



HERD MENTALITY AND SMALL BUSINESS MALAISE IN NIGERIA

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Abstract

This paper examined herd mentality and small business malaise in Nigeria with emphasis on behavioural drivers, market saturation, and implications for entrepreneurial performance. The study adopted a conceptual and analytical approach using extant literature on herd behaviour, entrepreneurial decision-making, and small business performance. Herd mentality was conceptualized as the tendency of entrepreneurs to imitate existing ventures rather than engage in independent opportunity identification. The paper argued that imitation-based entrepreneurship encourages clustering of similar businesses, leading to market saturation and intense competition. These conditions were linked to declining profitability, limited market share, weak innovation, and short business lifespan, which collectively describe small business malaise. The paper further identified major drivers of herd mentality including psychological bias, risk aversion, low innovation orientation, limited financial knowledge, social influence, and low entry barriers. These factors were found to encourage uniform entrepreneurial decisions and increase the concentration of similar enterprises within the same sectors. The analysis also revealed that herd mentality negatively affects small business performance by reducing differentiation, weakening competitive advantage, and increasing vulnerability to failure. However, innovation, risk-taking behaviour, financial literacy, and strategic planning were identified as moderating factors capable of reducing the adverse effects of herd behaviour. The paper concluded that herd mentality contributes significantly to imitation-based entrepreneurship and the persistence of small business malaise in Nigeria. The paper recommended that entrepreneurs should prioritize independent opportunity identification, innovation, niche market development, and strategic planning. It also recommended entrepreneurship education, provision of market intelligence, and support for innovation as policy measures to reduce imitation-driven business formation. These measures are expected to improve small business sustainability and enhance entrepreneurial performance in Nigeria.

Keywords: Herd behaviour, small business malaise, market saturation, imitation entrepreneurship

INTRODUCTION

Herd mentality has increasingly been identified as a behavioural phenomenon influencing entrepreneurial and financial decision-making. The concept refers to a situation where individuals imitate the actions of others instead of relying on independent analysis or objective evaluation. Behavioural studies emphasize that psychological biases, social influence, and emotional decision-making often encourage individuals to follow majority actions even when such decisions may not be rational (Yang & Loang, 2024). Similarly, herd behaviour is driven by cognitive shortcuts that lead decision-makers to rely on observed behaviour of others when confronted with uncertainty (Armansyah, 2022). This behavioural pattern has been widely associated with financial and entrepreneurial decisions where individuals replicate actions perceived to be successful (Lakshmi et al., 2024).

In entrepreneurial contexts, herd mentality manifests through imitation-based business formation. Entrepreneurs often replicate existing ventures that appear profitable rather than developing innovative ideas. Empirical evidence suggests that herding behaviour reduces independent thinking and promotes uniform decision patterns among decision-makers (Kresnawati et al., 2024). This behaviour is reinforced by emotional and psychological factors such as fear of missing opportunities and reliance on social proof (Nonika et al., 2025). Additionally, herd mentality has been linked with overconfidence and emotional bias, which further encourage individuals to follow popular trends without adequate evaluation (Nirmala et al., 2025). Such imitation-driven decisions may lead to concentration of similar business activities within the same markets (Susetyo et al., 2025).

The Nigerian small business environment is characterized by rapid entry of new ventures, largely driven by unemployment and necessity entrepreneurship. Small and medium enterprises play a significant role in employment creation and economic participation, yet they face persistent performance challenges (Bolaji et al., 2024). Evidence indicates that many SMEs experience sustainability problems due to weak strategic planning and environmental pressures (Odegbesan et al., 2023). Entrepreneurial behaviour has also been identified as a critical determinant of SME performance and survival (Badiru, 2024). Similarly, behavioural attributes such as risk-taking and innovation influence small business outcomes (Akande et al., 2021).

One observable pattern within Nigerian SMEs is the clustering of similar businesses within specific locations. Studies show that clustering of identical enterprises may increase rivalry and reduce performance when differentiation is limited (Ramez et al., 2022). Excessive concentration of similar businesses also intensifies competition and reduces available market share (Falebita & Obanisola, 2022). When multiple entrepreneurs imitate the same business model, saturation occurs, leading to declining profitability and weak growth prospects.

Small business malaise describes a situation where enterprises experience stagnation, declining performance, and limited growth potential. Small firms often struggle with low profitability, limited market share, and short business lifespan (Isiaka et al., 2026). Evidence from Nigeria also indicates that many small businesses fail within a few years of establishment due to weak managerial decisions and competitive pressure (Kalu, 2022). Furthermore, small enterprises are vulnerable to environmental shocks and lack resilience strategies necessary for long-term survival (Olajide & Fajobi, 2026). When herd mentality drives business entry, these vulnerabilities are amplified as similar firms compete for the same customers.

Despite extensive research on SME performance in Nigeria, behavioural explanations such as herd mentality remain underexplored. Existing studies largely emphasize financial constraints and environmental challenges, while imitation-based entrepreneurship has received limited scholarly attention. Given the prevalence of copycat businesses and market saturation, examining herd mentality provides a behavioural explanation for small business malaise. Therefore, this paper examines herd mentality and small business malaise in Nigeria with emphasis on behavioural drivers, clustering effects, and implications for SME sustainability.

CONCEPTUAL CLARIFICATIONS

Herd Mentality

Herd mentality refers to a behavioural tendency where individuals follow the actions of others rather than making independent decisions based on objective evaluation. The concept is rooted in behavioural psychology and explains how individuals rely on group behaviour when faced with uncertainty or limited information (Kurdi, 2021). Herd mentality occurs when decision-makers imitate others because they assume the majority possesses superior knowledge or better judgment (Yang & Loang, 2024). This behavioural pattern is often influenced by psychological biases such as social pressure, emotional reactions, and perceived success of others (Armansyah, 2022).

