on past experiences and selective perception, herd behavior by peer influence and imitation of competitors, and investment decision-making by project selection, risk management, and financial outcomes.

CHAPTER FOUR

RESEARCH FINDINGS AND INTERPRETATION OF RESULTS.

4.0 Introduction

This chapter presents analyses and interprets the study findings. It specifically presents the response rate, background of the respondents, description of variables and findings of the study objective.

4.1 Response Rate

A total of 24 questionnaires were issued and 24 were turned as shown in table 4.1 below.

Table 4.1: Response rate

Category of Respondents	**Questionnaire issue**	**Questionnaires returned**	**Response rate (%)**
Retail and Trade SMEs	13	13	**100**
Service SMEs	10	10	**100**
Manufacturing SMEs	1	1	**100**
Rating	**24**	**24**	**100**

Source: Primary data 2026

Table4.1 above shows an overall response rate of 100% which was maximum and suggesting that the survey results were representative.

4.2 Background of the respondents

This section reflects the distribution of respondents by sex, age, experience, marital status, categories of respondents and education level as shown in Table 4.2.

Table 4.2: Background Information on the Respondents

Variable	Category	Frequency	Percentage (%)

Sex of the respondent	Male Female	13 11	54.2 45.8
	Total	24	100.0
Marital Status	Married Single	8 16	33.3 66.7
	Total	24	100.0
Age groups of the respondent	18-24 years 25-34 years 45-44 years 55 and above	2 12 6 4	8.3 50 25 16.7
	Total	24	100.0
Highest education level	Certificate/Diploma Master's degree Bachelor's degree PHD	13 2 8 1	54.2 8.3 33.3 4.2
	Total	24	100.0
Category of respondents	Retail and Trade SMEs Service SMEs Manufacturing SMEs	13 10 1	54.2 41.7 4.2
	Total	24	100.0
Working experience	Below 1 years 1-3 years 4-6 years 6 and above years	5 9 5 5	20.8 37.5 20.8 20.8
	Total	24	100.0

Source: Primary data 2026

From Table 4.2, most of the respondents were males with 54.2% compared to females with 45.8%. This indicates that a slight majority of the SME owners who participated in this study were male.

Table 4.2 also shows that most respondents were aged between 25–34 years, representing 50.0% of the sample, followed by those aged 35–44 years at 25.0%, then respondents aged 55 years and above at 16.7%, and finally the youngest group of 18–24 years at 8.3%. This suggests that the majority of SME owners who participated in this study were relatively young adults aged 25–34 years.

Regarding the highest level of education, most respondents were Certificate/Diploma holders with 54.2%, followed by those with a Bachelor's degree at 33.3%, Master's degree holders at 8.3%, and a small proportion with a PhD at 4.2%. This suggests that most SME owners in the study had attained a Certificate or Diploma level of education.

Table 4.2 further shows that most respondents belonged to Retail and Trade SMEs with 54.2%, followed by Service SMEs with 41.7%, and a small proportion in Manufacturing SMEs at 4.2%. This indicates that the majority of SMEs represented in the study were involved in Retail and Trade activities.

Finally, most respondents had 1–3 years of working experience, representing 37.5% of the sample, followed by those with below 1 year at 20.8%, and both 4–6 years and 6 years and above at 20.8% each. This suggests that most SME owners who participated in this study had relatively short working experience of 1–3 years.

