Effects Of Managers Attitude and Regret Aversion Bias on Financing Decision Quality of SMEs in Uganda.

Norman Nakola[1,] Yusuf Katerega Ndawula[2], Suzan Aketch[3,] and Nasser Polly Simbwomu[4]

Abstract

Firms draw upon various perspectives and theories to determine their capital structures, sparking ongoing debate among scholars. While numerous factors influence financing decisions, our paper zeroed on the impact of managers attitudes, and regret Aversion bias on the quality of financing decisions in Small and Medium Enterprises. Data was collected from 356 small and medium in Mbale city, Uganda through a cross-sectional survey using a structured questionnaire. Descriptive analysis was performed, and the hypothesized relationships between the variables was examined using Structural Equation Modeling (SEM). Our findings unveil that managers' attitudes and regret aversion bias significantly predict the quality of financing decisions, shedding light on the profound impact these attitudes exert on decision quality. The study's findings carry considerable implications for both policy makers and SME owners. For policy makers, it provides valuable insights into creating policies for SME financing that take into account the influence of managers' attitudes and fear of regrets. This understanding can guide the development of more effective and targeted policies to support SME growth. Similarly, for SME owners, grasping the impact of attitude and regret-based decisions enables them to strategize effectively and mitigate any potential adverse effects, thereby enhancing their decision-making processes and overall business performance.

Keywords: Manager Attitude, Regret Aversion Bias Financing Decision Quality, Small and Medium Enterprises.

Introduction

How do owner-manager's attitude and fear of regret affect SME financing decision quality? Studies citing financing decisions as crucial explainers for SMEs performance have gained positive attention in recent years (Ghardallou et al. 2022; Nguyen & Nguyen, 2020; Akhtar & Liu, 2018). Such studies focus on where a firm should source their capital and the proportion each source should contribute to the entire capital pool (Manyanga et al.,2023; Koropp et al.,2014). Financing decision quality and their upshots on a firm's value remain debatable topics for most finance scholars (Boatang et al., 2019). Scholars cite poor quality financing decision to be the main exposer of firms to large outstanding payables, operational risk, and credit risk (Garcia & Herrero, 2021; Lyani et al. 2016).

[1] Makerere University Business School, Uganda
[2] Makerere University Business School, Uganda
Email: Ynkaterega@mubs.ac.ug
[3] Makerere University Business School, Uganda
[4] Makerere University Business School, Uganda

Decisions on how to finance SMEs is often impacted by fear of regret and manager's attitudes towards the source of funding (Jain et al., 2022; Rasheed & Siddiqui, 2019). Several Attitude dimensions such overconfidence, motivation, social influence, optimism, risk aversion, awareness, time preference, and past experience are often linked to financing decisions (Atal et al., 2022; Koropp et al., 2014). It is majorly such attitude dimensions embedded in business operations that impact on decisions relating to business financing (Wong et al., 2018). For regret aversion bias, managers are often hesitant in making timely and decisive actions due to a fear of reaching suboptimal decisions (Noah & Lingga, 2020; Ndawula et al., 2024). Embedded in two forms; process regret and outcome regret, studies indicate that regret aversion bias significantly impact decision-making, particularly when individuals anticipate experiencing regret (Ndawula et al., 2024; Kinatta et al., 2022). However, there is scanty empirical literature detailing how attitudes and fear of regret influence financing decision quality in an SME context (Rahawarin, 2023; Kumar & Chaurasia, 2024). Also available studies are inconsistent with reality, based on larger listed corporations, and focus on rational factors such as interest rates, credit worthiness, financial product availability (Mansour et al.; 2022), ignoring the role irrational factors such as managers attitude and regret aversion bias play in financial decision making (Atal et al., 2022; Jain et al., 2022).

