

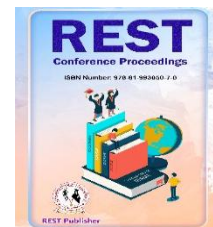


REST Conference Proceedings

Vol: 1(2), 2025

REST Publisher; ISBN: 978-81-993050-7-6

Website: <https://restpublisher.com/book-series/rcp/>



A Study of Financial Decision Making Biases among Small Business Owners in Amravati

Dnyaneshwari N. Kashiwa, Deepak R. Chawla

SIPNA C.O.E.T., Amravati, Maharashtra, India.

Abstract: This research investigates the prevalence and impact of financial decision-making biases among small business owners in Amravati, a city with a dynamic entrepreneurial environment. The study aims to identify specific cognitive biases such as overconfidence, anchoring, loss aversion, and confirmation bias that influence financial strategies, investment choices, and risk assessments within this sector. Employing a mixed-methods approach, combining quantitative surveys and qualitative interviews with small business owners across various industries in Amravati, this research seeks to understand how these psychological factors affect key business performance indicators, including profitability, cash flow management, and investment decisions. The findings will contribute to the academic literature on behavioral finance in the context of small and medium-sized enterprises (SMEs) in emerging urban centers. Furthermore, the study intends to provide practical recommendations for small business owners, policymakers, and financial advisors to mitigate the negative consequences of these biases and foster more informed financial decision-making, ultimately enhancing the sustainability and growth of small businesses in Amravati. This study will explore how cognitive biases, such as overconfidence, anchoring, and loss aversion, influence their financial decisions, including investment choices, financing options, and risk management strategies.

Keywords: Small Business Owners, Anchoring, Confirmation Bias, Business Performance, Behavioral Finance.

1. INTRODUCTION

Small businesses are the backbone of economic growth and a significant source of innovation in today's dynamic economic landscape. However, the financial decision-making processes of these enterprises, often led by individual owners with varying levels of financial expertise, can be susceptible to cognitive biases. These psychological influences can deviate decisions from rational economic principles, potentially leading to suboptimal financial outcomes and hindering the long-term success of these vital entities. In emerging urban centers like Amravati, characterized by a growing entrepreneurial spirit and a diverse range of small businesses, understanding these biases is particularly crucial. The unique challenges faced by small business owners in such environments, including limited access to resources, intense competition, and market volatility, can exacerbate the impact of flawed financial judgments. This study aims to explore the specific financial decision-making biases prevalent among small business owners in Amravati and analyze their consequences on business financial performance. By identifying these biases and their effects, this research seeks to provide valuable insights for business owners, policymakers, and financial support organizations to foster more informed and effective financial decision-making within the small business sector of Amravati.

2. REVIEW OF LITERATURE

Researchers have explored various factors influencing financial decision-making biases among small business owners. Rao & Malhotra (2021) emphasized the importance of involving external advisors to counteract biases like overconfidence and groupthink, promoting objective decision-making. Ukla & Yadav (2022) suggested that using financial modeling and data analytics tools could reduce biases such as anchoring and availability bias by enabling more informed, data-driven decisions. Cultural influences were also significant; Das & Sharma (2022) noted that in India, respect for authority and traditional norms often led to groupthink, limiting innovation and adaptability. Yadav & Rathi (2021) found that younger entrepreneurs were more prone to overconfidence and optimism bias, while older ones tended to be risk-averse due to loss aversion. Similarly, Kumar & Kapoor (2020) observed that many Indian business owners avoided selling underperforming assets to escape losses, which hindered business performance and growth.

3. RESEARCH METHODOLOGY

The research methodology for a study on "Financial Decision-Making Biases among Small Business Owners in Amaravati" would need to be structured to collect and analyze both qualitative and quantitative data. Here's a possible framework for your research methodology

Research Objective

- To Identify the Cognitive and Emotional Biases Affecting Financial Decision-Making
- To Understand the Impact of Business Demographics on Financial Decision Biases
- To Assess the Financial Decision-Making Strategies Adopted by Small Business Owners
- To Examine the Relationship Between Biases and Business Performance
- To Investigate the Role of Intuition and Experience in Financial Decision-Making

