

Selective Cognitive Biases and SMES Growth in a Fragile Economy: Evidence from Cameroon

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ABSTRACT

This paper investigates whether entrepreneurial cognitive biases affect the growth of small and medium-sized enterprises within a fragile economic environment. Drawing on behavioural finance and bounded rationality perspectives, the study tests five biases including overconfidence, anchoring, herding bias, loss aversion, and regret aversion using survey data from 304 enterprises in the South West Region of Cameroon. Ordinary Least Squares regression results show that overconfidence, anchoring, and regret aversion are positive and statistically significant predictors of the growth of Small and Medium Sized enterprises, while herding bias and loss aversion are statistically insignificant. Correlation analysis, multicollinearity assessment (Variance Inflation Factor) and the Breusch–Pagan/Cook–Weisberg test all contribute to the reliability of the estimates. The findings imply that in high-uncertainty settings, selected cognitive biases may function as adaptive heuristics that encourage decisive and calibrated entrepreneurial action.

Keywords: Anchoring; Behavioural Finance; Cognitive Biases; Growth; Overconfidence; Regret Aversion; SMEs.

INTRODUCTION

Small and medium-sized enterprises (SMEs) are widely recognized in the development trajectory of many emerging economies. They have become known as important generators of employment, household incomes, entrepreneurial innovation, and local value creation. In addition to their contribution to output and jobs, SMEs often serve as entry points for financial inclusion and business formalisation, particularly in regions where the public sector and large corporations cannot absorb a growing labour force. In Cameroon, SMEs also make up a significant portion of business activity and constitute the operational backbone of local markets, supply chains, and service delivery.

In spite of their strategic importance, SMEs face ongoing challenges that hinder their survival and growth. These constraints include limited access to affordable finance, weak supporting infrastructure, high transaction costs, regulatory complexity, and volatile demand conditions. Recent evidence highlights persistent financing and profitability challenges affecting Cameroonian SMEs (Wansi & Burrell, 2023). The Cameroon government has however implemented various initiatives aimed at supporting SMEs, such as the creation of the Ministry of Small and Medium Sized Enterprises; establishment of the SME Promotion Agency (APME) and the introduction of the National Development Plan, which includes specific measures to enhance SME growth and

development.

Despite these efforts, SMEs in Cameroon continue to struggle with high failure rates and limited growth. Statistics reveal a stark picture of the challenges facing SMEs in the South West Region of Cameroon. According to recent reports, approximately 60% of SMEs in the region struggle with low profitability, with average profit margins failing to meet industry standards (World Bank, 2022). Moreover, employment growth remains sluggish, with only 20% of SMEs reporting an increase in their workforce over the past five years (African Development Bank, 2023). According to the United Nation Conference for trade and Development (UNCTAD), the expansion of new branches and the introduction of innovative products also lag behind, with fewer than 15% of SMEs successfully entering new markets or launching new products annually (UNCTAD, 2021).

The South West Region of Cameroon particularly presents a unique context where socio-economic and political challenges exacerbate the difficulties SMEs face. The ongoing crisis in the North West and South West Regions has disrupted economic activities, leading to market anomalies and heightened risks. These conditions make it even more critical to understand how cognitive biases influence SME growth in this region. In such volatile environment, SMEs' survival and growth depend not only on structural conditions but also on the strategic decisions made by entrepreneurs under uncertainty.

Conversional explanations of SMEs' performance emphasise external determinants such as credit constraints, market structure, or institutional quality. While these theories remain important, they often understate the internal cognitive mechanisms through which entrepreneurs perceive and respond to risk. Growth outcomes are influenced by managerial choices about investment, expansion, employment, product diversification, and market entry. These decisions are frequently made with incomplete information and high level of ambiguity, making strict rational optimisation difficult to apply in practice.

Behavioural finance research demonstrates that individuals use heuristics and display systematic cognitive biases when making decisions in the face of uncertainty (Apochi et al., 2024). Even though behavioural biases are well documented in financial markets, little is known about how they affect the growth of entrepreneurs, particularly in unstable circumstances where structural uncertainty exists. Rather than uniformly producing poor outcomes, certain biases may help entrepreneurs act decisively, stabilise expectations, and pursue opportunity in contexts where hesitation can be costly.

