Behavioural Biases, Financial Literacy and SME Growth: The Mediating Role of Financial Literacy in Cameroon

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ABSTRACT

The study examines the effects of behavioural biases and financial literacy on the growth of small and medium-sized enterprises (SMEs) in the Southwest Region of Cameroon. Given the vital role SMEs play in economic development, it is imperative to understand the factors influencing their growth. Despite the crucial role of SMEs in Cameroon, the expansion of new branches and the introduction of innovative products still lag behind, with fewer than 15% of SMEs successfully entering new markets or launching new products each year. Data were gathered from 304 SME owners and managers using a structured questionnaire, providing insights into their views on risk and financial management techniques. The study employs a quantitative research approach, utilising multiple regression and structural equation modelling for statistical analysis to investigate the direct and mediated correlations between the variables under investigation. The results show that behavioural biases, particularly overconfidence, anchoring and regret aversion, positively and significantly influence the growth of SMEs. Financial literacy emerges as a critical facilitator of SME growth, with both financial knowledge and behaviour showing strong positive correlations with business expansion. Additionally, the study reveals that financial literacy acts as a mediator in the relationship between risk perception and SME growth, suggesting that effective financial management can mitigate some of the potential negative effects of Behavioural biases. This study contributes to the theoretical and empirical literature on SME development by delineating the complex interplay between psychological factors and financial acumen.

Keywords: Financial Literacy; Behavioural Biases, Overconfidence, Anchoring, Regret Aversion, Financial Knowledge, Financial Behaviour and SME Growth

INTRODUCTION

Small and medium-sized enterprises (SMEs) are widely recognised as critical drivers of economic development, particularly in developing economies where they contribute significantly to employment creation, income generation, and industrial development. Across emerging markets, SMEs account for a substantial share of economic activity, yet their growth performance remains uneven and often constrained by both structural and internal factors (Eniola & Entebang, 2015). In sub-Saharan Africa, and specifically in Cameroon, SMEs operate in environments characterised by financial constraints, institutional inefficiencies, and market uncertainties, which collectively limit their ability to achieve sustained growth (Beck & Demirgüç-Kunt, 2006; Ngek, 2016). Despite these constraints, notable variations in firm performance persist, suggesting that factors beyond external conditions play a crucial role in shaping SME outcomes.

Recent empirical research has increasingly shifted attention toward internal determinants of firm performance, particularly those related to entrepreneurial cognition and decision-making processes. Scholars argue that the success or failure of SMEs cannot be fully explained by access to resources alone but must also consider how entrepreneurs perceive, interpret, and act upon available information (Shane, 2003; Baron, 2007) Within this context, behavioural finance provides a useful framework for understanding how cognitive biases influence

economic decisions, particularly under conditions of uncertainty where rational decision-making is often constrained (Kahneman & Tversky, 1979; Tversky & Kahneman, 1974; Slovic, 2000).

Behavioural biases such as overconfidence, anchoring, and herding have been shown to significantly affect financial decision-making across various contexts, including entrepreneurship and small business management (Yu et *al.*, 2021; Apochi et *al.*, 2024). Overconfidence bias leads entrepreneurs to overestimate their abilities and the likelihood of success, often resulting in aggressive investment and expansion strategies. Anchoring bias constrains decision-making by causing individuals to rely heavily on initial information, even when more relevant data become available. Herding behaviour reflects the tendency to imitate others' actions, particularly in uncertain environments, which may either reduce decision complexity or lead to inefficient outcomes. Empirical evidence suggests that these biases are particularly pronounced in SME contexts, where decision-making authority is centralised, and formal analytical frameworks are often limited (Nur Aini & Lutfi, 2019; Gentile *et al.*, 2015)

However, the relationship between behavioural biases and SME growth is not straightforward. While behavioural biases shape decision-making processes, their ultimate effect on firm performance depends on how these decisions are implemented within the business.