Moreover, finance decision studies rely on traditional capital structure theories to explain firm financing choices (Boateng et al., 2022; Rima et al., 2018). The pecking order theory and trade-off theory are widely applied frameworks that offer valuable insights into the determinants of capital structure. However, their findings are only partially conclusive when applied to the SME context (Wong et al., 2018). These focus only on economic financing aspects such as the stock prices, debt ratios and tax shields while ignoring non-economic determinants like personal biases and attitudes (Brusov et al., 2023; Wong et al., 2018). Financing decisions are not only based on economic factor considerations, psychology literature offers insights into personal characteristics, norms, beliefs, biases, and experiences and how they shape finance decision making (Atal et al., 2022; Rahawarin, 2023; Graham et al., 2013). In addition, behavioral theories such as the theory of planned behavior (TPB) and prospect theory explains the contribution of non-economic factors like, attitudes, norms, and biases on financing decisions managers make (Rao & Kumar, 2018).

While SMEs make up more than half of the entire business sector in developing countries, many are unable to access capital through public listings, relying primarily on internal funds and bank credit as their main sources of financing (Birungi et al., 2024; Onzima et al., 2024). In Uganda, despite SMEs' significant contributions to the country's growth agenda, their role as a breeding ground for entrepreneurs, and their provision of employment opportunities, the sector still faces numerous challenges (Nuwagaba et al., 2024). Key among them is inadequate capital besides the inadequate financing sources (Okumu & Buyinza,2020). Plus, institutional restrictions to accessing finance, high-cost finance sources, risk averseness, and equity averseness pose the biggest challenge to SME survival and performance (Obed et al., 2023). A few studies outside sub-Saharan Africa that have explored SME managers' attitudes and fear of regret in relation to financing decision quality have found that, manager attitudes and regret-aversion bias play a critical role in influencing financing decisions (Rahawarin, 2023; Rasheed & Siddiqui, 2019).

Despite having numerous studies on corporate firm financing decisions in developing country context (Puni & Anlesinya, 2020; Alshbili et al., 2020), Very few studies have paid attention to the concept of SME financing and how non-economic factors like, owner-manager attitudes and regret aversion bias impact SME finance decision-making (Mohamed et al., 2021; Rahawarin, 2023; Molina et al., 2023; Rasheed et al., 2019). Other studies on SMEs financing decisions are from developed countries (Wang et al., 2023; Rao et al., 2023)., Yet in reality, the nature of SME operations in developing countries is strongly influenced by the owner-manager's attitudes and regret-aversion bias, which play a crucial role in every decision made for the firm (Chakabva & Tengeh, 2023; Rahawarin, 2023; Belas & Rahman, 2023). Quite often firm owners take irrational finance decisions provided their attitude and bias is positive towards a decision (Hala et al., 2020). Moreover, studies reveal that, the choice of financing is piloted by the attitudes and biases of owners or managers (Rahawarin, 2023; Dalton et al., 2020; Nguyen & Canh, 2021). However, all these studies are outside the African context and do not use evidence from Uganda's SMEs.

Therefore, this study investigates the influence of manager attitudes and regret aversion bias on finance decision quality in Uganda. This is achieved using a questionnaire survey of 356 SMEs in Uganda. Results indicate that Owner managers attitude and regret aversion bias significantly influence financial decision quality in SMEs. This study also adds to extant literature on SME financial decision making by providing evidence of the contribution of manager attitudes and regret aversion bias towards financing decisions. The rest of this study is laid out as follows. Literature review, the methodology, presentation and discussion of the findings, limitations and areas for future studies.