Recent behavioural research shows that overconfidence and other cognitive biases influence investment performance (Yanti, 2024), yet limited empirical attention has been paid to how such biases translate into enterprise growth outcomes in fragile institutional environments. This study therefore seeks to investigate whether specific cognitive biases such as overconfidence, anchoring, herding bias, loss aversion, and regret aversion influence SMEs growth in Cameroon's South West Region. The study contributes to behavioural entrepreneurship by distinguishing growth-enhancing from growth-neutral biases in a fragile economic environment.

CONCEPTUAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

The conceptual framework shows the diagrammatic presentation of the link between the explanatory and the explained variables

Independent Variables

Dependent Variable

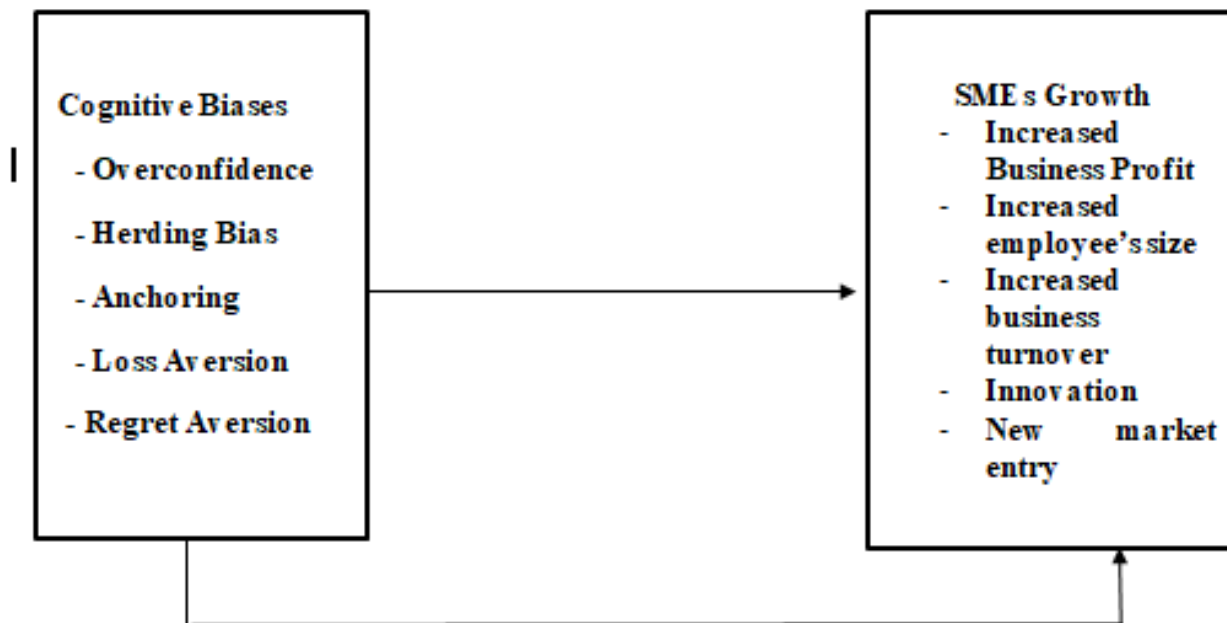


Figure 1: Cognitive Biases and SMEs' Growth.

Source: Author(s), 2024

From figure 1 above, three directional hypotheses were developed for biases expected to shape growth in the study context. Herding bias and loss aversion are retained as exploratory predictors.

Overconfidence and SMEs Growth

Overconfidence has traditionally been viewed as a behavioural distortion that leads to excessive risk-taking and suboptimal decision-making (Barber & Odean, 2001; Gervais & Odean, 2001). However, entrepreneurial contexts differ fundamentally from passive investment environments. Entrepreneurs are required to initiate action under uncertainty, mobilize resources, and persist despite structural constraints. Nofsinger (2012) argued that confidence may drive entrepreneurs to undertake ambitious projects that others may avoid. In delicate economic environments where hesitation can translate into missed opportunities, moderate overconfidence may enhance persistence, strategic boldness, and opportunity recognition. Therefore, rather than functioning purely as a distortion, overconfidence may act as a growth catalyst.

H1: Overconfidence positively influences SMEs growth.