Herd behaviour has also been described as a situation where individuals abandon personal analysis and instead replicate the decisions of others within a group (Nerlekar et al., 2025). The behaviour is reinforced by information cascades, where people assume that earlier decision-makers possess superior information and therefore follow similar actions (Suresh & Loang, 2024). Empirical studies further indicate that herd mentality is driven by emotional and psychological factors such as fear of missing opportunities and desire for conformity (Nonika et al., 2025). This tendency is particularly common in environments where individuals have limited access to reliable market information (Susetyo et al., 2025).

In entrepreneurial settings, herd mentality manifests when prospective business owners imitate existing ventures perceived to be successful. Such imitation often results in multiple entrepreneurs entering the same line of business without adequate feasibility studies (Frempong, 2021). Herding behaviour has also been associated with overconfidence and reliance on observable outcomes, which reduces innovation and encourages replication of business ideas (Kresnawati et al., 2024). Consequently, entrepreneurs may follow prevailing trends rather than identify unique market opportunities.

Small Business Malaise

Small business malaise refers to a condition where small enterprises experience stagnation, declining performance, and limited growth potential. This condition is characterized by low profitability, weak market expansion, and short business lifespan (Isiaka et al., 2026). Small businesses experiencing malaise often struggle to sustain operations due to intense competition and limited strategic planning (Olajide & Fajobi, 2026). The condition may also arise when enterprises operate in saturated markets with minimal differentiation.

Research indicates that many small businesses fail to grow because of poor entrepreneurial decisions and weak innovation capacity (Badiru, 2024). Entrepreneurial behavioural attributes such as limited risk-taking and low creativity have been linked with poor SME performance (Akande et al., 2021). In addition, small enterprises often experience operational vulnerabilities that reduce their resilience to market fluctuations (Bolaji et al., 2024). These challenges contribute to stagnation and declining productivity among SMEs.

Small business malaise is also associated with clustering of similar businesses within the same geographic location. When many firms offer identical products, competition intensifies and profit margins decline (Ramez et al., 2022). Excessive clustering has been shown to limit growth opportunities and weaken business sustainability (Falebita & Obanisola, 2022). Consequently, businesses struggle to differentiate themselves, leading to reduced competitiveness and market survival.

Entrepreneurial Imitation

Entrepreneurial imitation refers to the replication of existing business models by new entrants rather than the creation of innovative ventures. This behaviour occurs when individuals copy perceived successful businesses without conducting adequate market analysis or feasibility assessment. Entrepreneurs often observe businesses that appear profitable and assume that replicating such ventures will yield similar outcomes. Imitation-based entrepreneurship is frequently influenced by herd mentality and social learning processes, where individuals rely on

observable behaviour of others to guide their own decisions (Kurdi, 2021). As a result, many entrepreneurs adopt similar business ideas within a short period.

Entrepreneurial imitation is often driven by the desire to reduce uncertainty and risk associated with business formation. New entrants may perceive imitation as a safer strategy compared to launching new and untested ideas. This perception encourages entrepreneurs to copy business models that require minimal experimentation. In many cases, imitation is reinforced by limited access to market information and weak entrepreneurial training. Entrepreneurs therefore rely on visible success stories instead of conducting independent opportunity identification. This behaviour promotes uniformity in business formation.

However, imitation-based entrepreneurship limits creativity and reduces competitive advantage among small firms. When entrepreneurs replicate existing ventures, differentiation becomes minimal and businesses struggle to attract unique customers. Entrepreneurial behaviour studies indicate that innovation and creativity are critical determinants of SME performance (Badiru, 2024). Lack of innovation associated with imitation reduces competitiveness. Firms therefore compete within the same market segments.

Entrepreneurial imitation also contributes to market saturation and declining profitability. When multiple entrepreneurs establish similar businesses, competition intensifies and available market share decreases. Evidence suggests that replication of similar business ideas increases competitive pressure and reduces business survival (Isiaka et al., 2026). Businesses operating in imitation-driven environments often engage in price competition. This reduces profit margins and weakens financial sustainability.

Furthermore, imitation-based entrepreneurship contributes to short business lifespan among SMEs. Firms that lack differentiation often struggle to maintain customer loyalty. Structural factors affecting SME growth indicate that excessive competition reduces performance and limits expansion opportunities (Bolaji et al., 2024). As a result, businesses established through imitation frequently experience stagnation and eventual exit from the market.

Market Saturation

Market saturation occurs when a large number of businesses offer similar products or services within the same market. This situation leads to excessive competition and limited customer base for individual firms. Saturation often emerges when entrepreneurs simultaneously enter trending business sectors. Clustering of similar enterprises has been shown to increase rivalry and reduce SME performance (Ramez et al., 2022). When many firms compete for the same customers, revenue potential becomes constrained.

Market saturation is frequently driven by herd mentality and imitation-based entrepreneurship. Entrepreneurs often replicate business ideas that appear profitable without assessing demand conditions. Studies on SME clustering indicate that concentration of similar enterprises intensifies competition (Falebita & Obanisola, 2022). This concentration reduces differentiation among firms. As a result, businesses struggle to maintain stable market share.

When markets become saturated, firms compete primarily on price rather than quality or innovation. Price competition reduces profit margins and weakens financial sustainability. Businesses in saturated markets often lower prices to attract customers. This strategy reduces revenue and limits growth potential. Consequently, firms experience declining performance and operational challenges.

Market saturation also weakens long-term business survival. Limited customer base and intense competition reduce expansion opportunities. Research on SME sustainability indicates that excessive competition contributes to declining growth and survival rates (Odegbesan et al., 2023). Businesses operating in saturated markets often experience stagnation. This stagnation limits productivity and innovation.

Furthermore, saturation prevents small enterprises from scaling operations. When firms operate within crowded sectors, expansion into new markets becomes difficult. Factors affecting SME growth include intense rivalry and limited strategic positioning (Bolaji et al., 2024). As a result, many small businesses remain trapped in low-performance cycles and fail to achieve long-term growth.

