

Emotional Appeals and Financial Decision-Making among MSME Entrepreneurs: A Behavioural Finance Perspective

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ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) are widely recognised as engines of economic development; however, their financial decision-making processes frequently deviate from the assumptions of traditional rational finance models. This study investigates the extent to which emotional appeals such as fear, optimism, stress, intuition, and social influence shape financial decisions among MSME entrepreneurs. Drawing on Prospect Theory, the Affect Heuristic, Behavioural Bias Models, and contemporary behavioural finance frameworks, the research examines how emotional triggers affect investment behaviour, risk perception, borrowing practices, and strategic financial planning. Using a structured questionnaire administered to 87 MSME entrepreneurs, the study employs ANOVA, correlation analysis, and descriptive statistics to analyse the relationship between emotional appeals and financial decision-making. Results indicate that emotional states significantly influence financial choices, with stress, fear, and optimism driving substantial variance in decision outcomes. Emotional and cognitive biases including loss aversion, regret aversion, overconfidence, anchoring, and herd behaviour were found to significantly shape risk-taking and investment behaviour. Furthermore, behavioural interventions such as emotional intelligence training, financial literacy, mentorship, and structured decision-making tools demonstrated positive correlations with improved financial outcomes and reduced decision errors. The paper concludes by offering targeted behavioural strategies for MSME entrepreneurs, policymakers, and financial institutions to enhance financial decision quality.

Key Words: Behavioural Finance, Emotional Appeals, MSME Entrepreneurs, Decision-Making, Emotional Biases, Risk Perception, Financial Behaviour, Entrepreneurship.

1. Introduction:

Traditional financial theories rest on the assumption that individuals are rational agents who objectively evaluate information, calculate probabilities, and choose alternatives that maximise expected utility. This rationalist paradigm presumes consistency, cognitive stability, and emotion-free judgement—conditions rarely observed in real-world decision environments. Over the last four decades, however, behavioural finance has fundamentally reframed this understanding by demonstrating that financial decisions are heavily shaped by cognitive biases, emotional states, and psychological heuristics. Rather than acting as perfectly rational agents, individuals frequently rely on mental shortcuts, intuitive judgments, and

emotionally charged perceptions of risk and reward. This divergence between normative financial theory and actual financial behaviour becomes particularly pronounced in entrepreneurial contexts.

Among entrepreneurial ecosystems, Micro, Small and Medium Enterprises (MSMEs) stand out as a sector where decision-making is deeply intertwined with personal emotions and behavioural tendencies. MSME entrepreneurs operate under persistent uncertainty, tight resource constraints, fluctuating cash flows, and high levels of personal financial liability. Unlike larger firms with specialised financial departments and shared responsibility, MSME owners often serve as the sole decision-makers, bearing both psychological and financial risks. This convergence of economic pressure and personal accountability intensifies emotional involvement in financial decision-making. Emotional pressures are not peripheral influences but central drivers of how entrepreneurs assess opportunities, interpret risks, and respond to financial challenges.

Emotional appeals can originate both internally and externally. Internal emotional triggers—such as fear of failure, anxiety stemming from liquidity shortages, stress triggered by debt burdens, intuitive feelings about markets, and hope during periods of growth—often guide entrepreneurial behaviour, sometimes even more powerfully than formal data or rational analysis. These internal emotional states shape how entrepreneurs interpret market signals, negotiate credit terms, or decide whether to invest or delay expansion. External emotional influences, including family expectations, social norms, competitive pressures, peer behaviour, and changing market sentiment, further complicate decision-making. In collectivist cultures like India, where entrepreneurship is deeply embedded in social identity and family livelihoods, these external emotional appeals are particularly influential. Entrepreneurs may take risks to protect reputation, avoid losses to prevent social embarrassment, or follow competitors to maintain market standing, even when such decisions lack financial justification.