Anchoring and SMEs Growth

Anchoring reflects reliance on reference points when making decisions (Lamprey & Marsidi, 2020). In unstable environments characterized by informational ambiguity, entrepreneurs may depend on historical performance, prior pricing benchmarks, or initial growth trajectories as cognitive anchors. Lamprey and Marsidi, (2020) also noted that anchoring shapes investment decisions in uncertain markets. In SMEs contexts, anchoring may reduce cognitive overload and facilitate quicker strategic responses. By providing decision stability, anchoring may enable consistent resource allocation and gradual expansion.

H2: Anchoring positively influences SMEs growth.**Regret Aversion and SMEs Growth**

Ady and Hidayat (2019) describes regret aversion as the tendency to avoid decisions that may lead to future regret. While extreme regret avoidance may inhibit action, moderate levels may promote careful evaluation and strategic caution. Luu (2014) and Singh and Sikarwar (2015) demonstrate that anticipated regret influences financial decision-making behaviour. In entrepreneurial settings, regret aversion may encourage calculated risk-taking rather than reckless expansion, thereby supporting sustainable growth trajectories.

H3: Regret aversion positively influences SMEs growth.**Exploratory Consideration of Herding and Loss Aversion**

Although herding behaviour (Nofsinger & Sias, 1999) and loss aversion (Kahneman & Tversky, 1979; Khan et al., 2017) have been widely documented in financial markets, empirical evidence regarding their direct influence on enterprise growth remains inconsistent. Therefore, these biases are included for empirical examination without strong directional expectations.

THEORETICAL AND EMPIRICAL FOUNDATIONS

Behavioural finance emerged as a response to limitations of the rational choice paradigm, arguing that real decision-makers depart from full rationality because they rely on heuristics, framing, and subjective evaluations of risk. Prospect theory (Kahneman & Tversky, 1979) proposes that individuals evaluate outcomes relative to reference points and display asymmetric reactions to gains and losses. Subsequent behavioural research reinforces that perceived risk is shaped by cognition and emotion rather than objective probabilities (Slovic, 1987; 2000).

In entrepreneurial contexts, uncertainty is not exceptional; it is a routine operating condition. SMEs often face information gaps, thin markets, and limited formal analytic capacity. In such conditions, heuristics can become functional tools for decision-making rather than mere distortions. Bounded rationality (Simon, 1955) bridges behavioural finance and entrepreneurship by highlighting that decision-makers seek satisfactory solutions under constraints, using simplified rules that can be adaptive when time, data, and institutional support are limited.

Overconfidence is defined as an overestimation of one's knowledge, predictive accuracy, or control over outcomes (Gervais & Odean, 2001). In financial market studies, overconfidence is linked to excessive trading and suboptimal choices (Barber & Odean, 2001). Entrepreneurs, however, are active decision-makers who must initiate action, mobilise resources, and persist. In uncertain environments, calibrated optimism may promote strategic boldness, resilience, and opportunity exploitation.

Anchoring refers to reliance on initial values or reference points when forming judgments (Tversky & Kahneman, 1974). In business settings, anchors can include previous revenue levels, historical prices, initial cost estimates, or prior growth expectations. While anchoring can bias judgment, it can also provide stability when external signals are noisy or unreliable. In volatile environments, anchoring may reduce cognitive overload and enable coherent, incremental strategy.

Regret aversion is rooted in regret theory (Loomes & Sugden, 1982) and captures the tendency to avoid choices that could lead to future regret. In entrepreneurial decision-making, regret anticipation may encourage careful evaluation and staged expansion, particularly where failure has severe consequences. If regret aversion is moderate, it may support disciplined risk-taking which is pursuing growth while maintaining safeguards.

Herding bias describes the tendency to mimic others' actions (Nofsinger & Sias, 1999). Loss aversion, central to prospect theory, describes stronger sensitivity to losses than gains (Kahneman & Tversky, 1979). Although both are prominent in behavioural studies, their direct relationship with SME growth can be ambiguous. Owner-managed SMEs may rely more on internal discretion than on imitation; likewise, loss aversion may influence risk appetite without necessarily translating into measurable growth differences.