Theoretical review

Numerous research endeavours examining financing decisions draw upon capital structure theories, with Modigliani and Miller's (1958) MM theory standing as a cornerstone. MM theory not only provided a fundamental understanding of financing decisions but also laid the groundwork for subsequent theories such as the Pecking Order and Trade-Off theories. However, its strict assumptions and neglect of crucial factors like tax considerations, bankruptcy costs, and adverse selection have led to criticisms (Harris & Raviv, 1991). While MM, pecking order, and trade-off theories often elucidate financing decisions for larger firms, they inadequately address the workings of financing decisions within Small and Medium Enterprises (Rasheed et al., 2019). Despite arguments that SMEs pursue external financing due to growth imperatives, traditional finance theories fail to capture the unique factors driving financing decisions in SMEs (Rao & Kumar, 2018). Notably, they overlook non-economic factors such as managers' attitudes and biases, which play pivotal roles in shaping financing decisions (Norton, 1991; Rasheed et al., 2019). Thus, recent research has shifted focus towards behavioral theories, particularly the Theory of Planned Behavior (TPB), and Prospect theory to investigate how individual behaviors and biases affect financing decisions (Ndawula et al., 2024; Rima et al., 2017). As an extension of the Theory of Reasoned Action (Fishbein & Ajzen, 1975), TPB elucidates how financing decisions are shaped by managers' subjective norms and perceived behavioral control (Alam *et al.,* 2012). The theory posits that managers' attitudes significantly influence SME financing outcomes (Ahad et al., 2012). For Prospect theory it demonstrates that individual decisions are influenced by personal value systems, with various mental states such as regret aversion guiding financial decision-making in real-world contexts (Hwang, 2016). In this regard, these two theories could offer a suitable framework for comprehending how attitudinal dimensions like optimism, overconfidence, risk aversion, and fear of regret influence financing decisions for small and medium enterprises, particularly within developing countries like Uganda. Just like it is in other countries, Uganda faces similar financing challenges such as restricted access to funds, elevated financing costs, and insufficient collateral, among other obstacles.

Empirical Review

Managers Attitudes and Financing Decision Quality

In exploring the factors that drive financing decisions in SMEs, it becomes evident that managers' attitudes play a crucial role, going beyond just supply-side factors. Numerous empirical studies have emphasized the impact of non-economic factors such as managerial attitudes, altruism, and perceptions on financial decision-making (Carvalho et al., 2024; Romano et al., 2001). These studies suggest that quantifiable managerial characteristics significantly influence the quality of corporate financing decisions, moving away from purely rational approaches that rely on calculated risk probabilities (Mundi et al., 2022; Malmandier et al., 2011). For example, Beidaghi et al. (2024) found a significant correlation between personal attitudes and financing decisions, indicating that managers with positive attitudes tend to exert greater influence over financing choices. Similarly, Chakabva & Tengeh, (2023) argued that financing decisions within firms, irrespective of their size, are shaped by individual attitudes, behaviors, and underlying managerial characteristics, including personal experience, education, income levels, and a desire for control. Manyanga et al., (2023) concluded that debt financing in family businesses is significantly influenced by owners' attitudes towards debt usage, highlighting the role of personal preferences in financing strategies. Also, Weerasekara et al., (2023) emphasizes the psychological dimension of decision-making, showing that managers often rely on familiar patterns and stereotypes when making financial decisions.

Despite existing studies highlighting the role managers' attitudes play in financing decision quality, little research has specifically considered small and medium enterprises (SMEs). For instance, Borges (2022) examined corporate decisions in U.S. firms and identified a correlation between psychological traits, such as optimism and risk aversion, and corporate financing decisions. Daskalakis et al., (2013) found that personality characteristics and attitudes are particularly influential when managers perceive inaccuracies in the stock market’s evaluation of their firms, often leading them to prefer debt financing, such as debentures, over equity. Additionally, Mamaro & Legotlo (2020) argued that managers’ optimism can lead them to overestimate future earnings growth, thereby making debt a more attractive option compared to equity financing. Carvalho et al., (2024) emphasize that an overconfidence attitude plays a crucial role in financing decisions. Overconfident managers tend to increase their investments and favor higher levels of debt leverage compared to their less confident peers. Furthermore, Ayad et al., (2024) highlight a manager's risk propensity as a significant factor in financing decisions, indicating that risk aversion can enhance awareness and help SME managers avoid financing mistakes. Based on these insights, we propose the following hypothesis:

H_1: Managers attitudes influence financing decision quality for Small and Medium Enterprises.