This introduces financial literacy as a critical intervening factor. Financial literacy, broadly defined as the ability to understand and apply financial knowledge in decision-making, has been identified as a key determinant of financial behaviour and business performance (Lusardi & Mitchell, 2014; Hossain, 2020; Addo *et al.*, 2023; OECD, 2022). In the SME context, financial literacy enables entrepreneurs to manage financial resources effectively, evaluate investment opportunities, and implement sound financial practices (Eniola & Entebang, 2015; Oktariswan, 2024)

Empirical studies further indicate that financial literacy is not limited to knowledge alone but also encompasses financial behaviour, reflecting the practical application of financial skills in business operations (Perry & Morris, 2005; Xiao, 2016).

Entrepreneurs who demonstrate strong financial behaviour, such as budgeting, record keeping, and cash flow management, are more likely to achieve improved business outcomes compared to those who rely solely on intuitive decision-making (Hidayati *et al.*, 2021; Lusardi & Mitchell, 2014). This suggests that financial literacy may serve as a mechanism through which behavioural biases influence firm performance.

Despite the growing body of literature on behavioural finance and financial literacy, limited studies have integrated these perspectives to examine how behavioural biases influence SME growth through financial literacy, particularly in developing economies.

Most existing studies treat behavioural biases and financial literacy as independent determinants of performance, thereby overlooking their potential interaction. This gap is particularly evident in the Cameroonian context, where empirical evidence on the mediating role of financial literacy remains scarce.

This study addresses this gap by examining the mediating role of financial literacy in the relationship between behavioural biases and SME growth. By integrating behavioural and capability perspectives, the study provides a more comprehensive understanding of SME performance and offers insights into how cognitive and financial factors jointly influence business outcomes.

In doing so, it contributes to the literature by extending behavioural finance into the SME domain and by highlighting the importance of financial literacy as a critical pathway through which behavioural tendencies affect firm growth.

CONCEPTUAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

The conceptual framework presents the diagrammatic link between the explanatory and the explained variables.