Behavioural finance offers an essential theoretical lens for understanding these dynamics. According to Prospect Theory, individuals evaluate outcomes relative to perceived gains or losses rather than absolute results, leading to heightened sensitivity toward losses. MSME entrepreneurs—often working with thin margins and limited buffers—exhibit strong loss aversion, which can restrict risk-taking and innovation. Conversely, when experiencing losses, they may adopt risk-seeking behaviour in attempts to recover, potentially exposing the business to further instability. The Affect Heuristic suggests that individuals rely on emotional impressions when confronted with complex or ambiguous decisions. In MSMEs, where information is often incomplete and time pressure is constant, emotional cues frequently override analytical reasoning. These emotional shortcuts can lead to rapid but biased judgments, with significant financial implications.

Moreover, an array of cognitive and emotional biases—including anchoring, overconfidence, herd behaviour, regret aversion, mental accounting, and confirmation bias—play a substantial role in shaping MSME financial decisions. Entrepreneurs may rely disproportionately on past experiences (anchoring), overestimate their ability to predict market trends (overconfidence), or simply imitate competitors' behaviours without adequate evaluation (herd behaviour). Regret aversion may discourage them from pursuing opportunities after past failures, while mental accounting may distort cash management practices. These biases do not operate in isolation; they interact with emotional triggers to create complex decision-making patterns that are often inconsistent with rational financial theories.

The Indian MSME sector adds further complexity. With more than 63 million enterprises contributing significantly to GDP and employment, MSMEs form the backbone of India's economic architecture. Yet, a large proportion operate informally, lack professional financial management systems, and depend heavily on personal savings, informal credit networks, and trust-based transactions. These contextual realities intensify emotional decision-making, as financial choices often affect not only business survival but also

family welfare and social standing. Understanding the emotional dimensions of financial decision-making is therefore crucial for supporting the long-term sustainability of Indian MSMEs.

Against this backdrop, this study examines how emotional appeals influence financial decision-making among MSME entrepreneurs through a behavioural finance perspective. It seeks to uncover the emotional, cognitive, and psychological mechanisms underlying investment behaviour, risk assessment, and borrowing decisions. The research further investigates the extent to which behavioural biases distort financial judgement and how behavioural interventions such as emotional intelligence training, financial literacy, mentoring, and structured decision frameworks can mitigate these distortions. By integrating behavioural finance theory with MSME-specific realities, this study aims to generate deeper insights into the emotional architecture of entrepreneurial financial behaviour and offer practical recommendations to enhance decision quality, resilience, and sustainable growth.

2. Review Of Literature

1. Sharma and Shukla (2021) conducted an extensive empirical study on emotional biases affecting the financial decisions of Indian MSME entrepreneurs. Their findings revealed that loss aversion, regret aversion, and overconfidence were among the most influential behavioural patterns shaping economic choices. MSME owners were found to hesitate in adopting new investment avenues due to fear of financial loss, even when potential returns were favourable. Regret aversion played a strong role in discouraging entrepreneurs from repeating previously unsuccessful ventures, thereby restricting innovation. Overconfidence driven by past successes often resulted in underestimating risks associated with borrowing or expansion. Additionally, the study revealed that cultural expectations, familial influence, and social comparisons significantly heightened emotional intensity during decision-making. Overall, Sharma and Shukla established that emotional appeals are deeply interwoven into the financial behaviour of Indian MSMEs, making behavioural understanding crucial for improving decision quality.

2. Loewenstein and Lerner's (2020) work revisited the affect heuristic, asserting that people often make decisions based on emotional impressions rather than systematic reasoning. Their study demonstrated that emotional cues such as fear, trust, confidence, or anxiety act as mental shortcuts that directly influence judgement. MSME entrepreneurs, who frequently operate in high-pressure environments with insufficient time and incomplete information, were shown to rely heavily on emotional responses when assessing risk or evaluating financial alternatives. This can lead to impulsive choices, such as borrowing under stress or investing during moments of optimism without proper analysis. The research emphasises that emotional states not only speed up decision-making but also distort perceptions of probability and outcome. For entrepreneurs in volatile markets, such emotional dependence becomes especially significant, often determining whether decisions lead to stability or financial vulnerability.