Regret Aversion Bias and Financing Decision Quality

First introduced by Loomes & Sugden (1987), Regret aversion bias, is a concept that drives individuals to steer clear potential regrets in the future. This idea is grounded in prospect theory, which posits that individuals tend to resolve not to repeat mistakes that lead to regret (Jain et al., 2019). This bias arises from an excessive preoccupation with past mistakes, resulting in a fear of making decisions that could prove to be sub-optimal (Kinatta, 2022). Also, the bias is closely connected to the decision at hand, prompting individuals to analyze their choices in order to reduce the psychological impact that may result from making that decision (Zahera & Bansal, 2018). Numerous studies have shown that regret aversion significantly influences individuals' future decisions, leading them to become either risk-averse or risk-tolerant (Wangzhou et al., 2021; Ndawula et al., 2024). For example, Noah & Lingga (2020) in their study on the role of behavioural finance in investor psychology during investment decision-making at the Indonesian Stock Exchange, found that regret aversion has a moderate impact on investment decision making. Huang et al., (2016) examined market equilibria through the lens of regret-related preferences, and results revealed that the best choice for customers who experience regret aversion is influenced by the alternatives they give up. Also, Baker et al., (2018) finds that individuals exhibiting regret aversion bias are more likely to take fewer risks due to their fear of making poor decisions. Luu (2014) finds a significant impact of regret aversion bias on investment decision-making. Further, in Rahawarin (2023), in his study on financing decisions among 125 SMEs, in Bululawang in Indonesia, he finds a significant influence of regret aversion bias on financial decision making. Therefore, we hypothesize that:

H_2: Regret Aversion Bias influence financing decision quality for Small and Medium Enterprises.

Methodology

Population and Sample

This study used a cross-sectional survey to analyze relationships between variables using a large sample size. Our population consists of 3,274 registered small and medium enterprises in Mbale city, one of the cities with the highest number of SMEs in the country, in the categories of small manufacturing firms, hotels and restaurants, general merchandise, and supermarkets (Okumu & Buyinza, 2020). A sample size of 356 firms was determined using Yamane's (1973) sample size selection formular. A purposive sampling method was used to select managers who had made specific decisions regarding their businesses' financing options. These managers were expected to possess reliable information about how various attitudes influenced the quality of their decisions (Doan, 2020). A total of 356 questionnaires were distributed, and 320 were collected from the respondents. After excluding sixteen incomplete responses, 304 usable questionnaires remained for analysis giving us a response rate of 85%

Variable Measurement

Measurement items used in this study were adapted from previous studies (Churchill, 1979). A five-point Likert scale was employed, where scores ranged from 1 indicating "strongly disagree" to 5 indicating "strongly agree" with the questionnaire item. Also, following guidelines from Podsakoff et al., (2003), both dependent and independent variables were analyzed at the same time to ensure there were no similarities or confounding between them. Managers attitude was measured using broad-based economics and cognitive psychology proxies; optimism, risk perception, and overconfidence (Hackbarth, 2008; Graham et al., 2013; Baker et al., 2021). Regret aversion bias was measured using items to capture outcome regret and process regret (Waweru et al., 2014; Jain et al., 2022; Goyal et al., 2021). Financing decision quality was measured using cost-effectiveness and value creation (Visinescu et al., 2016; Kinatta et al., 2022).

Data Analysis
The study unit of inquiry was the managers of small and medium enterprises. Descriptive statistics were calculated using the Statistical Package for the Social Sciences (SPSS). Various respondent characteristics were captured, including age, gender, tenure with the firm, educational background, and other relevant background information. Both the measurement and structural models were evaluated using Partial Least Squares Structural Equation Modeling (PLS-SEM), a multivariate second-generation technique. PLS was chosen for its ability to analyze both latent and manifest variables using formative and reflective approaches (Hair et al., 2019). PLS analysis consists of two stages: the measurement model and structural analysis (Chin, 2009). In the initial stage we assessed validity, reliability, collinearity, and indicator relevance to evaluate the adequacy of the measurement model (Ramayah et al., 2018). In the subsequent stage, the relationship among variables is evaluated, focusing on path coefficients, and model fit indices to determine the adequacy of the structural model (Hair et al., 2014).