METHODOLOGY

Research Design and Sample

The study employed a quantitative cross-sectional survey design. A total of 384 questionnaires were distributed to SME owners/managers in the South West Region of Cameroon, and 304 usable responses were retrieved (79% response rate). Purposive sampling was used to select key areas and types of SMEs that are critical to the study's objectives. This technique ensured that the sample included SMEs from various important sectors and different sizes. Areas and SMEs were selected based on economic significance, accessibility, and representativeness of the larger population

Variables Measurement

SMEs growth was measured as a composite index capturing expansion outcome (revenue increase, employment increase, and business expansion). The independent variables capture cognitive biases (overconfidence, herding bias, anchoring, loss aversion, regret aversion) measured using Likert-type items adapted from behavioural finance literature and contextualised for SME decisions. Controls include firm duration and firm size (number of employees), operationalised as categorical variables.

Instrument of Data Analysis

The inferential statistics was carefully used to permit the test of the various hypotheses for this study using its various techniques. Ordinary Least Squares (OLS) regression estimates the direct effects of cognitive biases on SME growth. This statistical method was pivotal for understanding the impact of independent variables on a dependent variable while controlling for other variables in the model. Also, a correlation matrix was used to examine bivariate associations; VIF values to assess multicollinearity; and a Breusch–Pagan/Cook–Weisberg test to assess heteroskedasticity.

Model Specification

The model is specified as follows;

$$\text{SME_Growth}_i = \beta_0 + \beta_1 \text{Overconfidence}_i + \beta_2 \text{Herding}_i + \beta_3 \text{Anchoring}_i + \beta_4 \text{LossAversion}_i + \beta_5 \text{RegretAversion}_i + \beta_6 \text{Duration}_i + \beta_7 \text{number of employee}_i + \varepsilon_i$$

The Apriori Expectations were that; $\beta_1 > 0$, $\beta_2 > 0$, $\beta_3 > 0$, $\beta_4 > 0$ $\beta_5 > 0$

$\beta_0 \neq 0$: this indicate that the coefficient of β_0 can never be zero.

$\beta_1 > 0$: This implies that there is a positive relationship between overconfidence and SMES Growth.

$\beta_2 > 0$: This implies that there is a positive relationship between anchoring and SMES Growth.

$\beta_3 > 0$: This implies that there is a positive relationship between Herding Bias and SMES Growth.

$\beta_4 > 0$: This implies that there is a positive relationship between Loss aversion and SMES Growth.

$\beta_5 > 0$: This implies that there is a positive relationship between Loss aversion and SMES Growth.

RESULTS AND DISCUSSIONS

Results of Reliability test: Cronbach Alpha

Table 1: Cronbach Alpha

Variable	Observation	Number of items	Cronbach Alpha	Observation
Growth of SME (SMEG)	304	5	0.7317	Acceptable
Overconfidence (OC)	304	5	0.7890	Acceptable
Herding Bias (HB)	304	5	0.7994	Acceptable
Anchoring (AB)	304	4	0.7076	Acceptable
Loss Aversion (LA)	304	3	0.7538	Acceptable
Regret Aversion (RA)	304	3	0.7490	Acceptable
Cognitive Biases (CB)	304	5	0.8129	Good

Source: Author's Computation (2024)

The result in table 1 above shows the internal consistency of the instrument used for this study which is represented by the Cronbach's alpha coefficients. The benchmark for this test holds that a Cronbach alpha coefficient of between 0.5 and 0.7 implies fair reliability of the instrument while a coefficient of above 0.7 is considered adequate for reliability. From the results, it is observed that all the sections have Cronbach's alpha coefficients of above 0.5. Thus, with this result we can conclude that the instrument for this study is reliable.

Summary Descriptive Results

Table 1: Summary Statistics

Variables	Obs	Mean	Std. dev.	Min	Max
Overconfidence Index	304	0.481246	0.191888	0	1
Herding Bias index	304	0.50517	0.191919	0	1
Anchoring Index	304	0.644152	0.210262	0	1

Loss Aversion index	304	0.375476	0.206546	0	1
Regret Aversion Index	304	0.552315	0.26551	0	1
Cognitive Biases Index	304	0.559225	0.185638	0	1
Growth of SME index	304	0.663331	0.282842	0	1
Duration of operation					
<5	304	0.328947	0.470606	0	1
5-9	304	0.3125	0.464277	0	1
10-14	304	0.194079	0.396142	0	1
15-19	304	0.088816	0.284947	0	1
20 and above	304	0.075658	0.264886	0	1
Number of Employees					
< 6	304	0.371711	0.484058	0	1
6-20	304	0.473684	0.50013	0	1
21-100	304	0.154605	0.362124	0	1