Conceptual Framework

Independent variable Mediating Variable Dependent Variable

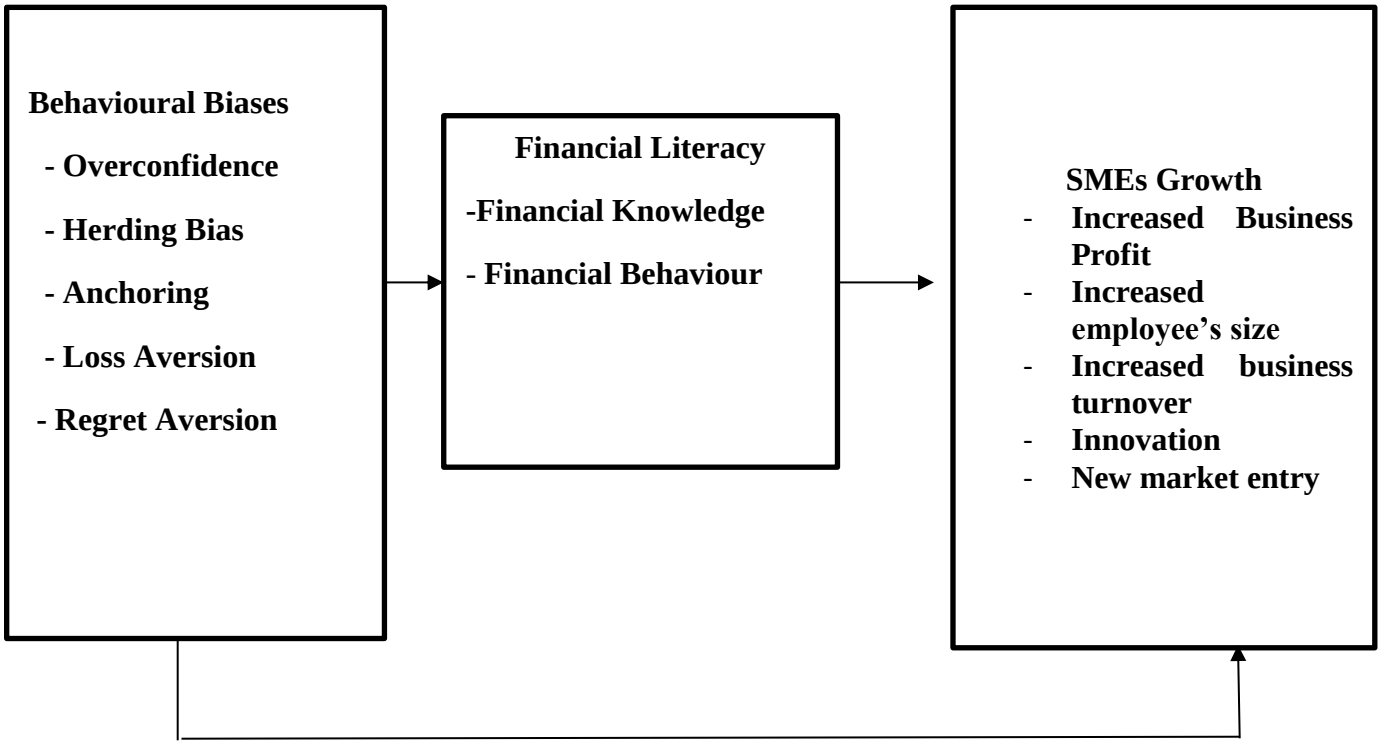

Figure 1: Behavioural Biases, Financial Literacy and SMEs' Growth.

Source: Author(s) 2024

From the conceptual framework, the following relationships are established between the variables:

Behavioural Biases and SME Growth

Entrepreneurial decision-making is inherently shaped by cognitive processes that influence how individuals perceive and respond to risk and uncertainty. Within the behavioural finance literature, it is well established that decision-makers rely on heuristics, which often result in systematic biases that affect economic outcomes. In the SME context, where decision-making authority is largely concentrated in the entrepreneur, these behavioural tendencies become critical determinants of firm performance. Studies have shown that overconfidence bias may encourage entrepreneurs to pursue growth opportunities by overestimating their capabilities and the likelihood of success, thereby promoting investment and expansion (Yanti, 2024; Simon et al., 2000; Forbes, 2005). However, such tendencies may also expose firms to greater risk when decisions are not adequately grounded in objective analysis.

Anchoring bias, which reflects the tendency to rely excessively on initial information, has been found to limit the ability of decision-makers to adapt to changing conditions, thereby constraining strategic flexibility (Iram et al., 2023; Tversky & Kahneman, 1974;). Similarly, herding behaviour has been associated with imitation-driven decision-making, which may either facilitate learning or lead to inefficient outcomes depending on the reliability of the information being followed (Devenow & Welch, 1996; Chiang & Zheng, 2010). Empirical evidence across SME and entrepreneurial studies suggests that these behavioural biases significantly influence financial and strategic decisions, ultimately shaping firm growth trajectories.

Given that behavioural biases affect how entrepreneurs evaluate opportunities and allocate resources, they are expected to play a significant role in determining SME growth outcomes.

H1: Behavioural biases have a significant effect on SME growth.

Behavioural Biases and Financial Literacy

Behavioural biases not only affect strategic decision-making but also affect the development and application of financial capability among entrepreneurs. Financial literacy, particularly in its multidimensional form, depends not only on access to knowledge but also on how individuals process information and engage with financial decisions. Entrepreneurs exhibiting overconfidence, for instance, are often more actively involved in financial activities, which may increase their exposure to financial information and enhance their financial competence over time (Gervais & Odean, 2001; Van Rooij, Lusardi, & Alessie, 2011). However, excessive confidence may also lead to the neglect of structured financial practices, thereby producing mixed outcomes.

Anchoring bias may limit the acquisition of financial knowledge by restricting entrepreneurs' ability to update their understanding in response to new information. Likewise, herding behaviour may reduce independent financial learning, as individuals rely on the actions and decisions of others rather than developing their own financial expertise (Aren & Zengin, 2016; Rasool & Ullah, 2020). Empirical findings suggest that cognitive biases influence both the acquisition and application of financial knowledge, thereby shaping the overall level of financial literacy among SME owners.

In this context, behavioural biases are expected to significantly affect financial literacy.

H2: Behavioural biases have a significant effect on financial literacy.

Financial Literacy and SME Growth

Financial literacy has been widely identified as a key determinant of firm performance, particularly in SMEs where financial management practices are closely tied to the capabilities of the entrepreneur. Financial knowledge enables business owners to understand financial concepts, assess investment opportunities, and make informed decisions, while financial behaviour reflects the extent to which such knowledge is translated into effective financial practices (Huston, 2010; Lusardi & Mitchell, 2014). The interaction between these dimensions determines the overall effectiveness of financial decision-making within the firm.