Study Results
Respondents Demographic Characteristics
Data on demographics of respondents indicates that the majority of businesses belong to the General Merchandise and Hotels/Restaurants sectors (58.4%), while Supermarkets and Manufacturing comprise the smallest shares at 26.4% and 15.2%, respectively. Most businesses have been operational for over 10 years (53.5%), followed by those in operation for 5-10 years (25.4%) and less than 5 years (21.1%). Regarding Managers tenure, a significant portion of employees (55.5%) have been with their organizations for over 5 years, whereas 44.5% have tenures between 1-5 years. In terms of educational attainment, the majority of managers possess higher education qualifications, with 60.5% holding a degree or diploma and 39.5% having postgraduate qualifications. This data suggests that SME participants generally had attained a considerable level of formal education to respond to our questions, also the trends indicate relatively long employee tenures and a stable market presence for most businesses.

Measurement Model Assessment
Measurement model assessment was conducted to establish the validity and reliability of the study constructs. Construct validity consists of two components: convergent validity and discriminant validity. Convergent validity we used factor loadings, and average variance extracted (AVE) to establish the degree to which the measurement item aligns with the variable being measured (Bhattacherjee, 2012). For discriminant validity we measured using the Fornell-Larcker and heterotrait-monotrait (HTMT) criteria, and all values were within the acceptable thresholds (Zailani et al., 2019). Table I shows that almost all factor loadings, except for two items, exceed 0.70, indicating acceptable item validity. Additionally, the average variance extracted meets the minimum set threshold value of 0.5. Also, In Table 1, for composite reliability, the minimum score across all variables was 0.815, exceeding the recommended threshold of 0.70 (Hair et al., 2019). Variance Inflation Factor (VIF) was used to assess multicollinearity among the indicators. Based on Table 1, all variables have VIF values below 2, indicating that there is no multicollinearity in the inner model (Diamantopoulos & Siguaw, 2006).

Moreover, in Table 2, despite the sufficiency of the Fornell and Larcker criteria in measuring discriminant validity, we also computed discriminant validity using heterotrait-monotrait

($HTMT_{0.9}$) to address critiques that the Fornell and Larcker method cannot detect discriminant validity when indicator loadings of a construct differ by a few points (Henseler et al., 2015). All $HTMT_{0.9}$ values were below 0.9, signifying an existence of high internal consistency of the variable' items.