Source: Author's Computation (2024)

Table 1 above shows the summary of the descriptive statistics for the variables included in our model. All the variables in the model were normalized between 0 and 1. The objective of the normalization was to ease interpretation challenges pose by negativity of the variables. We observe from the table that the mean value of over confidence is 0.481 with a standard deviation of 0.192 with minimum and maximum values of 0 and 1 respectively. The result shows that there is a low deviation of over confidence from the mean as the standard deviation is not far from the mean. Furthermore, the mean value of herding bias stands at 0.505 with a standard deviation of 0.192 and with minimum and maximum values of 0 and 1 respectively and this also indicates a low deviation of herding bias from the mean. Again, the mean value of anchoring stands at 0.644 with a standard deviation of 0.210 and with minimum and maximum values of 0 and 1 respectively and this also indicates a low deviation of anchoring from the mean. The mean value of loss aversion stands at 0.375 with a standard deviation of 0.207 and with minimum and maximum values of 0 and 1 respectively and this also indicates a low deviation of loss aversion from the mean. In the same light, regret aversion was found to have a low deviation from the mean as the standard deviation stood at 0.266 and a mean of 0.552. Therefore, we observed that the mean values and standard deviations of all other variables included in our model show low deviations from their respective means and also these low deviations indicate that the variables were relatively stable during the

period under study.