4.3 How specific behavioral biases affect financial and investment outcomes in SME?

The first objective of the study was to examine how specific behavioral biases affect financial and investment outcomes in SME was measured using 8 items scored on a five-point Likert scale ranging from 5= Strongly Agreed, 4=Agree,3=NotSure,2=Disagree,1=Strongly Disagree and the findings are presented in Table 4.3

Table 4.3: Description of how specific behavioral biases affect financial and investment outcomes in SME

How specific behavioral biases affect	Agree F (%)	Not sure F (%)	Disagree F (%)	Mean	SDV	Interpretation

financial and investment outcomes in SME	SA	A	NS	DA	SDA			
Overconfidence leads SME owners to rely on personal judgment over external advice in investment decisions.	15 (62.5%)	5 (20.8%)	2 (8.3%)	1 (4.2%)	1 (4.2%)	4.33	1.08	Very High
Loss aversion causes SME owners to avoid investments with potential financial loss, even when returns are high.	12 (50.0%)	8 (33.3%)	2 (8.3%)	1 (4.2%)	1 (4.2%)	4.21	1.02	Very High
Anchoring causes SME owners to base investment decisions heavily on initial information or past experiences.	11 (45.8%)	7 (29.2%)	3 (12.5%)	2 (8.3%)	1 (4.2%)	3.96	1.15	High

Confirmation bias causes SME owners to seek information that supports pre-existing beliefs about investments.	10 (41.7%)	8 (33.3%)	3 (12.5%)	2 (8.3%)	1 (4.2%)	3.96	1.12	High
Overconfidence causes SME owners to underestimate the risks associated with new investments.	11 (45.8%)	8 (33.3%)	2 (8.3%)	2 (8.3%)	1 (4.2%)	4.04	1.15	High
Loss aversion makes SME owners prefer safe, lowreturn ventures over riskier, innovative opportunities.	12 (50.0%)	5 (20.8%)	4 (16.7%)	2 (8.3%)	1 (4.2%)	4.04	1.23	High
Anchoring influences SME owners to let previous investment outcomes dictate current choices.	9 (37.5%)	9 (37.5%)	3 (12.5%)	2 (8.3%)	1 (4.2%)	3.96	1.12	High

Confirmation bias leads SME owners to ignore or downplay information that contradicts initial investment ideas.	10 (41.7%)	9 (37.5%)	3 (12.5%)	1 (4.2%)	1 (4.2%)	4.08	1.06	High
Overall behavioural biases(Mean and SD)	_	_	_	_	_	4.07	1.12	High

Source: Primary data 2026

Table 4.3 presents the findings on how specific behavioral biases affect financial and investment outcomes in SMEs. The results indicate that most respondents strongly agreed that overconfidence leads SME owners to rely on personal judgment over external advice in investment decisions (mean = 4.33, SDV = 1.08), suggesting that personal judgment heavily influences investment choices. Similarly, loss aversion was reported to cause SME owners to avoid investments with potential financial loss even when returns are high (mean = 4.21, SDV = 1.02), reflecting a cautious approach to risk. The findings also show that anchoring affects SME owners by making them base investment decisions on initial information or past experiences (mean = 3.96, SDV = 1.15), while confirmation bias leads owners to seek information supporting pre-existing beliefs (mean = 3.96, SDV = 1.12), indicating moderate agreement on reliance on prior knowledge. Overconfidence was also noted to cause underestimation of risks associated with new investments (mean = 4.04, SDV = 1.15), and loss aversion drives preference for safe, low-return ventures over riskier opportunities (mean = 4.04, SDV = 1.23). Additionally, anchoring influences owners to let previous investment outcomes dictate current choices (mean = 3.96, SDV = 1.12), while confirmation bias results in ignoring information contradicting initial investment ideas (mean = 4.08, SDV = 1.06)..

4.4 How does herd behavior impact the timing and selection of investment opportunities among SMEs in Mukono?

The second objective of the study was to examine how does herd behavior impact the timing and selection of investment opportunities among SMEs in Mukono. It was measured using 8 items scored on a five-point Likert scale ranging from 5= Strongly Agreed, 4= Agree, 3=Not Sure, 2=Disagree, 1=Strongly Disagree and the findings are presented in Table 4.4

Table 4.4: Description on how does herd behavior impact the timing and selection of investment opportunities among SMEs in Mukono