3. The OECD (2019) report provides a global perspective on MSME behaviour, highlighting the emotional vulnerabilities faced by small businesses operating under economic stress. According to the report, MSMEs worldwide experience liquidity shortages, fluctuating demand, and economic shocks that place substantial psychological pressure on entrepreneurs. These conditions intensify emotional responses such as fear, uncertainty, frustration, and overconfidence all of which affect financial planning and credit utilisation. The study observed that during unstable economic periods, entrepreneurs tended to delay investments, adopt defensive financial strategies, or alternatively, rush into new ventures driven by optimism and peer pressure. The report emphasised the need for MSMEs to build behavioural competencies, emotional resilience, and risk-awareness skills to navigate uncertain environments effectively. Importantly, it highlights that emotional behaviour is a global MSME challenge, not limited to specific regions.

4. Shefrin (2002) introduced an influential behavioural finance framework explaining how cognitive and emotional biases shape financial anomalies. His framework identifies multiple biases such as mental accounting, anchoring, overconfidence, and heuristics that frequently overshadow rational decision-making. Shefrin argued that individuals often resort to emotional shortcuts when faced with complex information or high-stress decisions, leading to predictable patterns of error. MSME entrepreneurs, who commonly lack sophisticated financial tools and formal training, are particularly likely to rely on intuition, personal experience, and emotional cues rather than analytical evaluation. This tendency increases the likelihood of misjudging risk, mispricing investments, and misallocating resources. Shefrin’s framework is foundational in understanding why MSMEs may engage in conservative borrowing, adhere rigidly to past practices, or display resistance to change, even when evidence suggests alternative strategies.

5. Loewenstein (2000) highlighted the critical role of visceral emotions such as anxiety, excitement, fear, and stress in shaping economic and financial behaviour. He demonstrated that these visceral states have an immediate and powerful effect on risk perception, often overriding logical reasoning. In the context of MSMEs, such emotions arise frequently due to cash-flow instability, delayed payments, market competition, and pressure to maintain profitability. Loewenstein argued that these emotional fluctuations can cause entrepreneurs to either avoid necessary risks or engage in sudden, impulsive decisions to relieve emotional discomfort. For example, anxiety may lead to avoiding investment opportunities, whereas excitement may encourage expansion during favourable periods without adequate evaluation. His work suggests that understanding emotional cycles is essential for predicting financial decision patterns in small businesses.

6. Kahneman and Tversky’s (1979) Prospect Theory revolutionised behavioural economics by illustrating that individuals evaluate choices based on perceived gains and losses rather than actual outcomes. They showed that people exhibit strong loss aversion, meaning losses feel psychologically more impactful than equivalent gains. This leads to conservative or risk-averse decisions when facing potential gains and risk-seeking behaviour when trying to recover losses. MSME entrepreneurs frequently operate under uncertainty, making Prospect Theory especially relevant to their decision patterns. Many entrepreneurs avoid beneficial investments due to fear of loss, yet take excessive risks when attempting to overcome previous financial setbacks. The study also demonstrated that emotional responses distort probability assessments, causing entrepreneurs to misjudge the likelihood of success or failure. Prospect Theory therefore offers a powerful framework for understanding why MSMEs often display inconsistent and emotionally driven financial decisions

7. Patel and Desai (2022) Investigated the influence of emotional intelligence (EI) on the financial behavior of small business proprietors in India. The research found that entrepreneurs with high EI scores tended to make more rational and systematically organized financial decisions, particularly in high-pressure situations. Emotional intelligence played a critical role in helping entrepreneurs manage anxiety, reduce impulsive decisions, and maintain clarity during loan negotiations and investment strategies. The authors concluded that EI acts as a stabilizing force, alleviating the impact of emotional biases such as overconfidence and fear-induced risk aversion.