Data Analysis and Data Interpretation

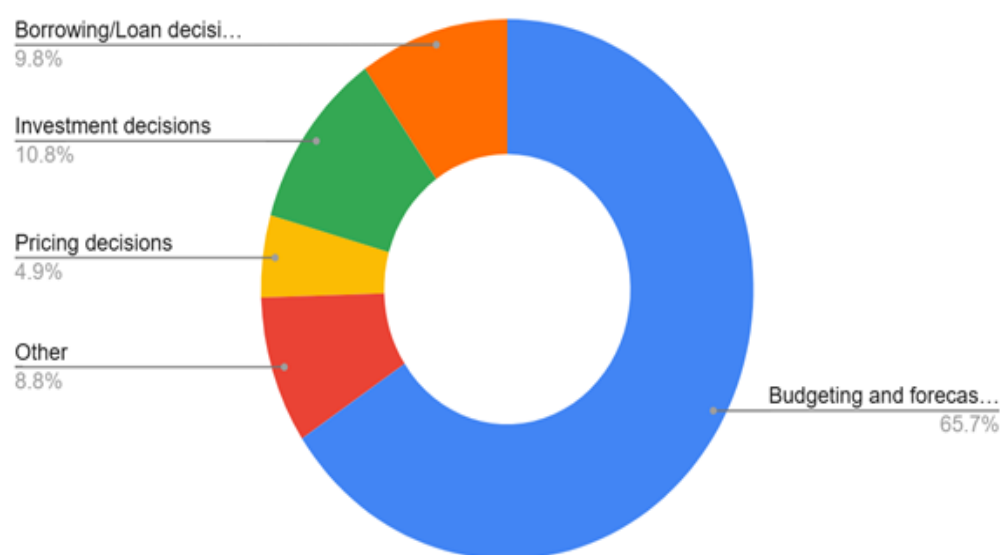


FIGURE 1. Type of financial decisions do you make most frequently

The provided donut chart illustrates the frequency of different types of financial decisions made by a group, based on a count of 7 responses. The most frequent type of financial decision is budgeting and forecasting, which accounts for a substantial 65.7% of the responses. Following this, Investment decisions are the next most frequent at 10.8%. Borrowing/Loan decisions represent 9.8% of the financial decisions made. The category of other financial decisions constitutes 8.8%, while pricing decisions are the least frequent among the listed options, making up only 4.9% of the total responses. This data suggests that budgeting and forecasting are the primary and most common financial activities for this group, significantly outweighing other types of financial decisions like investment, borrowing, pricing, or other unspecified categories.

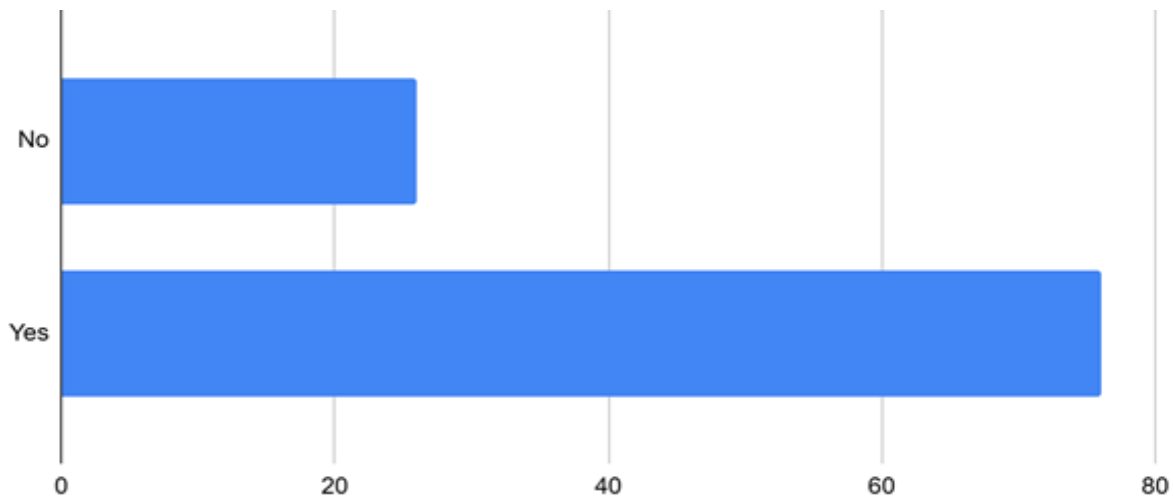


FIGURE 2. A financial decision based on "gut feeling" or intuition rather than data

Yes (Based on Gut Feeling): Approximately 75% of the respondents.

No (Based on Data): Approximately 25% of the respondents.

The data indicates that a significant majority of the 10 respondents have, at some point, made a financial decision based on "gut feeling" or intuition rather than solely on data. This highlights the role of non-analytical factors in financial decision-making within this group. Further investigation with a larger and more diverse sample could provide a more robust understanding of this phenomenon and the specific contexts in which intuition plays a significant role in financial choices.