Necessity Entrepreneurship

Necessity entrepreneurship refers to business creation driven by lack of employment opportunities rather than opportunity identification. Individuals engage in entrepreneurship as a survival strategy when formal employment is unavailable. Many small businesses are therefore established primarily to generate income for basic needs. Research on small business failures indicates that unemployment-driven entrepreneurship often lacks proper planning and strategic direction (Isiaka et al., 2026). Such ventures are typically created with limited feasibility analysis.

Necessity-driven entrepreneurs often operate with minimal resources and limited entrepreneurial knowledge. These entrepreneurs focus on businesses that are easy to start and require low capital investment. As a result, they frequently imitate existing ventures perceived to be viable. Entrepreneurial behaviour studies indicate that limited innovation orientation encourages imitation-based entrepreneurship (Badiru, 2024). This behaviour increases concentration of similar businesses within the same sectors.

Necessity entrepreneurship also contributes to overcrowding of sectors with low entry barriers. Businesses such as petty trading, food vending, and retail activities often attract many entrants. Structural factors influencing SME growth indicate that low entry barriers increase the number of participants in certain sectors (Bolaji et al., 2024). This overcrowding intensifies competition and reduces profitability for participating firms. Businesses therefore struggle to sustain operations.

THEORETICAL FOUNDATIONS

This study is anchored on Behavioural Bias Theory and Social Influence Theory. These theories provide behavioural explanations for herd mentality and its implications for small business malaise.

Behavioural Bias Theory

Behavioural Bias Theory emerged from behavioural economics and challenges the assumption that individuals always make rational decisions. The theory posits that decision-makers rely on heuristics and cognitive shortcuts when confronted with uncertainty, limited information, and complexity. These shortcuts often lead to systematic biases such as overconfidence, loss aversion, and herding behaviour. A major tenet of the theory is that individuals imitate others when they believe the majority possesses superior knowledge. This behaviour leads to convergence of decisions and reduced independent thinking. Behavioural economists argue that such biases influence economic and entrepreneurial decisions, particularly in uncertain environments (Kahneman, 2011; Tversky & Kahneman, 1974).

The major assumptions of Behavioural Bias Theory include bounded rationality, psychological influence, and imperfect information. The theory assumes that individuals cannot process all available information and therefore rely on simplified decision rules. It also assumes that emotions such as fear, optimism, and regret influence decision-making. Another assumption is that individuals observe the behaviour of others and use it as a guide for their own decisions. This reliance on observable behaviour leads to herding bias. Behavioural scholars further argue that individuals often prefer imitation because it reduces perceived risk and decision complexity (Thaler, 2015; Devenow & Welch, 1996).

Behavioural Bias Theory has been supported by numerous scholars in behavioural economics and finance. Kahneman and Tversky demonstrated that individuals rely on heuristics rather than rational evaluation in decision-making. Thaler emphasized that psychological biases shape economic choices and often lead to irrational behaviour. Devenow and Welch identified herding as a major behavioural bias influencing market and investment decisions. Similarly,

Banerjee proposed that individuals imitate others due to informational cascades. However, critics argue that behavioural bias theory overemphasizes irrationality. Some scholars contend that imitation may sometimes be rational learning from successful firms. Others argue that experienced entrepreneurs rely more on strategic planning rather than behavioural shortcuts (Banerjee, 1992; Hirshleifer & Teoh, 2003).

Behavioural Bias Theory is relevant to this study because it explains why small business owners imitate existing ventures. Entrepreneurs often rely on observable success rather than conduct independent market analysis. This imitation behaviour results in clustering of similar businesses and market saturation. Behavioural bias also explains why entrepreneurs avoid innovation and prefer low-risk replication strategies. Consequently, the theory provides a behavioural foundation for understanding herd mentality and small business malaise in Nigeria.

Social Influence Theory

Social Influence Theory explains how individuals' attitudes, beliefs, and decisions are shaped by the behaviour of others within their social environment. The theory posits that individuals tend to conform to group behaviour in order to gain acceptance, reduce uncertainty, and align with perceived norms. One major tenet of the theory is conformity, which suggests that individuals adopt behaviours observed within their social group. Another tenet is social learning, which emphasizes that individuals learn by observing others' actions and outcomes. These principles explain why individuals imitate successful behaviours within their environment. In entrepreneurial settings, this conformity leads to replication of similar business ideas (Asch, 1956; Bandura, 1977).

The assumptions of Social Influence Theory include conformity, normative pressure, and informational influence. The theory assumes that individuals seek approval from others and therefore conform to group behaviour. It also assumes that individuals rely on others for information when uncertainty is high. Informational influence occurs when individuals assume that others possess superior knowledge. Another assumption is that repeated exposure to successful behaviour encourages imitation. These assumptions explain why entrepreneurs often follow popular business trends rather than develop innovative ideas (Cialdini & Goldstein, 2004; Deutsch & Gerard, 1955).

Social Influence Theory has received strong empirical support from social psychology and behavioural research. Asch demonstrated that individuals conform to group opinions even when those opinions are incorrect. Bandura emphasized observational learning, where individuals adopt behaviours observed in others. Cialdini highlighted social proof as a powerful influence on decision-making. These studies confirm that individuals imitate behaviour perceived as

successful. However, critics argue that Social Influence Theory underestimates individual autonomy. Some scholars maintain that entrepreneurs with strong self-efficacy resist social pressure. Others argue that innovation-driven individuals rely on independent thinking rather than conformity (Bandura, 1986; Moscovici, 1985).

Social Influence Theory is relevant to this study because it explains how herd mentality develops among Nigerian small businesses. Entrepreneurs often observe friends, colleagues, and community members operating similar ventures and replicate them. This imitation leads to clustering of identical businesses. Social influence therefore contributes to market saturation and competitive pressure. The theory provides a framework for understanding how conformity and peer influence drive imitation-based entrepreneurship and small business malaise.