How does herd behaviour impact the timing and selection of investment opportunities among SMEs in Mukono	Agree F (%)		Not sure F (%)	Disagree F (%)		Mean	SDV	Interpretation
	SA	A	NS	DA	SDA			
Herd behaviour causes SME owners to invest in sectors that are currently popular among peers.	10 (41.7%)	8 (33.3%)	3 (12.5%)	2 (8.3%)	1 (4.2%)	4.00	1.14	High
Loss aversion causes SME owners to avoid investing in innovative but uncertain ventures.	10 (41.7%)	7 (29.2%)	3 (12.5%)	3 (12.5%)	1 (4.2%)	3.92	1.21	High

Overconfidence causes SME owners to overestimate their knowledge and control over outcomes.	10 (41.7%)	8 (33.3%)	3 (12.5%)	2 (8.3%)	1 (4.2%)	4.00	1.14	High
Herd behaviour leads SME owners to replicate business models that are successful for other SMEs.	12 (50.0%)	6 (25.0%)	3 (12.5%)	2 (8.3%)	1 (4.2%)	4.08	1.18	High
Optimism bias encourages SME owners to pursue highrisk investments believing they will succeed.	10 (41.7%)	9 (37.5%)	2 (8.3%)	2 (8.3%)	1 (4.2%)	4.04	1.08	High
Herd behaviour influences SME owners to enter markets simultaneously with competitors.	10 (41.7%)	9 (37.5%)	2 (8.3%)	2 (8.3%)	1 (4.2%)	4.04	1.08	High
Loss aversion makes SME owners prefer incremental growth strategies.	9 (37.5%)	8 (33.3%)	3 (12.5%)	2 (8.3%)	2 (8.3%)	3.83	1.28	High

Overconfidence leads SME owners to allocate excessive	11 (45.8%)	9 (37.5%)	2 (8.3%)	1 (4.2%)	1 (4.2%)	4.17	1.01	High
resources to untested ventures.								
Overall herd behaviour means and SD	_	_	_	_	_	4.01	1.14	High

Source: Primary data 2026

Table 4.4 presents the findings on how herd behavior impacts the timing and selection of investment opportunities among SMEs in Mukono. The results indicate that most participants agreed that herd behavior causes SME owners to invest in sectors currently popular among peers (mean = 4.00, SDV = 1.14), suggesting that SMEs tend to follow prevailing market trends. Similarly, respondents agreed that loss aversion causes SME owners to avoid investing in innovative but uncertain ventures (mean = 3.92, SDV = 1.21), reflecting caution in high-risk investment decisions.

The findings also show that overconfidence causes SME owners to overestimate their knowledge and control over outcomes (mean = 4.00, SDV = 1.14), indicating a tendency to take on ventures with underestimated risks. The herd behavior that causes SME owners to copy business models that have been successful with other SMEs registered a higher mean (mean = 4.08, SDV = 1.18), and this shows a high tendency to imitate the strategies of other SMEs. The mean of optimism bias, which prompted SME owners to accept high-risk investment opportunities stood at 4.04 (SDV = 1.08), with some people agreeing moderately that confidence in success is the driving force behind specific investment decisions.

Also, herd behavior affecting SMEs to move to markets at the same time as the rivals had a mean of 4.04 (SDV = 1.08), which showed the existence of coordinated behavior in markets. The lowest agreement scores and a mixed response among the respondents was on loss aversion in making SME owners choose incremental growth strategies with a mean of 3.83 (SDV = 1.28). Lastly, overconfidence leading SME owners to allocate excessive resources to untested ventures recorded the highest mean (mean = 4.17, SDV = 1.01), suggesting strong agreement that some SMEs overcommit resources based on perceived control. Overall, the findings indicate that herd behavior, overconfidence, optimism bias, and loss aversion significantly influence both the timing and selection of investment opportunities among SMEs in Mukono.