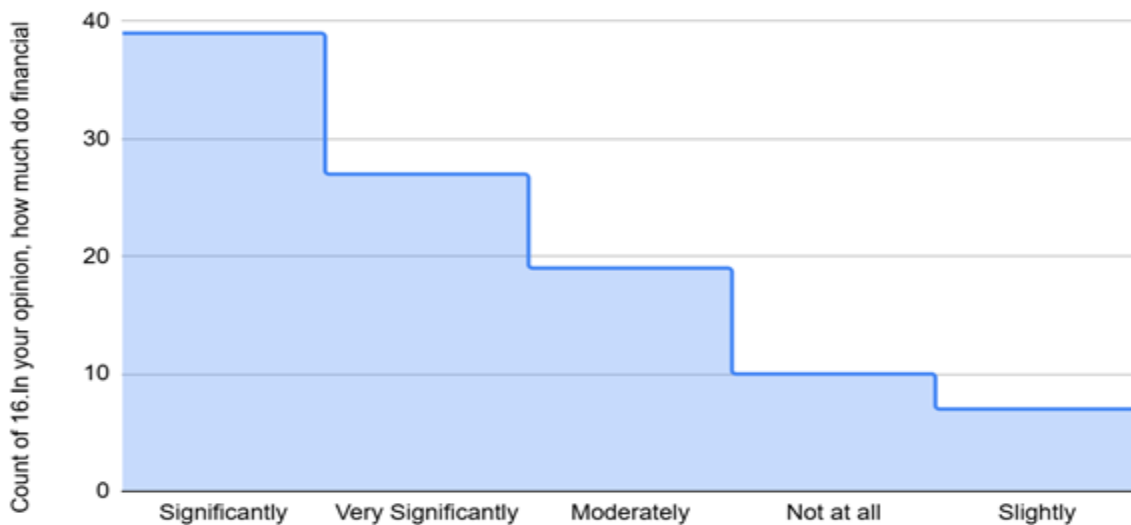


FIGURE 3. Financial biases affect the success of small businesses

The step chart displays the opinions of 16 respondents regarding the extent to which financial biases affect the success of small businesses. The x-axis represents the level of impact, ranging from "Significantly" to "Slightly," and the y-axis represents the count of respondents for each level. The largest proportion believes this impact to be Significant, followed by a substantial number perceiving it as Very Significant or Moderate. This suggests an awareness of how psychological biases and irrational financial behaviors can negatively affect the decision-making and overall performance of small enterprises

Suggestions: Focus on growth initiatives for the dominant service-based businesses. Analyze the diverse businesses in this group for targeted support. Provide training for this frequently used financial activity. Educate on the importance of analysis over "gut feeling." Conduct workshops to identify and mitigate these biases. Encourage structured decision-making and data use. Gather more data for statistically significant insights.

4. CONCLUSION

The surveyed data from Amravati reveals a business landscape led by the service sector, with a significant "Other" category needing further understanding. Financial decision-making heavily relies on budgeting and forecasting, but intuition plays a considerable role. A strong awareness exists regarding the negative impact of financial biases, with a majority having experienced regret due to them. Addressing these findings through targeted support, educational programs focused on data-driven decisions and bias mitigation, and broader research efforts can contribute to a more informed and prosperous business environment in the region.

REFERENCES

- [1]. Upashi, R., & Kadakol, A. M. (2023). Behavioural biases and investment decision-making: A systematic review. *Abhigyan*, 41(2), 32–45. <https://www.i-scholar.in/index.php/Abhigyan/article/view/222367>
- [2]. Kumar, S., & Chaurasia, A. (2024). Emotional biases and their impact on investment decisions: A meta-analytical approach. *Indian Institute of Management and Technology Journal of Management*, 12(1), 15–28. <https://www.emerald.com/insight/content/doi/10.1108/IIMTJM-03-2024-0034/full/html>
- [3]. Singh, A., & Saxena, A. (2022). A review on investor behavioral biases and their impact on investment decisions. *Manthan: Journal of Commerce and Management*, 9(1), 65–73. <https://www.journalpressindia.com/manthan-journal-of-commerce-and-management/doi/10.17492/jpi.manthan.v9i1.912207>
- [4]. Rajput, V. B., & Samdariya, P. (2024). Behavioural biases and decision-making of women micro-entrepreneurs in India. *ShodhKosh: Journal of Visual and Performing Arts*, 5(2), 52–66. <https://www.granthaalayahpublication.org/Arts-Journal/ShodhKosh/article/view/4140>
- [5]. Rastogi, C., Aggarwal, A., & Sharma, M. (2020). Understanding cognitive biases in AI-assisted decision-making: A conceptual model. *ArXiv*. <https://arxiv.org/abs/2010.07938>