Herd Mentality in the Nigerian Small Business Landscape

Herd mentality is increasingly visible in the Nigerian small business environment where entrepreneurs tend to imitate already existing ventures rather than develop innovative business ideas. This behaviour is often driven by perceived success of similar businesses and the desire to minimize uncertainty in business formation. Herd mentality encourages individuals to follow the actions of others when making economic decisions, particularly in uncertain environments (Kurdi, 2021). As a result, entrepreneurs replicate business models that appear profitable without conducting feasibility analysis. This pattern leads to concentration of similar businesses within the same locations.

The prevalence of imitation-based entrepreneurship is also influenced by psychological and emotional factors. Individuals often rely on social influence and collective behaviour when selecting investment or business opportunities (Singh et al., 2024). Emotional responses and behavioural biases further encourage decision-makers to follow popular trends instead of conducting independent evaluation (Armansyah, 2022). Such behavioural tendencies reduce independent decision-making and promote uniformity in business choices. Consequently, multiple entrepreneurs establish similar ventures within short periods.

The Nigerian SME environment is characterized by low entry barriers, which further reinforces herd behaviour. Many small businesses require minimal capital and limited technical knowledge, making imitation easier. Entrepreneurial behaviour has been identified as a major factor influencing SME performance and strategic decisions (Akande et al., 2021). Entrepreneurs with weak innovation orientation are more likely to replicate existing business models. This tendency contributes to clustering of similar businesses in the same markets.

Clustering of similar SMEs has been widely observed in Nigeria, particularly in retail, food services, and informal trading sectors. Studies indicate that clustering of identical enterprises

increases competition and weakens performance among participating firms (Falebita & Obanisola, 2022). When businesses offer identical products, competition shifts primarily to price, which reduces profitability. High concentration of similar enterprises also limits market expansion opportunities.

The imitation behaviour associated with herd mentality contributes to competitive overcrowding in Nigerian markets. Entrepreneurs often rely on observed outcomes rather than conducting independent market research. Behavioural bias research indicates that individuals tend to follow collective decisions when confronted with uncertainty (Nerlekar et al., 2025). This behaviour leads to uniformity in business formation. As more entrepreneurs enter the same sector, market saturation emerges.

Market saturation resulting from herd mentality weakens SME sustainability. Excessive competition reduces available customer base and limits revenue growth. Factors affecting SME sustainability include intense competition and poor strategic positioning (Bolaji et al., 2024). Businesses operating in saturated markets often experience declining profit margins and weak survival prospects. This condition contributes to stagnation among small enterprises.

The consequences of herd mentality are further intensified by weak entrepreneurial planning. Many small business owners rely on imitation rather than innovation, which reduces differentiation. Entrepreneurial behavioural attributes such as creativity and proactiveness influence SME competitiveness (Badiru, 2024). Low innovation and imitation-based strategies therefore limit growth potential. As a result, businesses struggle to scale operations.

Furthermore, herd-driven entrepreneurship contributes to vulnerability among Nigerian SMEs. Small firms often operate under fragile conditions and lack resilience strategies necessary for long-term survival. Small business failures in Nigeria have been linked to poor planning and competitive pressure (Isiaka et al., 2026). When multiple firms compete within the same niche, these vulnerabilities increase. Businesses therefore experience declining performance.

Drivers of Herd Mentality among Small Businesses in Nigeria

Herd mentality among small businesses is largely driven by psychological and behavioural factors that influence entrepreneurial decision-making. Individuals often rely on social cues and observed behaviour when selecting business opportunities, especially in uncertain environments. Behavioural bias literature explains that individuals tend to imitate others when faced with uncertainty and limited information, assuming that the majority possesses better knowledge (Nerlekar et al., 2025). This behaviour reduces independent analysis and encourages entrepreneurs to follow trending ventures. Emotional and psychological influences such as fear

of missing opportunities and perceived success of peers further reinforce imitation behaviour (Armansyah, 2022).

Another major driver of herd mentality is limited financial and entrepreneurial knowledge among small business owners. When entrepreneurs lack adequate knowledge, they rely on observable outcomes instead of conducting market analysis. Financial behaviour among SMEs is shaped by knowledge limitations and decision-making biases (Handayani, 2023). In addition, inadequate financial literacy affects entrepreneurial judgment and increases dependence on imitation strategies (Erhomosele & Obi, 2022). As a result, entrepreneurs may replicate existing businesses perceived to be easier to manage.

Risk aversion also contributes significantly to herd behaviour. Entrepreneurs who are unwilling to take risks often prefer established business models rather than innovative ventures. Entrepreneurial risk-taking has been shown to influence strategic decisions and performance among SMEs (Adim & Bassey, 2022). Low risk-taking propensity therefore encourages imitation-based entrepreneurship. Entrepreneurs perceive copying existing businesses as safer compared to launching new ideas. This perception increases the likelihood of multiple firms entering the same line of business.

Low innovation orientation is another important factor encouraging herd mentality. Entrepreneurs with limited innovation capability tend to replicate existing products and services. Innovation has been identified as a major determinant of business performance and competitiveness among SMEs (Bello, 2024). When innovation is weak, businesses rely on imitation strategies. This behaviour results in clustering of similar ventures and increased competitive pressure.

Information asymmetry also drives herd mentality among small businesses. When reliable market information is unavailable, entrepreneurs depend on observed behaviour of others. Psychological influences on decision-making become stronger when individuals lack adequate information (Lakshmi et al., 2024). Herding behaviour therefore becomes a shortcut for decision-making under uncertainty. Consequently, entrepreneurs imitate popular ventures rather than conduct feasibility studies.