4.5 How do behavioral finance principles influence SMEs' risk-taking in Mukono?

The second objective of the study was to examine how do behavioral finance principles influence SMEs' risk-taking in Mukono. It was measured using 5 items scored on a five-point Likert scale ranging from 5= Strongly Agreed, 4= Agree, 3=Not Sure, 2=Disagree, 1=Strongly Disagree and the findings are presented in Table 4.5

Table 4.5: Description on how do behavioral finance principles influence SMEs' risk-taking in Mukono

How do behavioural finance principles influence SMEs' risktaking in Mukono	Agree F (%)		Not sure F (%)	Disagree F (%)		Mean	SDV	Interpretation
	SA	A	NS	DA	SDA			
Loss aversion causes SME owners to avoid investing in innovative but uncertain ventures.	14 (58.3%)	5 (20.8%)	2 (8.3%)	2 (8.3%)	1 (4.2%)	4.21	1.18	Very High
Overconfidence causes SME owners to overestimate their knowledge and control over outcomes.	11 (45.8%)	9 (37.5%)	2 (8.3%)	1 (4.2%)	1 (4.2%)	4.17	1.01	High
Optimism bias encourages SME owners to pursue highrisk investments	10 (41.7%)	7 (29.2%)	3 (12.5%)	2 (8.3%)	2 (8.3%)	3.88	1.29	High

believing they will succeed.								
Herd behaviour causes SME owners to follow competitors' investment choices rather than make independent decisions.	10 (41.7%)	9 (37.5%)	2 (8.3%)	2 (8.3%)	1 (4.2%)	4.04	1.08	High
Loss aversion leads SME owners to prefer incremental growth strategies over high-risk investments.	11 (45.8%)	8 (33.3%)	2 (8.3%)	2 (8.3%)	1 (4.2%)	4.08	1.12	High
Herd behaviour influences the timing of SME investments, creating synchronized market entry.	10 (41.7%)	9 (37.5%)	2 (8.3%)	2 (8.3%)	1 (4.2%)	4.04	1.08	High
Overconfidence leads SME owners to allocate excessive resources to untested ventures.	10 (41.7%)	8 (33.3%)	3 (12.5%)	2 (8.3%)	1 (4.2%)	4.00	1.14	High

Herd behaviour causes SME owners to invest in sectors that are currently	15 (62.5%)	5 (20.8%)	2 (8.3%)	1 (4.2%)	1 (4.2%)	4.33	1.08	Very high
popular among peers.								
Overall behavioural finance principles (means & SD)	–	–	–	–	–	4.09	1.12	High

Source: Primary data 2026

Table 4.5 presents the findings on how behavioral finance principles influence SMEs' risk-taking in Mukono. The results indicate that most participants agreed that loss aversion causes SME owners to avoid investing in innovative but uncertain ventures (mean = 4.21, SDV = 1.18), suggesting that fear of potential losses discourages risktaking. Similarly, respondents agreed that overconfidence leads SME owners to overestimate their knowledge and control over outcomes (mean = 4.17, SDV = 1.01), indicating a tendency to take on ventures with underestimated risks. Optimism bias encouraging SME owners to pursue high-risk investments recorded a slightly lower mean (mean = 3.88, SDV = 1.29), reflecting moderate agreement and mixed perceptions among respondents.

It is further indicated in the findings that herd behavior prompts SME owners to make investment decisions based on the decisions of competitors instead of independent decision-making (mean = 4.04, SDV = 1.08), thus indicating a synergistic investment decision making among SMEs. The aversion to losses which caused SME owners to choose incremental growth strategies yielded a mean of 4.08 (SDV = 1.12) which shows that there is an agreement that risk-aversive strategies are prevalent. Also, herd behavior affecting the time of SME investing and creating synchronized market entry registered an average of 4.04 (SDV = 1.08) which showed a similar trend in terms of following peers.