Effect of the Cognitive Biases on SMEs Growth

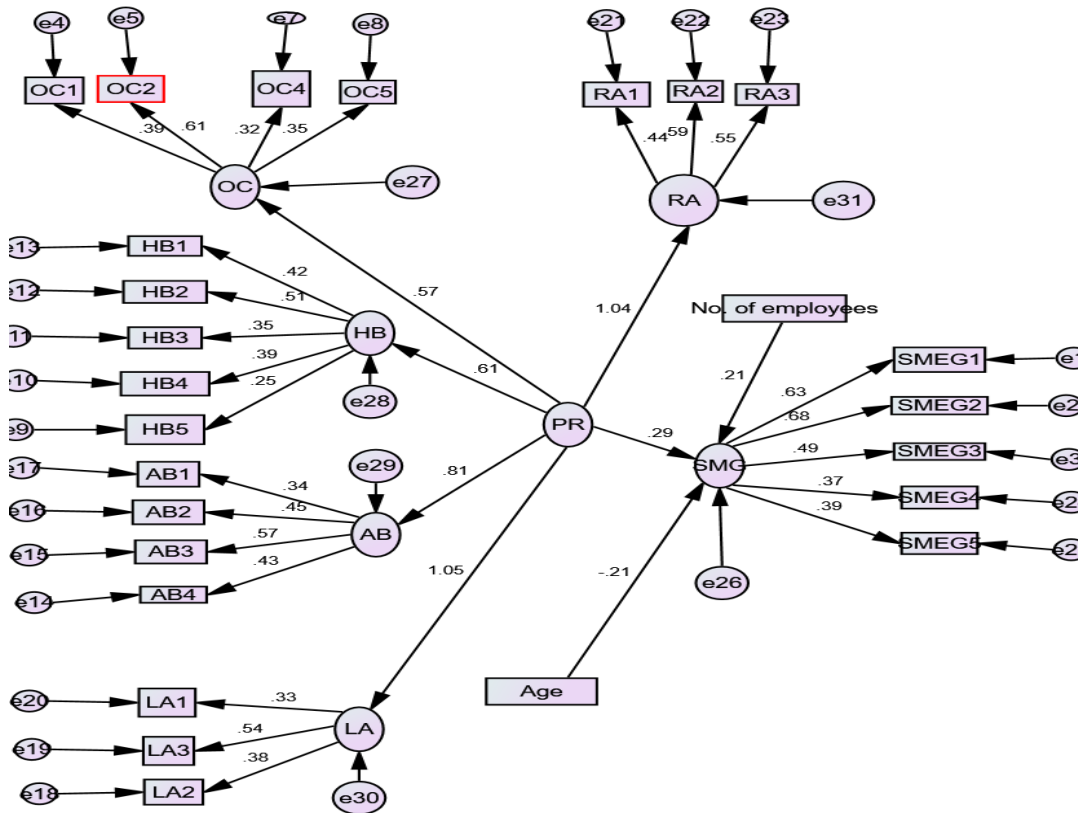


Figure 2: Structural mimic model of Cognitive Biases and SMEs Growth

Source: Computed by Author using AMOS version 20

The result presented in Figure 2 show the relationship between the inner models constructs as well as the relationships between the observed indicators and constructs. The circle represents the construct while the rectangle represents the observed or manifest variables used in the construction of the model (Thalut, 2016). The model indicates that cognitive biases is an exogenous latent construct while small and medium size enterprise growth (SMEG) is an endogenous latent construct. The exogenous construct cognitive biases was captured using five formative sub constructs over confidence (OC), herding bias (HB), anchoring (AC), loss aversion (LAV) and regret aversion (RAV). The used of construct can be justified on the bases of the fact that cognitive biases, and growth of SME have multifaceted dimensions. Therefore, suggesting that the use of a single observed variable on the questionnaire may not be appropriate to proxy for these concepts. The question items used as manifest of the constructs are valid and reliable as indicated on the structural model. The result of the fitted model using maximum likelihood estimation technique is summarized on the table 2 below.

Table 2: RP on SMEs growth using Maximum Likelihood (ML)

Hypothesized Linkage			Estimate	S.E.	C.R.	P
OC	<---	RP	.428	.123	3.475	***
RA	<---	RP	1.069	.228	4.688	***

HB	<---	RP	.327	.119	2.749	.006
AB	<---	RP	.765	.178	4.310	***
LA	<---	RP	1.000			
SMG	<---	RP	.395	.125	3.144	.002
SMG	<---	No. of employees	.182	.058	3.141	.002
SMG	<---	Duration	-.124	.040	-3.123	.002

Source: Computed by Author using AMOS version 20

Note: S.E is the standard errors; C.R. is the critical ratio, which is equivalent to the z-statistics and student test (t)

***P<0.01, **P<0.05, *<0.1

The results in Table 2 revealed that cognitive biases has a significant positive effect on the on the growth of small and medium size enterprise in the South West Region Cameroon using maximum likelihood estimation technique of structural equation model. The result equally shows that the control variables longevity and number of employees were found to be a significant predictor of the growth of small and medium size enterprises in the south west region of Cameroon. All the formative sub constructs were all significant and have a positive effect on SMEG in the South West Region of Cameroon. The significant of relationships between cognitive biases and SMEG in the South West region of Cameroon, permit us to reject the null hypothesis in the study which state that cognitive biases have no significant positive effect on the growth of small and medium size enterprise in the South West Region Cameroon.

Correlation Results

Table 3: Correlation Matrix

Variables	1	2	3	4	5	6	7	8
SME Growth (1)	1.0000	0.4791	0.2469	0.3157	-0.0815	0.3131	-0.0737	0.2078
Overconfidence (2)	0.4791	1.0000	0.4137	0.4139	-0.1839	0.4274	0.0144	0.1806
Herding (3)	0.2469	0.4137	1.0000	0.4121	-0.1313	0.3801	-0.0401	0.0308
Anchoring (4)	0.3157	0.4139	0.4121	1.0000	-0.2517	0.4586	0.0223	0.0324
Loss Aversion (5)	-0.0815	-0.1839	-0.1313	-0.2517	1.0000	-0.2454	0.0293	-0.1356
Regret Aversion (6)	0.3131	0.4274	0.3801	0.4586	-0.2454	1.0000	-0.0464	0.0277

Duration (7)	-0.0737	0.0144	-0.0401	0.0223	0.0293	-0.0464	1.0000	0.1356
Employees (8)	0.2078	0.1806	0.0308	0.0324	-0.1356	0.0277	0.1356	1.0000

Source: Author's computation, 2024.