***Figure 1. Measurement model*.**

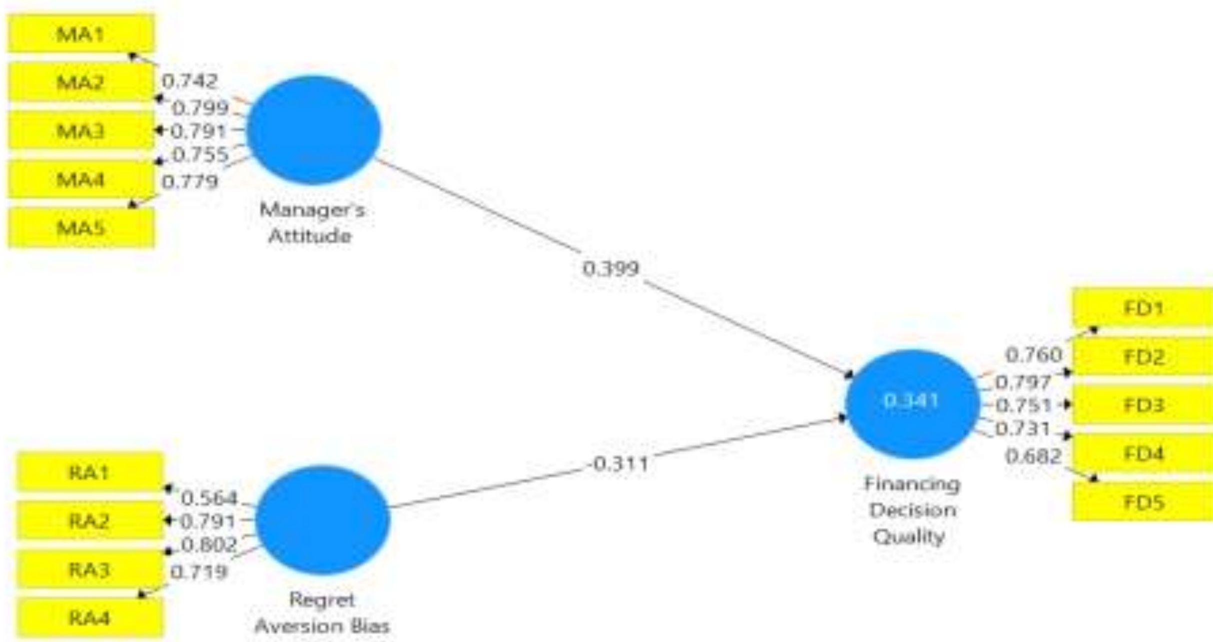


Table 1: Lower - Order Construct Validity and Reliability

Variable	Statements	Codes	Factor loadings	VIF	Cronbach's alpha (AlPh ≥ 0.7)	Composite reliability (CR ≥ 0.7)	Average variance extracted AVE (≥0.5)
Management Attitude	I prefer to take an independent stance when taking decisions.	MA1	0.742	1.571	0.832	0.881	0.598
	I rely on my intuition when making financing decisions.	MA2	0.799	1.810			
	I feel concerned when I think about the decision outcome	MA3	0.791	1.794			
	I am concerned about the potential consequences of decision	MA4	0.755	1.647			
	I generally expect things to turn out well, when taking decisions."	MA5	0.779	1.618			
Regret	I find myself second-guessing my decision for fear of missing on a better alternative	RA1	0.564	1.133	0.695	0.815	0.526
	I tend to delay my decision for fear of potential regret if the outcome is unfavorable.	RA2	0.791	1.504			

	I avoid making financing decisions that I may regret later.	RA3	0.802	1.439			
	I consider all information provided about a financing option before committing to it.	RA4	0.719	1.377			
Financing Decisions	My financing decisions emphasize minimal analysis.	FD1	0.760	1.653	0.779	0.861	0.554
	Low financing costs are a key factor guiding my financing decisions.	FD2	0.797	1.907			
	My financing decisions are aimed at attracting business growth.	FD3	0.751	1.630			
	Financing decisions prioritize meeting the needs of my shareholders	FD4	0.731	1.317			
	Business value is my primary consideration when making a financing decision	FD5	0.682	1.571			

Source: Authors Own Creation: AVE: Average variance extracted, CR: Composite reliability, and FL: Factor Loadings are significant at $p < 0.001$ level.

Table 2: Discriminant Validity and Measurement Model Assessment
Discriminant Validity

		FD	**MA**	**RA**
Fornell-Larcker	Financing Decisions (FD)	0.744		
	Management Attitudes (MA)	0.511	0.773	
	Regret Aversion Bias (RA)	-0.448	-0.346	0.725
		FD	**MA**	**RA**
Heterotrait–Monotrait ($HTMT_{0.9}$)	Financing Decisions (FD)			
	Management Attitudes (MA)	0.612		
	Regret Aversion Bias (RA)	0.592	0.436	

Source: Authors Own Creation

Structural Model Assessment

The R^2 value was assessed to determine how effectively the proposed managers' attitudes and regret aversion bias explain the variation in financing decision quality (Subramaniam et al., 2020). Results showed a R2 value of 0.341 for managers' attitudes and regret aversion bias **signifying** that 34.1% variance in financing decision quality is explained by managers' attitudes and regret aversion bias. Furthermore, the proposed hypotheses were tested with 5,000 replications using a non-parametric bootstrapping technique (Hair et al., 2019). Significant effects of managers' attitudes (0.339, $p < 0.001$), regret aversion bias (-0.331, $p < 0.001$), on financing decision quality were found hence supporting the stated hypothesis. The results in table 3 indicate that managers' attitudes (risk perception, optimism, and overconfidence) and regret aversion bias (process regret and outcome regret) tend to be substantial factors that direct managers' decisions in coming up with variable financing options.