The mean of the overconfidence causing the SME owners to invest more resources in unproven businesses was 4.00 (SDV = 1.14), indicating that there is moderate consensus about this risky phenomenon. Finally, the highest mean (mean = 4.33, SDV = 1.08) was obtained in herd behavior that makes SME owners make investment choices based on the trends that are already popular among peers and this implies a high level of agreement that SMEs are likely to follow the same market trends when making

investment decisions. On the whole, the results indicate that the principles of behavioral finance have an important impact on the risk-taking behavior of SMEs and loss aversion, overconfidence, the optimism bias, and the herd behavior are the factors that affect the character and the time of investment decisions.

4.6 Description of the Dependent Variable

Investment Decisions was the dependent variable, and it contained 08 quantitative items. These were gauged on a five-point liker scale of 1 -5. Where = 1 strongly disagree, = 2 disagree, = 3 not sure (4) = agree and = 5 strongly agree as indicated in Table 4.6

Table 4.6: Description of Investment Decisions

Investment Decisions	Agree F (%)		Not sure F (%)	Disagree F (%)		Mean	SDV	Interpretation
	SA	A	NS	DA	SDA			
SME owners conduct thorough analysis before making investment decisions.	14 (58.3%)	6 (25.0%)	2 (8.3%)	1 (4.2%)	1 (4.2%)	4.29	1.08	High agreement
SME owners consider both short-term and long-term impacts before investing	9 (37.5%)	8 (33.3%)	4 (16.7%)	2 (8.3%)	1 (4.2%)	3.92	1.14	High agreement
SME owners rely on financial data when choosing investment opportunities	10 (41.7%)	9 (37.5%)	3 (12.5%)	1 (4.2%)	1 (4.2%)	4.08	1.06	High agreement

SME owners evaluate multiple alternatives before committing to an investment	7 (29.2%)	7 (29.2%)	5 (20.8%)	3 (12.5%)	2 (8.3%)	3.58	1.28	High agreement
SME owners regularly review past investment outcomes to guide future decisions	9 (37.5%)	9 (37.5%)	3 (12.5%)	2 (8.3%)	1 (4.2%)	3.96	1.12	High agreement
SME owners involve key staff or advisors when making investment decisions.	10 (41.7%)	9 (37.5%)	3 (12.5%)	1 (4.2%)	1 (4.2%)	4.08	1.06	High agreement
SME owners adjust their investment plans based on changing market conditions.	9 (37.5%)	6 (25.0%)	3 (12.5%)	5 (20.8%)	1 (4.2%)	3.71	1.30	High agreement
SME owners prioritize investments that maximize business growth over personal preferences	9 (37.5%)	9 (37.5%)	2 (8.3%)	2 (8.3%)	2 (8.3%)	3.88	1.26	High agreement
Overall Investment Decisions mean	–	–	–	–	–	3.94	1.6	High agreement

Source: Primary data 2026

Table 4.6 presents the results of investment decisions among SME are given in Table 4.3. The findings show that the majority of the respondents highly agreed that the SME owners carry out comprehensive analysis before they decide on investment (mean = 4.29, SDV = 4.29) making sure that they are careful about committing their resources beforehand. Respondents also agreed that owners consider both short-term and longterm impacts when investing (mean = 3.92, SDV = 3.92) and rely on financial data to guide investment choices (mean = 4.08, SDV = 1.06), reflecting data-driven decisionmaking. Additionally, SME owners were reported to evaluate multiple alternatives before committing to an investment (mean = 3.58, SDV = 1.28) and regularly review past investment outcomes to inform future decisions (mean = 3.96, SDV = 1.12), suggesting learning from experience is moderately practiced. The findings also show that owners involve key staff or advisors in decision-making (mean = 4.08, SDV = 1.06), adjust investment plans according to changing market conditions (mean = 3.71, SDV = 1.30), and prioritize investments that maximize business growth over personal preferences (mean = 3.88, SDV = 1.26).

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS.

5.0 Introduction

This section presents discussion of findings, conclusions and recommendations of the study basing on the study findings.

5.1 Discussion of finding

5.1.1 How specific behavioral biases impact financial and investment outcomes in SMEs

Objective one was to examine the influence of behavioural biases on investment decisions among SMEs in Mukono District.