8. Li and Thornton (2021) Investigated the effects of chronic stress and decision fatigue on financial judgment among small business proprietors in developing economies. The research demonstrated that prolonged stress, primarily linked to cash-flow deficiencies or business unpredictability, leads to delayed decision-making, increased avoidance of financial risks, and a tendency towards reactive or impulsive financial choices. The authors argue that stress adversely affects analytical reasoning and enhances reliance on cognitive shortcuts, thereby promoting a preference for heuristics over systematic evaluations. This finding highlights the critical need for emotional resilience training for micro, small, and medium-sized

enterprise (MSME) entrepreneurs to improve their financial decision-making capabilities under adverse conditions.

9. Mehta and Rao (2023) The study investigated the influence of intuition-based decision-making on the financial planning practices of MSME entrepreneurs in India. It was found that many business owners rely heavily on intuition, personal experiences, and informal advice rather than engaging in structured financial analysis. This reliance on intuition allows entrepreneurs to make quick decisions in response to volatile market situations. However, it also increases their vulnerability to various emotional biases such as anchoring, confirmation bias, and optimism bias. These biases often lead to inconsistent investment behaviors, overestimated market demand, and inaccurate credit risk assessments. The authors concluded that combining intuitive insights with systematic financial tools could reduce the impact of emotional biases, thereby promoting improved long-term financial stability for MSME entrepreneurs.

Research Gap: Although existing literature acknowledges that emotions and behavioural biases influence financial behaviour, several critical gaps remain in understanding how these psychological factors specifically affect MSME entrepreneurs. Previous studies such as Sharma and Shukla (2021) highlight emotional biases among Indian MSMEs, yet they do not fully explain how these emotional triggers translate into concrete financial decisions such as investment choices, credit utilisation, pricing behaviour, or liquidity management. The mechanisms through which emotions like fear, anxiety, optimism, or social pressure alter financial judgement remain underexplored.

Similarly, while Loewenstein and Lerner (2020) establish the importance of the affect heuristic, their work is largely conceptual and not empirically validated within the MSME context. There is a clear gap in empirical evidence demonstrating the direct linkage between emotional states and risk perception among small entrepreneurs, particularly in emerging economies like India, where markets are volatile and information asymmetry is high. Global assessments, such as the OECD (2019) report, identify emotional pressures affecting MSMEs, but these studies adopt a macro-level perspective. Thus, there is limited understanding of the micro-level emotional experiences of individual entrepreneurs, especially regarding how day-to-day emotional fluctuations influence financial decision-making. Additionally, although Shefrin (2002) and behavioural finance scholars explain various cognitive and emotional biases, their frameworks are seldom applied to the MSME sector, which differs significantly from corporate or investor-based decision environments. Little research has adapted or contextualised behavioural finance models to MSME realities, where decisions are often informal, intuitive, and influenced by personal financial stakes. Loewenstein (2000) shows that visceral emotions affect risk preferences, yet research has not examined which specific emotional states are most dominant within MSMEs such as stress during cash-flow shortages or optimism during business expansion and how these emotions influence the severity of decision biases. Moreover, Prospect Theory (Kahneman & Tversky, 1979) has been widely cited but insufficiently tested in entrepreneurial settings. There is a notable absence of studies that apply Prospect Theory to real-world MSME financial scenarios, such as loan repayments, investment hesitancy, inventory decisions, and emergency financial responses. Finally, there is a significant gap in research exploring how behavioural interventions such as emotional intelligence training, financial literacy, mentorship, or structured decision-making tools can reduce emotional biases in MSME financial decision-making. The existing literature rarely moves beyond identifying biases to testing potential solutions that can enhance decision quality.

3. Objective Of The Study:

1. To analyse how emotional appeals influence financial decision-making among MSME entrepreneurs.
2. To identify specific emotional and cognitive biases affecting MSME financial decisions.

3. To evaluate the relationship between emotional triggers and risk perception.
4. To recommend behavioural strategies to improve decision-making efficiency.