Empirical studies have consistently demonstrated that higher levels of financial literacy are associated with improved business performance, as financially literate entrepreneurs are better equipped to manage resources, control costs, and plan for growth (Eniola & Entebang, 2015; Wise, 2013; Bruhn & Zia, 2013). In addition, financial behaviour has been shown to play a particularly important role in influencing firm outcomes, as it directly affects operational efficiency and financial discipline (Hilgert et al., 2003; Xiao, 2016). In developing economies, where SMEs often operate under financial constraints, the role of financial literacy becomes even more critical in supporting business sustainability and expansion.

Based on this evidence, financial literacy is expected to have a significant impact on SME growth.

H3: Financial literacy has a significant effect on SME growth.

Mediating Role of Financial Literacy

The relationship between behavioural biases and SME growth is unlikely to be purely direct, as decision-making processes alone do not guarantee effective implementation. Rather, the impact of behavioural biases on firm performance is expected to operate through financial capability, particularly financial literacy. Behavioural biases influence how entrepreneurs perceive and evaluate financial decisions, while financial literacy determines how these decisions are translated into practical actions within the firm.

From a theoretical perspective, this relationship can be explained by integrating behavioural finance with the Resource-Based View. Behavioural finance explains how cognitive biases shape decision-making processes (Kahneman & Tversky, 1979), while the Resource-Based View emphasises the role of internal capabilities in driving firm performance (Barney, 1991). Financial literacy, as an internal capability, enables firms to effectively implement financial decisions, thereby linking cognition to performance outcomes.

Empirical studies provide further support for this mediating relationship. Research has shown that financial literacy serves as a mechanism through which individual characteristics and behavioural tendencies influence financial outcomes and business performance (Hidayati et al., 2021; Klapper, Lusardi, & Van Oudheusden, 2015). In addition, studies on entrepreneurial finance suggest that the effectiveness of decision-making depends not only on cognitive orientation but also on the level of financial capability within the firm (Antony, 2022; Khan, 2020; Fatoki, 2014;).

These findings suggest that behavioural biases influence SME growth both directly and indirectly through financial literacy. The mediating role of financial literacy implies that the effect of behavioural biases on firm performance depends on the entrepreneur's ability to translate cognitive tendencies into effective financial practices.

H4: Financial literacy mediates the relationship between behavioural biases and SME growth.

METHODOLOGY

Research Design and Data Collection

This study adopts a quantitative research design using a cross-sectional survey to examine the relationships among behavioural biases, financial literacy, and SME growth. The target respondents were SME owners and managers directly involved in financial and strategic decision-making within their firms. A structured questionnaire was administered to capture information on behavioural biases, financial literacy, and SME growth. A total of 304 valid responses were obtained and used for analysis, providing an adequate sample size for both regression and structural equation modelling

Table 1: Measurability of Variables

Construct	Definition	Sub Constructs	Definition	Measures	Authors and year
Behavioural Biases (BB)	The subjective judgement about the potential hazards or risks involved in business decisions	Overconfidence	Strong Belief in understanding risks in market expansion	Self-rating, Accuracy in prediction	Lin 2011, Khan 2016, Barno 2021 and Ahmed et at 2022
		Herding	Tendency to follow others in investment decisions	Following trends, peer influence, market sentiments	
		Anchoring	Reliance on initial information for decision-making	Initial price, resistance	
		Loss Aversion	Sensitivity to potential losses more than gains	Emotional impact	
		Regret Aversion	Avoidance of decisions that could lead to regret	Post decision discomfort	
Financial Literacy (FL)	Ability to understand and effectively apply various financial skills, including personal financial	Financial Knowledge (FK)	Understanding of basic financial principles and products	Financial management skills bookkeeping, balance sheet, inflation, risk diversification	OECD (2022), Atkinson and Messy (2012) Shockey (2002). Bhushan and Medury (2014)