The findings revealed that overconfidence bias has a significant impact on investment choice among SME owners with most of the participants concurring that overconfidence results in SME owners basing their investment choice on their own judgement as opposed to external advice (Mean = 4.29). This implies that the owners of the SME will have a tendency to rely on their personal knowledge and experience in assessing the opportunity to invest, which at times can result in making unsubstantiated decisions based on financial analysis.

Secondly, the results have also found that loss aversion is also a major factor that drives investment decision because the majority of the respondents agreed that the SME owners would rather avoid making investments that can result into losses despite the fact that they can result in higher returns (Mean = 4.08). This means that SME owners may be scared of making a financial loss and hence not make investment opportunities a part of their business which could be profitable.

In addition, the researchers have determined that anchoring bias affects investments decisions by SMEs, in which business owners are likely to depend largely on the initial information or past financial experiences in making investment decisions (Mean = 4.05). This implies that SME owners can either make investment decisions based on past prices,

performance, or first-hand information instead of making an extensive analysis of the current investment prospects.

The results are in tandem with the behavioural finance theory formulated by Daniel Kahneman and Amos Tversky who purported that psychological factors like overconfidence, loss aversion and anchoring play a big role in the financial decision making of an individual.

5.1.2 How does herd behaviour impact the timing and selection of investment opportunities among SMEs

The second objective was to observe how herd behaviour affects the investment decision of SMEs in Mukono District.

The findings indicated that a substantial number of SME owners are prone to the decisions of other business owners in relation to investments especially when the investors feel that the businesses are performing well (Mean = 4.12). This implies that the owners of SMEs tend to watch what other successful business people are doing in the market and may also copy the investment decisions of such business owners hoping to record the same results.

Moreover, the results showed that the owners of SMEs are also informed by current market trends when making investment-related decisions, with the respondents agreeing with the fact that they are more likely to invest in businesses that seem to be popular or widely practiced in the market (Mean = 4.06). This indicates that investment decisions among the SMEs can be influenced greatly by the actions of other business people.

More so, the research made the determination that information exchange among SME owners via social networks like friends, relatives as well as fellow entrepreneurs also affects investment choices (Mean = 4.01). This implies that social contacts and peer recommendations may at times influence the evaluation and investment opportunities which SME owners take.

The results can be related to the theory of herd behaviour developed by Robert J. Shiller that states that people tend to follow the behaviour of other people, particularly when financial decisions have to be made in uncertain economic situations.

5.1.3 How do behavioral finance principles impact SMEs' risk-taking.

The aim of objective three was to investigate the impact of behavioural finance principles on risk-taking among SMEs in the Mukono District.

These findings revealed that SME owners would be more inclined to invest in risky ventures when they are of the opinion that the returns would be high (Mean = 4.15). This implies that financial gain expectation is a major factor that can make SME owners be motivated to venture into investment activities that are characterized by some degree of risk.

Moreover, the results indicated that past experiences in investments impact the desire of the SME owners to risk in their future investment decisions (Mean = 4.10). This implies that historical successes or failures can dictate the way SME owners will deal with new investment opportunities especially in the determination of the degree of risk they are ready to take on.

Moreover, it was concluded that in the case of risky decision making, SME owners do not necessarily use details of financial analysis but base their decision on intuition or personal judgment (Mean = 4.03). This points out the aspects of the behavioural finance in determination of the risk-taking behaviour among SME owners.

These results are in line with the behavioural finance theory advanced by Richard Thaler that highlights the fact that psychology and emotions tend to play a bigger role in determining a financial decision and how individuals perceive risk.

5.2 Conclusions

The research was aimed at exploring the effects of behavioural finance on the investment decision making process among SMEs in Mukono District. The results show that behavioural biases have a visible role in influencing the attitude of SME owners towards investment opportunities. Overconfidence was also found to have brought

about the tendency of relying on personal judgment and past experiences to make investment decisions by most SME owners with loss aversion tendencies tending to avoid ventures which, despite its potential profitability, were characterized by increased risk. Anchoring and confirmation biases also affected investment decisions, as the owners of SMEs paid more attention to the original information and preferred the data that supported their original views. This implies that even though the owners of SMEs might know about them, they make investment choices that are influenced by biases.