Social influence and peer pressure further encourage herd behaviour. Entrepreneurs often observe friends, family members, and colleagues who appear successful in certain ventures and replicate similar businesses. Social conformity has been shown to influence behavioural decisions and promote imitation among individuals (Kurdi, 2021). This reliance on group behaviour reduces independent thinking and encourages uniform business choices.

Low entry barriers in many SME sectors also contribute to herd mentality. Businesses requiring minimal capital and skills attract large numbers of new entrants. Structural factors

affecting SME growth shape entrepreneurial decisions and entry patterns (Bolaji et al., 2024). When entry barriers are low, imitation becomes easier and more widespread. This increases the concentration of similar businesses within specific sectors.

Furthermore, necessity-driven entrepreneurship contributes to herd mentality. Many individuals establish small businesses due to unemployment and limited job opportunities. Such ventures are often created without detailed planning or differentiation. Small business failures in Nigeria have been associated with weak planning and environmental pressures (Isiaka et al., 2026). Necessity entrepreneurs therefore imitate existing ventures perceived to be viable. This behaviour contributes to overcrowding of certain business sectors.

Herd Behaviour and Market Saturation

Herd behaviour among entrepreneurs often leads to market saturation, particularly when individuals imitate existing ventures without evaluating market demand. Herd mentality encourages entrepreneurs to follow observed business trends rather than rely on independent decision-making. This behaviour is driven by cognitive and emotional influences that push individuals toward conformity in uncertain environments (Kurdi, 2021). When entrepreneurs rely on group behaviour, multiple firms enter the same business line simultaneously, resulting in excessive competition.

Market saturation occurs when similar businesses concentrate within a limited customer base. Herding bias contributes to this outcome by promoting imitation of perceived successful ventures. Behavioural studies indicate that psychological factors such as social pressure and emotional responses encourage individuals to replicate decisions made by others (Lakshmi et al., 2024). As imitation increases, the number of firms offering identical products expands, thereby reducing available market opportunities.

Clustering of similar businesses is one of the major outcomes of herd-driven entrepreneurship. Research on SME clustering shows that excessive concentration of similar enterprises increases rivalry and weakens performance (Falebita & Obanisola, 2022). When businesses operate within the same niche, competition shifts toward price reduction. This condition reduces profit margins and weakens sustainability. Consequently, firms struggle to maintain operational stability.

Herd behaviour also contributes to reduced differentiation among small businesses. Entrepreneurs who imitate existing ventures often provide identical products and services. Studies indicate that low innovation and imitation-based strategies reduce competitive advantage among SMEs (Bello, 2024). Lack of differentiation makes it difficult for businesses to attract unique customer segments. As a result, firms compete for the same customers.

Market saturation further limits growth potential of small enterprises. When several firms operate within the same market, expansion opportunities decline. Evidence suggests that clustering of SMEs reduces market share and constrains growth performance (Ramez et al., 2022). Businesses operating in saturated environments often experience stagnation. This stagnation affects productivity and long-term survival.

In addition, herd-driven entry increases vulnerability of small businesses. Firms operating in overcrowded sectors face unstable demand and fluctuating revenue. Studies show that sustainability challenges among SMEs are influenced by environmental pressures and competitive intensity (Odegbesan et al., 2023). When many firms compete within the same niche, these pressures intensify. Businesses therefore experience declining performance.

Herd behaviour also weakens entrepreneurial decision-making by reducing independent market analysis. Entrepreneurs influenced by imitation rely on observable success rather than feasibility studies. Behavioural bias research indicates that herding reduces rational decision-making and encourages uniform choices (Suresh & Loang, 2024). This uniformity increases the likelihood of market overcrowding.

Furthermore, market saturation negatively affects profitability and business survival. Excessive competition reduces revenue potential and limits operational growth. Evidence suggests that small businesses fail due to weak strategic planning and intense competitive pressure (Isiaka et al., 2026). When saturation persists, many enterprises experience declining turnover and eventually exit the market.

Small Business Malaise in Nigeria

Small business malaise refers to a condition in which small enterprises experience stagnation, declining performance, and limited growth potential. This condition is often characterized by low profitability, weak competitiveness, and short business lifespan. Studies on small-scale enterprises in Nigeria indicate that many businesses struggle to sustain operations due to structural and managerial weaknesses (Isiaka et al., 2026). These weaknesses often result in declining productivity and inability to expand operations.

One major manifestation of small business malaise is low profitability among SMEs. When businesses operate in highly competitive environments, revenue becomes unstable and profit margins decline. Research indicates that factors affecting SME growth include intense competition, limited strategic planning, and weak innovation capability (Bolaji et al., 2024). These constraints reduce financial performance and limit long-term sustainability. Businesses experiencing such conditions often struggle to remain operational.

Another dimension of small business malaise is declining productivity. Small firms frequently face operational inefficiencies and limited capacity utilization. Entrepreneurial behaviour has been identified as a key determinant of SME performance, particularly in relation to innovation and proactiveness (Badiru, 2024). When entrepreneurial orientation is weak, firms fail to improve processes or introduce new products. This stagnation reduces productivity and growth potential.

Limited market share is also a common indicator of small business malaise. Businesses operating in saturated markets often struggle to attract customers. Clustering of similar enterprises has been shown to increase rivalry and reduce market share among SMEs (Ramez et al., 2022). When multiple firms offer identical products, customer demand becomes fragmented. This fragmentation reduces sales volume for individual firms.

Short business lifespan further reflects the presence of small business malaise. Many small enterprises in Nigeria cease operations within a few years of establishment. Evidence indicates that poor decision-making and environmental pressures contribute to early business failure (Kalu, 2022). Weak planning and imitation-based entrepreneurship also increase the likelihood of failure. As a result, businesses struggle to achieve long-term survival.

Low innovation is another feature of small business malaise. Firms that rely on imitation rather than innovation often lack competitive advantage. Studies indicate that entrepreneurial behavioural attributes such as innovation and risk-taking significantly influence SME performance (Akande et al., 2021). When innovation is limited, businesses become vulnerable to competition. This vulnerability contributes to stagnation and decline.