	management budgeting, and investing				Hasler and Lusardi (2017)
		Financial Behaviour (FB)	Application of financial knowledge in making business decision	Savings behaviour, bill and loan repayment behaviour, responsible investment behaviour, financial planning behaviour, budgeting, analysis and review	
SMES Growth	Expansion of small and medium-sized enterprises as measured by various financial and strategic metrics	Revenue Growth	Increase in companies' income over time	Sales	Lusimbo (2016) and (Ogheneogaga Irikefe & Isaac Opusunju, 2021) White & Grey (2019). Khan et al. (2022) Lim & Tan (2021) O'Neil (2018)
		Employment Growth	Increase in the number of employees.	Number of employees	
		New market Enteries	Expansion into new markets or regions	Additional branches	
		Innovation	Introduction of new products into the existing market	Different lines of business	

Source Arthur's computation 2024

The main variables considered in this study include the independent variables, the mediating variable as well as the dependent variable. The independent variable includes behavioural biases captured as overconfidence, herding bias, anchoring, loss aversion and regret aversion as adopted by Gentile et al. 2015, Barno 2021 and Lin 2011, Financial literacy was the mediating variable and generally follows the definition provided by the OECD, which focuses on operationalising financial knowledge and financial behaviour in capturing this variable. (OECD, 2022).

Model Specification (Baron and Kenny Approach)

Based on the Barron and Kenny approach, the model is specified as follows;

Dependent Variable (Y) = SMEs Growth

Independent Variable (X) = Risk perception

Mediator Variable (M) = Financial Literacy

$Y= \beta_0 + \beta_1 + \mu$……(1)

$M= \beta_0 + \beta_2 X_i + \mu$……(2)

$Y= \beta_0 + \beta_3 X_i + \beta_4 M_i + \mu$……(3)

Where:

β_0 is the constant term.

β_1 is the coefficient of variable 1, which measures whether there is responsiveness of Y to changes in X. β1 and β2 are the parameters to be estimated, and μ is the error term or stochastic term.

The study employs Ordinary Least Squares (OLS) regression to estimate the relationships specified in the mediation model. Structural Equation Modelling (SEM) is used to validate mediation results by simultaneously estimating both direct and indirect effects. SEM provides a more robust analytical framework for testing mediation, as it allows for the assessment of complex relationships among variables and for confirming the significance of indirect effects.

RESULTS

Descriptive Statistics

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
Financial Knowledge Index	304	0.479084	0.234067	0	1
Financial Behaviour Index	304	0.582988	0.255543	0	1
Risk Perception Index	304	0.559225	0.185638	0	1
Financial Literacy Index	304	0.517197	0.228872	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 2 above summarises the descriptive statistics for the variables included in our model. All the variables in the model were normalised between 0 and 1. The objective of the normalisation was to ease the interpretation challenges posed by the variables' negativity. We observe from the table that the mean overconfidence is 0.481, with a standard deviation of 0.192 and minimum and maximum values of 0 and 1, respectively. The result shows little deviation from the mean, as the standard deviation is close to the mean. Furthermore, the mean herding bias is 0.505, with a standard deviation of 0.192 and minimum and maximum values of 0 and 1, respectively, indicating a low deviation from the mean. Again, the mean anchoring value is 0.644, with a standard deviation of 0.210 and minimum and maximum values of 0 and 1, respectively, indicating a low deviation from the mean. The mean value of loss aversion is 0.375, with a standard deviation of 0.207 and minimum and maximum values of 0 and 1, respectively, indicating a low deviation from the mean. In the same light, regret aversion showed a low deviation from the mean, with a standard deviation of 0.266 and a mean of 0.552. Therefore, we observe that the mean values and standard deviations of all other variables included in our model, such as risk perception, financial literacy, growth of SMEs, duration of operation and number of employees, all show low deviations from their respective means, and also these low deviations indicate that the variables were relatively stable during the period under study.