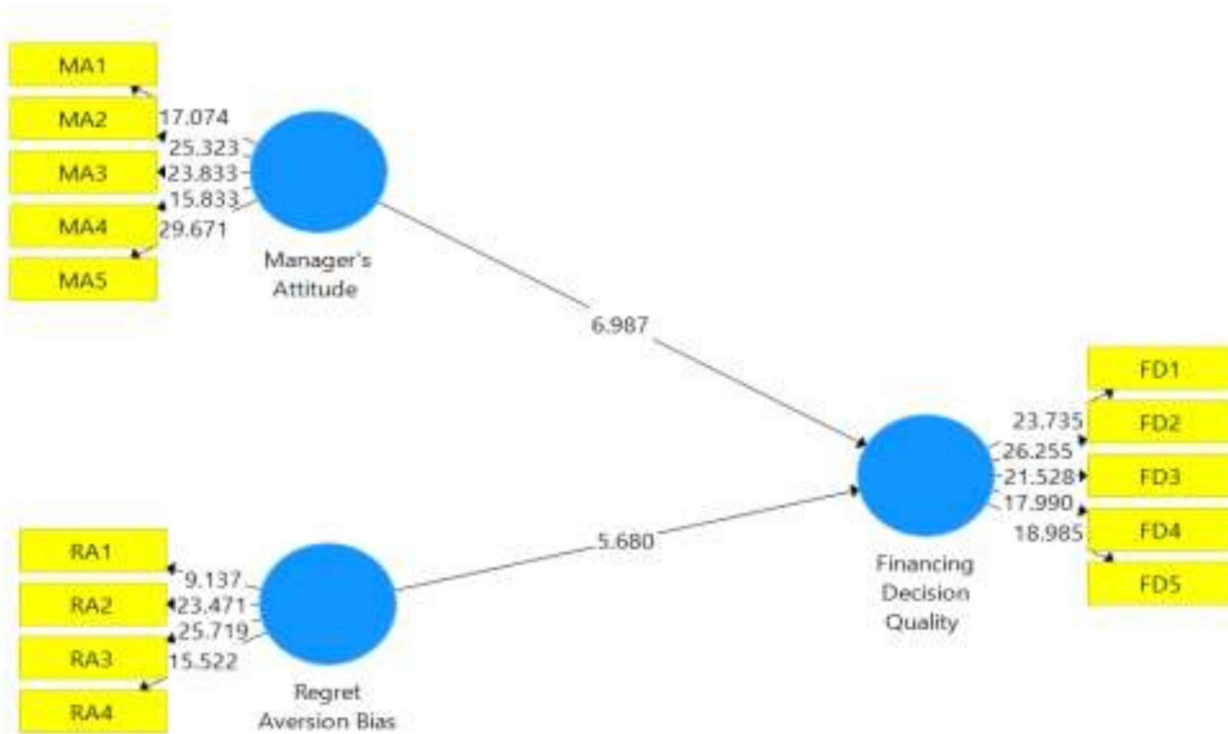
Table 3: Path Effects Results

Direct Path Coefficient						
Hypothesis	**Relationship**	**β**	**T Value**	**P Value**	**Confidence Interval 2.5%**	**Confidence Interval 97.5%**
H1	Management Attitudes -> Financing Decisions of SMEs	0.339	7.298	0.001***	0.291	0.507
H2	Regret Aversion Bias-> Financing Decision of SMEs	-0.331	6.170	0.001***	-0.400	-0.216

Construct	R^2	***Adjusted*** R^2
Financing Decisions of SMEs	0.341	0.337

Source: Authors Own Creation.

Fig2. Structural Model **Discussion of Findings**



The study primarily intends to examine the effect of managers' attitudes and regret aversion bias on the financing decision quality of small and medium enterprises (SMEs). The Theories of Planned Behavior (TPB) and prospect theory (PT) were used as foundational theory to ground the study. Based on the developed hypotheses, the results for both H1 and H2 were consistent with the proposed hypotheses, confirming the significant influence of managers' attitudes and regret aversion bias on financing decision quality. The debate surrounding the financing decisions of SMEs remains lively. Previous non-economic studies have identified factors such as personal beliefs, internal convictions, and several biases are crucial in influencing SME managers' financing decisions. However, financing decisions continue to pose significant challenges for many SME managers, particularly in developing countries with limited access to diverse financing sources.