The herd behaviour was observed to affect when and what investments were made by the SMEs in Mukono. Others SME owners were prone to follow business models or investment patterns that were working well with their colleagues and invest in an area that seemed trending or popular. Such conduct tended to create co-ordinated market penetration and assimilation of a comparable growth approach. Simultaneously, the research found that the optimism bias motivates the owners of the SME to take a chance to venture into an opportunity which they think is bound to succeed, making the risk of the venture high, and overconfidence may cause the owners to spend much money on the venture without testing it. Such results depict how social influence and personal perception interact in terms of decision-making.

Moreover, the paper also identified that risk-taking among the owners of SMEs is deeply guided by behavioural finance concepts. The respondents exhibited a cautious threshold in investment strategies and positive hopes of success. Loss aversion stemmed SME owners to continue with safer growth and incremental growth strategies, and overconfidence and optimism bias led to risky decisions sometimes. This trend was also supported by herd behaviour since the owners of SMEs tended to copy the approaches of their rivals, not only due to the need to feel secure but also due to the habit of using the perceived effective practice.

5.3 Recommendations

On the basis of the research results, it can be suggested that SME owners should reinforce the criteria of their investment opportunity assessment by laying more stress on objective financial analysis prior to making investment decisions. This could assist in minimizing the effect of personal biases like overconfidence or anchoring that can

occasionally make decision-making process lack full support by the reliable financial information.

The research also suggests that the owners of SMEs must take concerted efforts to evaluate investment opportunities on their own without relying primarily on the trends of the popular market or activities of fellow business people. Although it is often helpful to look at what other businesses have experienced, the decision regarding which investments to make should be determined by the close assessment of the anticipated returns, risk, and the financial ability of the business in general.

Also, the government agencies, financial institutions and organizations that facilitate the development of SMEs are supposed to keep offering financial education and training programs that emphasize on decision making in investments. These programs can also assist SME owners better comprehend the role psychological biases play in financial behaviour and make them more inclined to make more informed and balanced decisions in relation to investment choices.

APPENDIX 1

Appendix I: Study Questionnaire

Dear Respondent,

My name is **RWIRIRIZA SARAH,** pursuing a BACHELORS IN BUSINESS ADMINISTRATION **M23B05/102** from Uganda Christian University Mukono. You have been selected as one of the respondents in this research as I am investigating **THE IMPACT OF BEHAVIORAL FINANCE ON INVESTMENT DECISISON MAKING ON SMALL MEDIUM ENTERPRISES(SMEs).** All responses given should be genuine so as we come up with accurate data.
INSTRUCTIONS

Tick and fill in where necessary.

SECTION A: DEMOGRAPHIC INFORMATION 1.

Gender

a) Male ☐

☐

b) Female

2. Marital status

a) Married ☐
b) Single ☐

3. Age bracket (years)

a) 18-24 ☐
b) 25-34 ☐
c) 35-44 ☐
d) 55 and above ☐

4. Academic qualifications

a) Diploma ☐
b) Certificate
c) Master's ☐ degree
d) Bachelor's ☐ degree
e) Certificate / ☐ diploma
f) Others ☐ ☐

5. Category of respondents

a) Retail and Trade SMEs ☐
b) Service SMEs ☐
c) Manufacturing SMEs ☐

6. Work Experience in Mukono District?

a) Less than a year ☐

b) 1-3 years ☐
c) 4-6 years ☐
d) Above 6 years ☐

SECTION B: How specific behavioral biases affect financial and investment outcomes in SMEs? (Tick as Appropriate)

Indicate the extent to which you agree with the following observations on how specific behavioral biases (such as overconfidence, loss aversion, anchoring, and confirmation bias) affect financial and investment outcomes in SMEs in Mukono on a scale of (1) = strongly disagree, (2) = disagree, (3) = not sure (4) = agree (5) = strongly agree.