Regression

Behavioural Biases and SME Growth

VARIABLES	**Robust Standard Errors**
Financial Knowledge	0.289***
	(0.0692)
Financial Behaviour	0.431***
	(0.0619)
Duration of employees	
5-9	-0.0798**
	(0.0327)
9-14	-0.0602
	(0.0403)
15-19	-0.165***
	(0.0419)
20 and above	-0.0386
	(0.0535)
Number of employees	
6-20	0.0117
	(0.0294)
21-100	0.144***
	(0.0434)
Constant	-0.750***
	(0.0687)
Observations	304
R-squared	0.373

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: Author's computation (2024)

The results of the first objective reveal that behavioural biases exert a statistically significant influence on SME growth, although the magnitude and direction of the effects vary across bias types. Overconfidence bias shows a positive, significant relationship with firm growth, suggesting that entrepreneurs who exhibit higher levels of confidence are more inclined to undertake expansion-oriented decisions. This tendency reflects the role of confidence in facilitating risk-taking behaviour, particularly in environments characterised by uncertainty and limited access to formal financial support.

In contrast, anchoring bias exhibits a weaker effect, indicating that reliance on initial information may constrain adaptive decision-making and reduce the flexibility required for sustained growth. Similarly, herding behaviour yields mixed outcomes, suggesting that imitation-based decisions may either support or hinder firm performance depending on the quality of the information being followed. Overall, the findings confirm that behavioural biases are relevant predictors of SME growth, thereby supporting the first hypothesis.

Behavioural Biases and Financial Literacy

	(1)	**(2)**
VARIABLES	**Financial Literacy (FL)**	**normal_FL**
Behavioural Bias	0.584***	
	(0.0625)	
Overconfidence		-0.270***

		(0.0709)
Herding Bias		0.142**
		(0.0687)
Anchoring		0.232***
		(0.0661)
Loss Aversion		0.129**
		(0.0576)
Regret Aversion		0.126**
		(0.0516)
Duration of Institution		
5-9	-0.0203	-0.0213
	(0.0288)	(0.0283)
9-14	-0.0165	-0.0120
	(0.0331)	(0.0325)
15-19	0.00899	0.00535
	(0.0441)	(0.0434)
20 and above	0.00287	-0.0132
	(0.0463)	(0.0458)
Number of Employees		
6-20	0.0727***	0.0716***
	(0.0254)	(0.0250)
21-100	0.0629*	0.0738**
	(0.0354)	(0.0354)
Constant	0.155***	0.273***
	(0.0415)	(0.0821)
Observations	304	304
R-squared	0.259	0.301

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Source: Author's computation (2024)

The second objective examines the extent to which behavioural biases influence financial literacy among SME owners. The results indicate that behavioural biases have a statistically significant effect on financial literacy, suggesting that cognitive tendencies shape not only decision-making processes but also the development and application of financial capability.

Overconfidence bias appears to be positively associated with financial engagement, as entrepreneurs with higher confidence levels are more actively involved in financial decision-making, thereby enhancing their financial knowledge and behaviour. Conversely, anchoring bias tends to limit entrepreneurs' ability to update their financial understanding in response to new information, while herding behaviour reduces independent financial learning by encouraging reliance on external cues. These findings confirm that behavioural biases influence financial literacy and provide support for the second hypothesis.

Mediating Role of Financial Literacy

The third objective focuses on the mediating role of financial literacy in the relationship between behavioural biases and SME growth. The results provide strong evidence that financial literacy plays a critical role in transmitting the effects of behavioural biases to firm performance.

Table 4: Structural Results

		OIM			
	Coefficient	std. err.	z	P>|z|	[95%conf. interval]

Structural					
Financial Literacy	|				
Risk Perception	.5985196	.0618198	9.68	0.000	.4773549 .7196842
Constant	.1824893	.0364203	5.01	0.000	.1111068 .2538718
SMEs Growth					
Financial Literacy	.575283	.0650325	8.85	0.000	.4478216 .7027443
Risk Perception	.3214254	.080178	4.01	0.000	.1642795 .4785713
Constant	-1.140615	.0429677	-26.55	0.000	-1.22483 -1.0564
var(e.Financial Literacy)	.0399056	.0032368			.0340402 .0467817
var(e.SMEs Growth)	.051306	.0041615			.043765 .0601464
LR test of model vs. saturated: chi2(2) = 28.36 Prob > chi2 = 0.0000					

Source: Author's computation (2024)

From Table 4 above, a coefficient of 0.598 indicates a strong positive relationship, suggesting that higher risk perception is associated with greater financial literacy among SME owners. In addition, A coefficient of 0.575 suggests that financial literacy directly contributes to SME growth, reinforcing the notion that well-informed financial decision-making drives business success. A coefficient of 0.321 indicates that better risk perception also contributes to SME growth, albeit less strongly than financial literacy. Enhancing financial literacy can significantly improve both risk understanding and growth capacity in SMEs.