Small businesses experiencing malaise also face vulnerability to environmental shocks. Limited financial capacity and weak resilience strategies make firms susceptible to disruptions. Research shows that small enterprises in Nigeria are highly vulnerable to external shocks and operational instability (Olajide & Fajobi, 2026). Such vulnerability reduces sustainability and growth prospects.

Furthermore, poor financial behaviour contributes to small business malaise. Ineffective financial decisions and limited planning weaken SME performance. Studies indicate that financial behaviour influences business outcomes and sustainability (Handayani, 2023). Entrepreneurs who fail to manage resources effectively often experience declining profitability. This decline reinforces stagnation.

In addition, low risk-taking propensity contributes to small business malaise. Entrepreneurs who avoid risk often resist innovation and expansion. Evidence suggests that risk-taking behaviour influences SME sales growth and performance (Adim & Bassey, 2022). Limited

risk-taking therefore restricts business growth. Firms remain small and struggle to compete effectively.

Herd Mentality and Small Business Performance

Herd mentality has significant implications for small business performance, particularly in environments characterized by imitation-based entrepreneurship. When entrepreneurs rely on the actions of others rather than independent evaluation, strategic decision-making becomes weakened. Herding bias reduces analytical thinking and encourages uniform behaviour among decision-makers (Armansyah, 2022). This behaviour often leads to entry into already saturated markets, thereby affecting business outcomes. As more firms replicate similar ventures, competitive pressure increases and performance declines.

One major dimension through which herd mentality affects small business performance is profitability. Businesses established through imitation often compete within the same customer base, which reduces revenue potential. Psychological drivers of herding encourage individuals to follow popular trends without assessing financial implications (Lakshmi et al., 2024). This behaviour results in price competition among similar firms. Reduced pricing strategies lower profit margins and weaken financial sustainability.

Herd mentality also influences market share of small businesses. When multiple firms offer identical products, customers are divided among competitors. Research indicates that clustering of SMEs reduces individual firm performance due to increased rivalry (Falebita & Obanisola, 2022). Market share becomes fragmented as more firms enter the same sector. This fragmentation limits business growth and expansion opportunities.

Innovation capability is another performance dimension affected by herd mentality. Entrepreneurs influenced by imitation tend to replicate existing ideas rather than develop new products. Studies show that entrepreneurial behaviour, particularly innovation, significantly affects SME performance (Akande et al., 2021). Low innovation reduces differentiation and competitive advantage. Firms therefore struggle to stand out in crowded markets.

Herd mentality also affects business survival. Firms operating in saturated markets face unstable demand and fluctuating revenue. Evidence indicates that small businesses often fail due to poor strategic decisions and environmental pressures (Isiaka et al., 2026). When entrepreneurs imitate similar ventures, survival becomes difficult because many firms compete for limited customers. This increases the likelihood of business closure.

Furthermore, herd mentality weakens entrepreneurial risk-taking. Entrepreneurs who imitate others often avoid exploring new opportunities. Research indicates that risk-taking

propensity influences SME sales growth and performance (Adim & Bassey, 2022). Low risk-taking reduces growth potential and limits expansion. Businesses therefore remain small and vulnerable.

Competitive advantage is also affected by herd behaviour. Firms that replicate existing ventures lack uniqueness. Studies indicate that innovation and entrepreneurial characteristics determine business performance among SMEs (Bello, 2024). Lack of differentiation reduces customer loyalty and weakens positioning. Businesses therefore struggle to maintain long-term competitiveness.

Herd mentality further contributes to operational stagnation. Entrepreneurs who rely on imitation often fail to adapt to changing market conditions. Evidence suggests that SME sustainability is influenced by strategic planning and entrepreneurial decision-making (Odegbesan et al., 2023). Weak strategic orientation leads to declining productivity and performance. Firms become trapped in low-growth cycles.

Additionally, financial performance is affected by herd-driven entrepreneurship. Businesses in saturated markets experience unstable revenue streams. Studies indicate that financial behaviour influences SME outcomes and sustainability (Handayani, 2023). Poor financial decisions combined with intense competition reduce profitability. This contributes to small business malaise.

Moderating Factors in the Relationship between Herd Mentality and Small Business Malaise

The negative effect of herd mentality on small businesses can be reduced when certain moderating factors are present. These factors enhance independent decision-making, promote differentiation, and improve business sustainability. The major moderating factors are discussed below.

1. Entrepreneurial Innovation

Entrepreneurial innovation moderates the relationship between herd mentality and small business malaise by encouraging differentiation. Innovation enables entrepreneurs to introduce unique products, services, and operational strategies that distinguish their businesses from competitors. When firms innovate, they avoid direct rivalry with similar ventures and improve market positioning. Innovation has been identified as a key determinant of SME performance and competitiveness, particularly in dynamic markets (Bello, 2024). Therefore, innovative entrepreneurs are less affected by imitation-based competition.

2. Entrepreneurial Risk-Taking

Risk-taking behaviour also moderates the impact of herd mentality. Entrepreneurs willing to take calculated risks are more likely to explore new opportunities rather than replicate existing

ventures. Risk-taking encourages entry into untapped markets and promotes diversification. Evidence shows that entrepreneurial risk-taking positively influences SME sales growth and performance (Adim & Bassey, 2022). High risk-taking propensity therefore reduces dependence on saturated markets and improves business sustainability.

3. Financial Literacy and Financial Decision-Making

Financial literacy plays an important moderating role by improving entrepreneurial judgment. Entrepreneurs with strong financial knowledge are better equipped to evaluate business opportunities objectively. Financial behaviour has been shown to influence SME sustainability and performance (Handayani, 2023). In addition, financial literacy improves decision-making and reduces reliance on imitation strategies (Erhomosele & Obi, 2022). Entrepreneurs with sound financial knowledge are therefore less likely to follow herd behaviour.