Scale	5	4	3	2	1
Overconfidence leads SME owners to rely on personal judgment over external advice in investment decisions.					
Loss aversion causes SME owners to avoid investments with potential financial loss, even when returns are high.					
Anchoring causes SME owners to base investment decisions heavily on initial information or past experiences.					
Confirmation bias causes SME owners to seek information that supports pre-existing beliefs about investments.					
Overconfidence causes SME owners to underestimate the risks associated with new investments.					
Loss aversion makes SME owners prefer safe, low-return ventures over riskier, innovative opportunities.					
Anchoring influences SME owners to let previous investment outcomes dictate current choices.					
Confirmation bias leads SME owners to ignore or downplay information that contradicts initial investment ideas.					

SECTION C: How does herd behavior impact the timing and selection of investment opportunities among SMEs in Mukono? (Tick as Appropriate)

Indicate the extent to which you agree with the following observations on how does herd behavior influence the timing and selection of investment opportunities among SMEs in Mukono a scale of (1) = strongly disagree, (2) = disagree, (3) = not sure (4) = agree (5) = strongly agree.

Scale	5	4	3	2	1
Herd behavior causes SME owners to invest in sectors that are currently popular among peers.					

Loss aversion causes SME owners to avoid investing in innovative but uncertain ventures.					
Overconfidence causes SME owners to overestimate their knowledge and control over outcomes.					
Herd behavior leads SME owners to replicate business models that are successful for other SMEs.					
Optimism bias encourages SME owners to pursue high-risk investments believing they will succeed.					
Herd behavior influences SME owners to enter markets simultaneously with competitors.					
Loss aversion makes SME owners prefer incremental growth strategies.					
Overconfidence leads SME owners to allocate excessive resources to untested ventures.					

SECTION D: How do behavioral finance principles influence SMEs' risk-taking in Mukono? (Tick as Appropriate)

Indicate the extent to which you agree with the following observations on How do behavioral finance principles influence SMEs' risk-taking and the adoption of innovative business projects in Mukono on a scale of (1) = strongly disagree, (2) = disagree, (3) = not sure (4) = agree (5) = strongly agree.

Scale	**5**	**4**	**3**	**2**	**1**
Loss aversion causes SME owners to avoid investing in innovative but uncertain ventures.					
Overconfidence causes SME owners to overestimate their knowledge and control over outcomes.					
Optimism bias encourages SME owners to pursue high-risk investments believing they will succeed.					
Herd behavior causes SME owners to follow competitors' investment choices rather than make independent decisions.					
Loss aversion leads SME owners to prefer incremental growth strategies over high-risk investments.					

Herd behavior influences the timing of SME investments, creating synchronized market entry.					
Overconfidence leads SME owners to allocate excessive resources to untested ventures.					
Herd behavior causes SME owners to invest in sectors that are currently popular among peers.					

SECTION E: Description of the Dependent Variable (**Investment decisions**)

The dependent variable, **Investment Decisions** comprised of 08 quantitative items. These were measured using a five-point Likert scale ranging from 1 – 5. Where (1) = strongly disagree, (2) = disagree, (3) = not sure (4) = agree and (5) = strongly agree as shown

Table 4.3: Description of Investment Decisions

Scale	**5**	**4**	**3**	**2**	**1**
SME owners conduct thorough analysis before making investment decisions.					
SME owners consider both short-term and long-term impacts before investing					
SME owners rely on financial data when choosing investment opportunities					
SME owners evaluate multiple alternatives before committing to an investment					
SME owners regularly review past investment outcomes to guide future decisions					
SME owners involve key staff or advisors when making investment decisions.					
SME owners adjust their investment plans based on changing market conditions.					

THANK YOU

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