Table 5: Direct Effect

		OIM			
Coefficient		std. err.	z	P>|z|	[95% conf. interval]
Structural					
Financial Literacy					
Risk Perception	.5985196	.0618198	9.68	0.000	.4773549 .7196842
SMEs Growth					
Financial Literacy	.575283	.0650325	8.85	0.000	.4478216 .7027443
Risk Perception	.3214254	.080178	4.01	0.000	.1642795 .4785713

Source: Author's computation (2024)

The direct effects in Table 5 above closely mirror the structural coefficients, with significant impacts on SME growth from both financial literacy and risk perception. This underlines the importance of these factors independent of their interactions. Direct interventions in financial education and risk perception training are justified by their significant standalone impacts on growth.

Table 6: Indirect Effect

Indirect Effects					
		OIM			
	Coefficient	std. err.	z	P>|z|	[95% conf. interval]
Structural					
Financial Literacy					
Risk Perception	0	(no path)			
SMEs Growth					
Financial Literacy	0	(no path)			
Risk Perception	.3443181	.0527239	6.53	0.000	.2409812 .447655

Source: Author's computation (2024)

The structural equation modelling (SEM) results further reinforce this conclusion by confirming the significance of the indirect effects of behavioural biases on SME growth through financial literacy. The SEM estimates demonstrate that the pathway linking behavioural biases to financial literacy and, subsequently, to SME growth is statistically significant, thereby validating the proposed mediation structure. The consistency between the OLS and SEM results strengthens the robustness of the findings and confirms that financial literacy serves as an important transmission mechanism.

These findings highlight that the effect of behavioural biases on SME growth is not solely dependent on cognitive tendencies but also on the extent to which these tendencies are supported or moderated by financial capability.

Overall, the results provide strong empirical support for the mediating role of financial literacy and confirm that it is a critical link between behavioural biases and SME growth.

DISCUSSION

The findings of this study provide important insights into the role of behavioural biases and financial literacy in shaping SME growth, particularly within a fragile economic environment. The results confirm that behavioural biases are significant determinants of firm performance, although their effects vary across bias types. More importantly, the study demonstrates that financial literacy serves as a critical mechanism through which these behavioural tendencies are translated into business outcomes.

The positive and significant effect of overconfidence bias on SME growth suggests that confidence plays a functional role in entrepreneurial decision-making. This finding is consistent with empirical studies which indicate that overconfidence can stimulate investment and growth by encouraging entrepreneurs to pursue opportunities that might otherwise be perceived as too risky (Simon et al., 2000; Forbes, 2005). Similarly, research by Hmieleski and Baron (2009) shows that entrepreneurial optimism and confidence can enhance firm performance when aligned with appropriate strategic actions. However, the literature also cautions that excessive confidence may lead to overinvestment and poor financial decisions, particularly in the absence of adequate financial control mechanisms. The present findings suggest that in the context of SMEs, overconfidence may be beneficial when supported by strong financial practices.

The results relating to anchoring and herding biases further highlight the complexity of behavioural influences on firm performance. The weaker and inconsistent effects of anchoring bias observed in this study align with Baker and Nofsinger's (2002) findings, which argue that reliance on initial information may limit adaptive decision-making. Similarly, studies on herding behaviour suggest that imitation-based decisions may reduce uncertainty but can also lead to inefficiencies when entrepreneurs follow incorrect or incomplete information (Devenow & Welch, 1996; Chiang & Zheng, 2010). In SME contexts, where access to reliable information is often limited, such biases may have ambiguous effects on performance, as reflected in the present results.