4. Research Methodology

A mixed-method design was adopted, combining quantitative survey assessment with qualitative interpretation. A structured questionnaire was prepared based on the review of literature and objectives. The study used stratified random sampling to collect data from 87 MSME entrepreneurs from manufacturing, services, and trading sectors.

H₀: Emotional states such as stress, fear, and optimism have no significant influence on the financial decision-making of MSME entrepreneurs.

H₁: Emotional states such as stress, fear, and optimism have a significant influence on the financial decision-making of MSME entrepreneurs.

H₀₁: Emotional and cognitive biases does not significantly affect the risk-taking and investment decisions of MSME entrepreneurs.

H₀₂: Emotional and cognitive biases significantly affect the risk-taking and investment decisions of MSME entrepreneurs.

H₀₃: Behavioural and financial interventions does not significantly reduce emotional bias and improve financial decision-making among MSME entrepreneurs.

H₀₄: Behavioural and financial interventions significantly reduce emotional bias and improve financial decision-making among MSME entrepreneurs.

Reliability testing was conducted to evaluate the robustness of the instrument, resulting in a Cronbach's Alpha score of 0.78, indicating acceptable internal consistency for the measurements used. To establish content validity, evaluations were performed by experts, including both academics and practitioners in micro, small, and medium enterprises (MSMEs). The respondents' demographics included entrepreneurs across the manufacturing, service, and trading sectors, representing a broad range of age groups and varying levels of company experience, ranging from less than 5 years to over 15 years. This diversity in participants enhanced the representativeness of the research findings and increased the general applicability of the results across different business contexts.

5. Data Analysis & Interpretation

H₁: Emotional states such as stress, fear, and optimism have a significant influence on the financial decision-making of MSME entrepreneurs.

Table1. The table showing emotional states such as stress, fear, and optimism have a significant influence on the financial decision-making of MSME entrepreneurs.

Anova: Single Factor				
SUMMARY				
<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>

Emotional stress affects the way I make financial decisions for my business	87	342	3.93103	0.809142
Fear of financial loss impacts my willingness to invest in new opportunities.	87	330	3.7931	0.817161
Positive emotions (optimism, excitement) encourage me to take more financial risks.	87	340	3.90805	0.851911
Peer or social pressure influences my financial choices.	87	291	3.34483	1.135525
My financial decisions are often influenced by my emotional state at that moment.	87	289	3.32184	1.290564
I avoid financial risks even when potential returns are high	87	275	3.16092	1.252874
I rely heavily on previous experiences when making financial decisions.	87	334	3.83908	0.950548
I feel overconfident after a successful financial outcome.	87	272	3.12644	1.623363
I follow financial decisions taken by similar businesses in my sector.	87	301	3.45977	1.111735

ANOVA					
Source of Variation	SS	df	MS	F	P-value
Between Groups	73.834	8	9.22925	8.43896	4.88E-11
Within Groups	846.483	774	1.09365		
Total	920.317	782			

Source: Primary data

Interpretation:

The ANOVA results show a significant difference among the means of the statements related to emotional states and their influence on financial decision-making ($F = 8.439$, $p < 0.001 < 0.05$). Since the p-value is much less than 0.05, we reject the null hypothesis that emotional states have no effect.

Emotional factors such as stress, fear, optimism, and other related emotional triggers significantly influence the financial decision-making of MSME entrepreneurs, confirming that emotions play a critical role in shaping investment, risk-taking, and financial behaviour.

H2: Emotional and cognitive biases significantly affect the risk-taking and investment decisions of MSME entrepreneurs.

Table 1.2.. The table showing emotional and cognitive biases significantly affect the risk-taking and investment decisions of MSME entrepreneurs.