Table 3 above represents the pairwise correlation matrix which shows the correlation which exists among the variables included in our model. The correlation coefficients of the leading diagonals stand at 1.0000 which indicates that each variable is perfectly collinear to itself. Furthermore, the results show a positive correlation between SME growth and overconfidence (0.4791), anchoring (0.3157), and regret aversion (0.3131) which is consistent with the main regression results. Conversely, a very weak negative correlation is found between growth and loss aversion. Finally, we observe that there are very weak positive and negative correlations amongst the explanatory variables included in our model. The relatively low or moderate correlation coefficients are indications of the absence of multicollinearity in the model.

Multicollinearity (VIF):

Table 4: Variance Inflation Factors (VIF)

Variable	VIF	1/VIF
Overconfidence	1.48	0.67796
Herding Bias	1.38	0.722111
Anchoring	1.54	0.649596
Loss Aversion	1.13	0.885708
Regret Aversion	1.49	0.669624
Duration of operation		
5-9	1.38	0.725545
10-14	1.32	0.754897
15-19	1.22	0.822219
20 and other	1.17	0.854333
Number of employees		
6-20	1.25	0.802885
21-100	1.31	0.762431
Mean VIF	1.33	

Source: Author's Computation, (2024).

The results in table 4 above show the variance inflating factor test for multicollinearity. The results show that the mean VIF stands at 1.33 which is below the bench mark of 2.5 indicating that multicollinearity is not a concern and the coefficient estimates are stable.

OLS regression-Effect of Cognitive Biases on SME Growth

Table 5: OLS Regression Estimates

VARIABLES	SMESG
Overconfidence	0.556***
	(0.0873)
Herding Bias	0.00456
	(0.0846)
Anchoring	0.142*
	(0.0814)
Loss Aversion	0.0901
	(0.0710)
Regret Aversion	0.112*
	(0.0635)
Duration	
5-9	-0.0955***
	(0.0349)
10-14	-0.0698*
	(0.0401)
15-19	-0.163***
	(0.0534)
19 and above	-0.0398
	(0.0563)
Number of employees	

6 – 20	0.0483
	(0.0308)
21-100	0.151***
	(0.0436)
Constant	-0.571***
	(0.101)
Observations	304
R-squared	0.306

Standard errors in parentheses (*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$)

Source: Author's Computation (2024)

Table 5 presents the regression results. It is observed from the results that the coefficient of the constant term is negative which indicates that if all other variables in our model are set to zero or held constant, growth of SMEs will be negative to the magnitude of 0.571 caused by other variables which affect growth of SMEs not included in our model. The effect of the constant term is statistically significant at the 1% level of significance. most of the variables showed a positive and significant result except that of Herbing Bias and Loss Aversion

The coefficient of overconfidence is positive indicating a direct relationship between growth of SMEs and overconfidence which is in line with our apriori expectation. Specifically, a unit increase in the over confidence will lead to an increase in growth of SMEs by 0.556. The result further shows that over confidence is statistically significant at the 1% level of significance. The strength of overconfidence suggests that, in a fragile environment, confidence may function as an action-enabling resource supporting persistence, opportunity pursuit, and investment despite uncertainty. Therefore, we accept the hypothesis and conclude that over confidence has a significant effect on the growth of SMEs in the South West Region of Cameroon.

Furthermore, the coefficient of anchoring is positive indicating a direct relationship between the growth of SMEs and anchoring which is in line with our apriori expectation. Specifically, a unit increase in the anchoring will lead to an increase in the growth of SMEs by 0.142. The result further shows that anchoring is statistically significant at the 10% level of significance. Anchoring may provide stability by supplying reference points for budgeting and incremental scaling when market signals are unreliable. Therefore, we accept the hypothesis and conclude that anchoring has a significant effect on the growth of SMEs in the South West Region of Cameroon.

Regret aversion was found to have a positive coefficient, thus indicating a direct relationship between the growth of SMEs and regret aversion which is in line with our apriori expectation. Specifically, a unit increase in the risk aversion will lead to an increase in the growth of SMEs by 0.112. The result further shows that regret aversion is statistically significant at the 10% level of significance. Regret aversion may support disciplined growth by encouraging cautious expansion and contingency planning. Therefore, we accept the hypothesis and conclude that risk aversion has a significant effect on the growth of SMEs in the South West Region of Cameroon.