The findings of the second objective demonstrate that behavioural biases significantly influence financial literacy, thereby confirming that cognitive tendencies extend beyond decision-making to affect financial capability. This result is consistent with studies that emphasise the role of psychological factors in shaping financial behaviour and literacy levels (Aren & Zengin, 2016; Hsu & Shiu, 2010). For instance, Van Rooij et al. (2011) show that individuals' cognitive characteristics influence their financial knowledge and investment behaviour, while Gervais and Odean (2001) highlight the role of confidence in shaping financial engagement. These studies support the argument that behavioural biases are not merely decision-making distortions but also influence how individuals acquire and apply financial knowledge.

The most significant contribution of this study lies in confirming the mediating role of financial literacy in the relationship between behavioural biases and SME growth. The results indicate that financial literacy has a strong and significant effect on firm performance and that its inclusion in the regression model reduces the impact of behavioural biases. This provides evidence of partial mediation, suggesting that behavioural biases influence SME growth both directly and indirectly through financial capability.

This finding is consistent with empirical studies that identify financial literacy as a key determinant of business performance and a mechanism through which individual characteristics influence financial outcomes. For example, Eniola and Entebang (2015) demonstrate that financial literacy significantly improves SME performance through better financial management practices. Similarly, Wise (2013) finds that financially literate entrepreneurs are more likely to adopt structured financial practices that enhance firm growth. Bruhn and Zia (2013) further show that financial training programs improve business outcomes by strengthening financial skills and decision-making.

The mediating role of financial literacy also aligns with studies that emphasise the importance of financial behaviour in translating knowledge into performance outcomes. Hilgert et al. (2003) and Xiao (2016) argue that financial behaviour, rather than knowledge alone, plays a critical role in determining financial outcomes. In the SME context, this implies that the effectiveness of entrepreneurial decision-making depends not only on cognitive orientation but also on the ability to implement decisions through disciplined financial practices.

From a theoretical perspective, these findings support the integration of behavioural finance and the Resource-Based View. Behavioural finance explains how cognitive biases influence decision-making, while the Resource-Based View emphasises the role of internal capabilities in determining firm performance (Barney, 1991). Financial literacy, particularly financial behaviour, can be seen as a strategic capability that enables firms to effectively implement financial decisions and manage resources. This integrated perspective provides a more comprehensive explanation of SME growth, particularly in environments with limited external support systems.

The findings are particularly relevant in Cameroon, where SMEs operate under financial constraints and institutional weaknesses. In such environments, the ability to manage financial resources effectively becomes critical for business survival and growth. The results suggest that improving financial literacy can enhance the effectiveness of entrepreneurial decision-making, thereby mitigating the negative effects of behavioural biases and reinforcing their positive aspects.

Overall, the study demonstrates that behavioural biases are neither inherently detrimental nor beneficial; rather, their impact on SME growth depends on the firm's level of financial capability. Financial literacy serves as a critical link that determines whether behavioural tendencies lead to positive or negative outcomes. This highlights the importance of integrating behavioural and financial perspectives in understanding SME performance.

POLICY RECOMMENDATIONS AND CONCLUSION

The findings provide clear evidence that behavioural biases significantly influence SME growth, although their effects are not uniform across bias types. Overconfidence bias was found to positively influence firm growth by encouraging risk-taking and opportunity exploitation, while anchoring and herding biases exhibited mixed, context-dependent effects, reflecting their dual roles in shaping entrepreneurial decision-making. More importantly, the study established that financial literacy plays a critical intervening role in this relationship. While behavioural biases shape how decisions are made, financial literacy determines how effectively those decisions are implemented within the firm. The findings, therefore, contribute to the literature by providing an integrated perspective that combines behavioural finance and capability-based explanations of firm performance. Rather than treating behavioural biases and financial literacy as independent determinants, the study demonstrates that their interaction is central to understanding SME growth, particularly in fragile economic environments.

There is a need to redesign financial literacy programs to move beyond a narrow focus on financial knowledge toward a more comprehensive approach that emphasises financial behaviour. Also, entrepreneurial development initiatives should incorporate behavioural awareness as a core component of training. Since behavioural biases such as overconfidence, anchoring, and herding significantly influence decision-making, educating entrepreneurs about these biases can improve the quality of their financial and strategic decisions. Policymakers should strengthen access to financial advisory and support services for SMEs. Providing access to financial coaching, mentorship programs, and business advisory services can enhance financial capability and improve decision-making outcomes.

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