4. Entrepreneurial Behavioural Orientation

Entrepreneurial behavioural orientation also moderates the effect of herd mentality. Behavioural attributes such as proactiveness, creativity, and strategic thinking enhance business performance. Entrepreneurs with strong behavioural orientation are more likely to identify unique opportunities and differentiate their ventures. Entrepreneurial behaviour has been shown to influence SME growth and competitiveness (Badiru, 2024). This reduces the negative impact of market saturation.

5. Access to Market Information

Access to reliable market information reduces herd-driven decisions. When entrepreneurs possess adequate information, they rely less on observed behaviour of others. Availability of market intelligence reduces uncertainty and encourages independent opportunity identification. Behavioural research indicates that individuals tend to follow herd behaviour when information is limited (Singh et al., 2024). Therefore, access to information moderates' imitation-based entrepreneurship.

6. Strategic Clustering

Strategic clustering can moderate the negative effects of herd mentality. While excessive clustering leads to rivalry, strategic clustering promotes collaboration, shared resources, and knowledge exchange. The effect of clustering on SME performance depends on differentiation among participating firms (Ramez et al., 2022). When businesses provide unique offerings within clusters, synergy is created instead of competition. This improves sustainability.

7. Entrepreneurial Planning

Entrepreneurial planning also moderates the relationship between herd mentality and small business malaise. Businesses that conduct feasibility studies and strategic planning are better positioned to compete effectively. Proper planning helps entrepreneurs identify viable

opportunities and avoid saturated markets. SME sustainability has been linked to strategic planning and managerial decision-making (Odegbesan et al., 2023). Effective planning therefore reduces imitation-based entrepreneurship.

8. Resilience Capability

Resilience capability moderates the impact of herd mentality by enhancing business survival. Firms with strong resilience strategies are better able to withstand competitive pressure and market fluctuations. Small businesses with weak resilience are more vulnerable to environmental shocks and performance decline (Olajide & Fajobi, 2026). Resilient firms adapt to changing conditions and maintain competitiveness. This reduces the likelihood of stagnation and business failure.

CONCEPTUAL FRAMEWORK

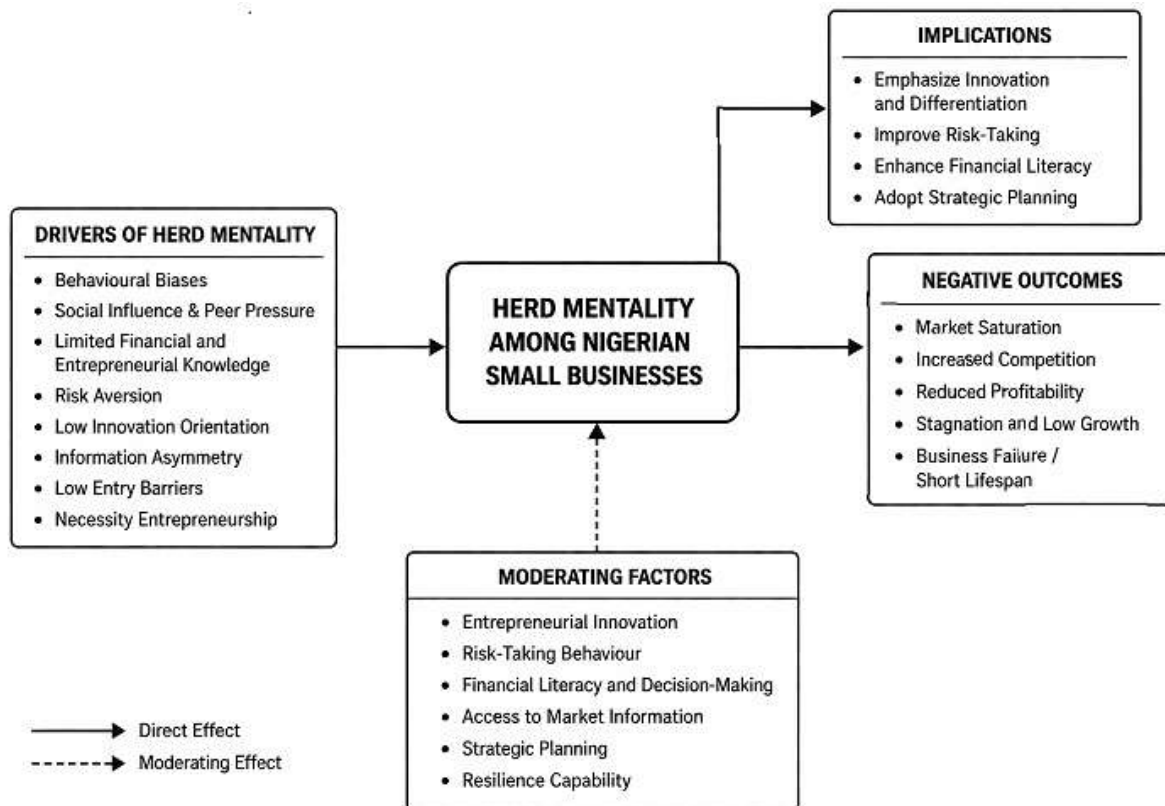


Figure 1: Conceptual framework

The conceptual framework illustrates that herd mentality among Nigerian small businesses is driven by factors such as behavioural biases, social influence, low innovation orientation, risk aversion, limited knowledge, and necessity entrepreneurship. These drivers lead

entrepreneurs to imitate existing ventures, resulting in concentration of similar businesses within the same markets. The framework further shows that herd mentality produces negative outcomes including market saturation, increased competition, reduced profitability, stagnation, and short business lifespan. However, the model identifies moderating factors such as entrepreneurial innovation, risk-taking behaviour, financial literacy, access to market information, strategic planning, and resilience capability, which can weaken the adverse effects of herd mentality. These moderating variables enhance differentiation, improve decision-making, and strengthen business sustainability, thereby reducing small business malaise.