Anova: Single Factor				
SUMMARY				
<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>
I avoid financial risks even when potential returns are high	87	275	3.16092	1.252874
I rely heavily on previous experiences when making financial decisions.	87	334	3.83908	0.950548
I feel overconfident after a successful financial outcome.	87	272	3.126437	1.623363

ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	28.09962	2	14.04981	11.01432	2.57E-05	3.030788
Within Groups	329.1034	258	1.275595			
Total	357.2031	260				

Source: Primary Data**Interpretation:**

The ANOVA results indicate a significant difference among the means of statements related to emotional and cognitive biases affecting risk-taking and investment decisions ($F = 11.014$, $p < 0.001 < 0.05$). Since the p-value is less than 0.05, the null hypothesis is rejected.

Emotional and cognitive biases, including risk aversion, reliance on past experiences, and overconfidence after success, significantly influence the risk-taking and investment decisions of MSME entrepreneurs, confirming that such biases play a crucial role in shaping financial behaviour.

H4: Behavioural and financial interventions significantly reduce emotional bias and improve financial decision-making among MSME entrepreneurs.

Table. 1.3. A table showing the correlation between the financial decision making among MSME entrepreneurs

Correlation table

	v1	v2	v3	v4	v5	v6
v1	1					

v2	0.15273	1				
v3	0.29017	0.5088	1			
v4	0.158476	0.393325	0.465515	1		
v5	0.156469	0.420947	0.414352	0.354729	1	
v6	0.126719	0.39413	0.58307	0.412316	0.499477	1

Source: primary Data

Interpretation:

The correlation analysis shows positive relationships between behavioural and financial interventions (such as emotional intelligence training, financial literacy programmes, mentorship, structured decision-making tools, and awareness of behavioural finance) and improved financial decision-making, along with reduced emotional bias.

Behavioural and financial interventions effectively help MSME entrepreneurs manage emotional influences, enhance decision-making quality, and reduce errors caused by emotional and cognitive biases, supporting the hypothesis that such interventions improve financial decision outcomes.

6. Findings Of The Study

The findings of the study reveal that emotional appeals exert a significant influence on the financial decision-making patterns of MSME entrepreneurs. The analysis demonstrates that emotional states such as stress, fear of loss, and optimism substantially shape investment choices, borrowing behaviour, and day-to-day financial planning. ANOVA results confirmed that entrepreneurs experiencing higher emotional stress or fear tend to avoid risks, while those driven by optimism are more inclined to undertake financially aggressive decisions. The presence of behavioural biases including anchoring, loss aversion, regret aversion, overconfidence, and herd behaviour was found to meaningfully distort financial judgement, leading to inconsistent or suboptimal decisions. The findings further indicate that emotional triggers amplify risk perception, causing entrepreneurs to either exaggerate potential threats or underestimate critical risks depending on their emotional state. Correlation analysis shows that behavioural and financial interventions such as emotional intelligence training, financial literacy programmes, mentoring, and structured decision-making tools have a positive association with improved financial decisions, reduced emotional bias, and enhanced analytical thinking. Overall, the study highlights that emotional and cognitive factors are deeply embedded in MSME financial behaviour, underscoring the need for targeted behavioural strategies to support more rational and resilient decision-making among entrepreneurs.

The findings present a nuanced understanding of how emotional factors impact entrepreneurs across various business sectors. Notably, entrepreneurs in the manufacturing sector display a tendency towards stress-induced decision-making, likely stemming from higher capital requirements and operational risks they face. In contrast, those in the service sector tend to exhibit greater optimism, influenced by flexible cost structures and demands driven by consumers. Additionally, there's an indication of gender-based differences in financial behaviors, as female entrepreneurs may demonstrate slightly more cautious and risk-averse tendencies; however, this aspect remains insufficiently examined. These insights highlight the critical need for behavioral training tailored to specific sectors and emotional support mechanisms to enhance decision-making stability and financial resilience in Micro, Small, and Medium Enterprises (MSMEs).