Our findings contribute to this debate by highlighting how owner-manager attitudes impact business financing decisions, regardless of external factors. The results demonstrate that managerial attitudes specifically optimism, overconfidence, and risk aversion significantly influence the decision to fund a business using particular financing sources. These results align with Beidaghi et al., (2024) assertion that managerial attitudes and characteristics play a significant role in corporate financing decisions. Also, Boateng et al. (2022) argues that a fundamental shift in a manager's attitude towards a financing source or institution can have a lasting impact on their business and the broader sector. We also find managers' overconfidence attributes as an attitude contributing to the impression of control and excessive optimism. This Confidence stems from accumulated experience over time, enhances risk awareness, and enables managers to steer clear of speculative financing behaviors that cannot jeopardize their businesses. This is in line with the findings of Carvalho et al. (2024) and Sedliacikova et al., (2021) who argue that as managers become more overconfident, and averse to risk they are inclined to disregard professional advice, potentially leading to irrational but justified financing decisions.

For hypothesis H2, it was observed that regret aversion bias has a significant but negative relationship with financing decision quality. This result suggests that as fear of regret increases among managers, the quality of their financing decisions tends to decrease. This finding aligns with the conclusions of Rahawarin (2023), who argued that managers excessively concerned with avoiding regret are more likely to make suboptimal financing decisions. Furthermore, this result means that regret-averse managers tend to over analyse their decision-making processes in an effort to avoid process regret, and they focus heavily on potential outcomes to prevent outcome regret. Their keen aversion to process and negative outcomes from decisions drives them to continually search for safer financing alternatives, leading to excessive time and resource consumption. This extensive search for safer financing options ultimately detracts the decision quality, as it introduces delays and limits the manager's ability to consider more higher-yield financing options.

Further, as managers tend to rely on their attitudes and biases, it's imperative for them to prioritize the best interests of the firm. This involves gaining a comprehensive understanding of various funding sources, conducting thorough cost-benefit analyses, and establishing measurement metrics for viable decision-making. Such measures ensure that financing decisions contribute to, rather than hinder, the progress of the business. These aspects are explained by the 34.1% contribution of attitudes and biases in financing this decision suggesting that other factors play a significant role in shaping these decisions This observation aligns with Sedliacikova et al., (2021) who argue that while biases and attitudes often influence decision-making, managers should opt for analytical and quantitative methods when they have sufficient time and certainty regarding the probable outcomes of their decisions.

Conclusion and Implication

The objective of this study was to examine how managers' attitudes and regret aversion bias influence the quality of financing decisions within small and medium enterprises (SMEs). The findings revealed that managers' attitudes, measured through dimensions such as risk perception, optimism, and overconfidence, significantly impact the quality of their financing decisions. Additionally, the results indicated that regret aversion bias captured through process regret and outcome regret also plays a significant role in affecting financing decision quality. The findings from this study have important implications for researchers, SME owners, investors, and policymakers. In regard to the contribution to the body of knowledge, the study makes a significant contribution by examining managers' attitudes and regret aversion bias in a new context, specifically Uganda, which has not been previously explored. Additionally, it incorporates non-economic dimensions into the analysis of financing decision quality. This approach contrasts with most existing studies that primarily focus on traditional firm-specific characteristics, such as debt-to-asset ratios and debt-to-equity ratios.

On the other hand, the current study examines the attitudes of managers, and fear of regret providing valuable insights for firm owners and investors on how these attitudes can influence the quality of financing decisions. By understanding the impact of attitude and regret-based decisions, they can better strategize and mitigate any potential effects. Our research highlights that financing decisions in most SMEs, especially privately-owned firms, often deviate from traditional financial practices. Instead, these decisions are predominantly influenced by the individual manager's behavioral traits, and biases including their personal likes, dislikes, and risk aversion levels. This behavior manifests in a preference for internal financing and the use of short-term debts, aimed at maintaining control over the firm rather than seeking external funding through equity which can have a cost implication on the firm. Moreover, this study offers valuable insights for policymakers into how managers' attitudes and biases influence their financing decisions. Policymakers should take these findings into account when designing policies aimed at improving SME financing. By acknowledging the effects of managerial attitudes, such as risk perception, optimism, and overconfidence, as well as regret aversion biases, policymakers can develop targeted strategies and interventions that support better financing decisions in SMEs

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