

BEYOND RATIONALITY: BEHAVIORAL BIASES IN FINANCIAL DECISION-MAKING AMONG SME OWNERS IN DAR ES SALAAM CITY, TANZANIA

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ABSTRACT

Behavioral biases play a significant role in shaping financial decision-making, particularly among small and medium enterprise (SME) owners in uncertain business environments. This study explored the influence of cognitive and emotional biases on financial choices among SME owners in Dar es Salaam City, Tanzania. A qualitative approach was employed, involving five in-depth interviews with SME managers and two focus group discussions with ten SME owners, yielding a total of 15 participants. Data was analyzed using thematic analysis, allowing for identification of key patterns and insights. The findings revealed that overconfidence, loss aversion, herd behavior, anchoring, mental accounting, reliance on past experiences, emotional decision-making, and financial literacy significantly influenced investment decisions, pricing strategies, risk-taking, and overall business growth. These biases often constrained innovation, strategic adaptability, and optimal resource allocation. The study underscores the importance of understanding psychological, social, and experiential factors in SME financial management. It further highlights the need for interventions such as targeted financial literacy programs, structured decision-making frameworks, mentorship, and advisory support to enhance decision quality, reduce bias-driven errors, and strengthen SME competitiveness. The findings provide valuable insights for policymakers, business development organizations, and SME owners seeking to improve financial outcomes in dynamic and resource-constrained environments.

Keywords: Behavioral biases, financial decision-making, SMEs, financial literacy, Tanzania.