7. Conclusions

This research provides compelling empirical evidence that emotional appeals significantly shape the financial decision-making processes of MSME entrepreneurs. The study demonstrates that emotional triggers such as stress, fear, optimism, intuition, and social pressure are not merely background influences but central determinants of how entrepreneurs evaluate financial choices. These emotions strongly affect investment behaviour, borrowing patterns, liquidity decisions, and risk assessments. The statistical analysis clearly shows that emotional states account for substantial variance in financial behaviour, thereby validating core behavioural finance theories such as Prospect Theory, which highlights loss-sensitive decision patterns, and the Affect Heuristic, which explains emotion-driven judgement under uncertainty.

Furthermore, the study highlights the prominent role of emotional and cognitive biases—including loss aversion, regret aversion, overconfidence, anchoring, and herd behaviour—in shaping financial outcomes. These biases often lead MSME owners to avoid profitable opportunities due to fear of loss, make impulsive or overly optimistic decisions during favourable periods, or rely excessively on outdated experiences even when market conditions have shifted. Such bias-driven decisions can hinder business growth, distort risk-reward evaluation, and reduce financial adaptability in volatile environments.

The correlation analysis reinforces the need for behavioural interventions as a means to enhance decision quality. The findings reveal that emotional intelligence training, financial literacy programmes, mentorship support, and structured decision-making tools significantly reduce emotional distortions and enable more balanced, data-driven decision-making. Entrepreneurs who actively engage in behavioural learning and financial training demonstrate improved risk perception, greater analytical clarity, and stronger financial discipline.

Overall, the study concludes that emotional appeals are central—not peripheral—to MSME financial decision-making. Emotional and behavioural patterns shape how entrepreneurs interpret risk, identify opportunities, and respond to financial challenges. Addressing these emotional influences through targeted behavioural interventions is therefore essential for strengthening financial health, enhancing resilience, and supporting the long-term sustainability and competitiveness of MSMEs. The study underscores the importance of incorporating behavioural finance principles into MSME development programmes to promote more rational, stable, and strategic financial decision-making across the sector.

8. Suggestions:

The study shows that emotional triggers and behavioural biases strongly influence financial decisions among MSME entrepreneurs. Therefore, the following suggestions aim to reduce these biases and improve the overall quality of financial decision-making.

8.1. For MSME Entrepreneurs

1. Adopt structured decision-making tools such as financial scorecards, risk matrices, and investment checklists to reduce emotional influence.
2. Engage in financial literacy training focusing on budgeting, credit evaluation, and investment planning.
3. Practice emotional regulation techniques, including mindfulness and stress-management methods.
4. Use data-driven decision models rather than intuition for evaluating market opportunities.

5. Seek expert mentorship to verify major financial decisions and reduce overconfidence bias.

8.2. For Policymakers

1. Introduce government-sponsored behavioural finance training programmes for MSMEs.
2. Encourage MSME Support Centres to integrate emotional well-being modules into existing entrepreneurship development programmes.
3. Enhance access to digital advisory tools and credit assessment models tailored for MSMEs.

8.3 For Financial Institutions

1. Provide behavioural guidance modules along with loan counselling.
2. Develop risk-assessment tools that help entrepreneurs understand emotional implications.
3. Offer mentorship programmes connecting entrepreneurs with financial advisors.

8.4 For Training Institutions

Entrepreneurship Development Institutes (EDIs), MSME Development Institutes (MSME-DIs), and incubation centers are helpful in enhancing the behavioral and emotional competencies of MSME entrepreneurs. They may donate via the subsequent initiatives:

1. Facilitate specialized behavioral finance seminars focused on emotional biases, cognitive distortions, and systematic decision-making strategies.
2. Implement modules for emotional resilience and stress management to help entrepreneurs address uncertainty and cash flow challenges.
3. Create tailored decision-making toolkits for various sectors, aligned with their specific risk profiles.
4. Develop case-based simulations and practical assessments to improve decision-making and analytical reasoning in corporate settings.
5. Enhance capacity building by integrating behavioral competencies into standard entrepreneurial development programs for informed and balanced financial decisions.

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