Control Variables

Duration and number of employees were introduced into the regression model as a control variable. SMEs with less than five years of existence and with zero to five number of employees constituted the reference category. The coefficients of the remaining categories therefore indicate the extent to which the probability of attaining a higher growth category differs between each group and respondents with less than five years of existence and with zero to five number of employees, holding the dimensions of cognitive biases constant.

The coefficient of the first category of duration which is 5-9years is negative. Specifically, the result shows that the growth of SMEs which have existed for 5-9years is 0.096 lower than the growth of SMEs which have existed for less than 5years. This result is statistically significant at the 1% level of significance. The coefficient of the second category of duration which is 10-14years is negative. Specifically, the result shows that the growth of SMEs which have existed for 10-14years is 0.070 lower than the growth of SMEs which have existed for less than 5years. This result is statistically significant at the 10% level of significance. The coefficient of the third category of duration which is 15-19years is negative. Specifically, the result shows that the growth of SMEs which have existed for 15-19years is 0.163 lower than the growth of SMEs which have existed for less than 5years. This result is statistically significant at the 1% level of significance. The coefficient of the last category of duration which is 19years and above is negative. Specifically, the result shows that the growth of SMEs which have existed for 19years and above is 0.040 lower than the growth of SMEs which have existed for less than 5years. This result is statistically insignificant.

With respect to the number of employees, the results show that the coefficient of the first category which is 6-20employees is positive. Specifically, the result shows that the growth of SMEs which have 6-20 employees is 0.048 higher than the growth of SMEs which have less than 6 employees. In the same light, the results show that the coefficient of the second category which is 21-100employees is positive. Specifically, the result shows that the growth of SMEs which have 21-100employees is 0.151 higher than the growth of SMEs which have less than 6 employees. This result is statistically significant at the 1% level of significance.

The R squared is coefficient of determination which indicates the variation in the dependent variable due to changes in the independent variables. The findings in the above table indicate an R squared value of 0.306, showing that there was variation of 30.6% in the growth of SMEs due to changes in the variables included in the model. Thus, 30.6% changes in the growth of SMEs in the South West Region of Cameroon could be accounted for by selected cognitive biases.

DISCUSSION

The findings support a context-dependent interpretation of behavioural biases. In settings characterised by uncertainty and limited institutional buffers, certain cognitive tendencies may function as adaptive heuristics rather than purely as distortions. The findings are in line with studies such as (Apochi et al., 2024; Wansi & Burrell, 2023; Anifa & Soegiharto, 2023; Aren & Hamamci, 2022; Yu et al., 2021). Overconfidence, while potentially harmful when extreme, may motivate entrepreneurs to invest, innovate, and persist through shocks; anchoring may reduce decision paralysis; and regret aversion may encourage cautious but forward-moving strategy.

The lack of significance for herding suggests that SMEs may be too heterogeneous for imitation to reliably translate into growth. Product markets, customer bases, and resource constraints differ across firms, so copying others may not yield comparable outcomes. Similarly, loss aversion may shape personal risk attitudes without systematically translating into growth differences, especially when growth is constrained by external factors such as finance and infrastructure.

CONCLUSION AND RECOMMENDATION

To conclude, the findings contribute valuable insights into the behavioural underpinnings of SMEs Growth in Cameroon, highlighting the complex interplay between entrepreneurial cognitive biases and business success. This lays a foundational step for further exploration and targeted interventions aimed at enhancing SME development in the region.

Policy and practical recommendations are directed to entrepreneurs, policymakers, and business educators in Cameroon. The positive impact of overconfidence (within reasonable bounds) suggests that confidence-building programs could be integral in enhancing entrepreneurial success. Workshops and training that bolster entrepreneurs' skills and confidence in their decision-making might encourage more assertive actions that could lead to business growth.

LIMITATIONS OF THE STUDY

This study is subject to some limitations which include the fact that the cross-sectional design means that data were collected at one point in time, making it difficult to establish temporal or causal relationships between cognitive biases and SME growth. Although overconfidence, anchoring, and regret aversion were found to be positively and significantly associated with SME growth, the findings should therefore not be interpreted as evidence that these cognitive biases cause firm growth. Other unobserved factors may also contribute to the observed relationships. Future studies could employ longitudinal designs to examine how cognitive biases and SME growth change over time and provide stronger evidence regarding causal relationships.

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