IMPLICATIONS FOR ENTREPRENEURS AND POLICY

The persistence of herd mentality in the small business sector has important implications for both entrepreneurs and policymakers. When business decisions are based on imitation rather than independent evaluation, firms are more likely to enter saturated markets. Such imitation-based decisions increase competition and weaken performance. Herd-driven entrepreneurship therefore requires deliberate strategies to encourage independent opportunity identification and differentiation. The implications are discussed below.

1. Emphasis on Innovation and Differentiation: Entrepreneurs need to emphasize innovation and differentiation in their business operations. Businesses that introduce unique products and services are better positioned to compete in crowded markets. Innovation improves competitiveness and enhances performance among SMEs (Bello, 2024). When entrepreneurs differentiate their offerings, they reduce direct rivalry with similar firms. This strategy improves customer attraction and profitability.

2. Strengthening Entrepreneurial Risk-Taking: Entrepreneurs should strengthen their risk-taking capability in order to avoid imitation-based decisions. Risk-taking behaviour encourages exploration of new opportunities and niche markets. Entrepreneurial risk-taking has been shown to positively influence SME sales growth and business performance (Adim & Bassey, 2022). Entrepreneurs who adopt calculated risks are less likely to follow existing trends. This reduces overcrowding and improves sustainability.

3. Improving Financial Literacy: Improving financial knowledge among small business owners is another important implication. Financial literacy enhances decision-making and promotes objective evaluation of business opportunities. Financial behaviour significantly influences SME sustainability and performance (Handayani, 2023). In addition, financial literacy reduces dependence on copying existing ventures (Erhomosele & Obi, 2022). Entrepreneurs with sound financial knowledge are therefore better positioned to avoid herd behaviour.

4. Adoption of Strategic Planning: Entrepreneurs should adopt strategic planning before establishing businesses. Firms that conduct proper planning and market analysis are less vulnerable to saturation. Weak planning has been linked to small business failures in Nigeria (Isiaka et al., 2026). Entrepreneurs should assess demand conditions and competitive structure before business entry. This approach reduces imitation-driven entrepreneurship.

5. Entrepreneurship Education and Training: From a policy perspective, entrepreneurship education is necessary to reduce herd mentality. Training programs that emphasize innovation, risk-taking, and strategic thinking can improve SME performance. Entrepreneurial behaviour has been shown to influence small business competitiveness and growth (Akande et al., 2021). Policy-driven education can therefore promote independent decision-making among entrepreneurs.

6. Provision of Market Information: Provision of market information is another important policy implication. Access to reliable business information reduces uncertainty and discourages imitation. Behavioural decision-making becomes more independent when individuals possess adequate information (Singh et al., 2024). Government agencies and business support institutions can provide market intelligence to guide entrepreneurs. This support can reduce overcrowding in specific sectors.

7. Support for SME Innovation: Support for SME innovation should also be strengthened through policy intervention. Encouraging creativity and product development helps businesses differentiate themselves. Entrepreneurial behavioural orientation and innovation enhance SME performance (Badiru, 2024). Innovation-driven policies can therefore reduce imitation-based entrepreneurship. This improves sustainability of small businesses.

8. Business Advisory and Mentorship Support: Policymakers should also strengthen business advisory and mentorship programs. Guidance from experienced professionals helps entrepreneurs identify viable opportunities and avoid saturated markets. Structured advisory support improves decision-making and enhances business sustainability. This reduces herd-driven entrepreneurship and improves SME performance.

CONCLUSION

Herd mentality has emerged as a significant behavioural factor influencing small business formation and performance in Nigeria. The tendency of entrepreneurs to imitate existing ventures rather than develop innovative ideas encourages uniform decision-making and concentration of similar businesses. When individuals rely on observed success instead of independent evaluation, many businesses enter the same sectors simultaneously. This imitation-based entrepreneurship reduces creativity and increases the likelihood of operating in already saturated markets.

The paper established that herd mentality contributes to market saturation through clustering of similar businesses. When several entrepreneurs establish identical ventures, competition intensifies and available market share declines. Excessive rivalry forces businesses to compete mainly on price, which reduces profitability and growth potential. Firms operating in such environments often struggle to sustain operations and expand their activities.

The study also revealed that herd mentality contributes to small business malaise in Nigeria. This malaise is reflected in low profitability, declining productivity, limited market share, and short business lifespan. Businesses operating in saturated markets experience unstable demand and reduced turnover. As competition increases, many firms find it difficult to maintain operational efficiency and long-term survival. These conditions result in stagnation among small enterprises.

Furthermore, herd mentality weakens entrepreneurial innovation and competitive advantage. Entrepreneurs who rely on imitation tend to avoid risk and limit creativity. Lack of differentiation makes it difficult for firms to attract unique customers and sustain market relevance. Businesses therefore struggle to compete effectively, leading to declining performance and vulnerability to failure.

The paper also identified moderating factors that can reduce the negative effects of herd mentality. Innovation, financial literacy, risk-taking behaviour, and strategic planning improve entrepreneurial decision-making. Entrepreneurs who conduct market analysis and develop unique business strategies are less likely to follow imitation-based approaches. These factors enhance competitiveness and improve business sustainability.

Generally, herd mentality contributes significantly to imitation-based entrepreneurship, market saturation, and small business malaise in Nigeria. The tendency to follow existing ventures weakens innovation and increases competitive pressure. Addressing herd mentality requires emphasis on differentiation, strategic planning, and independent opportunity identification. Strengthening these practices will improve small business sustainability and reduce stagnation within the SME sector.

RECOMMENDATIONS

Based on the findings of this paper, the following recommendations are proposed to reduce herd mentality and mitigate small business malaise in Nigeria.

1. Independent Opportunity Identification: Entrepreneurs should prioritize independent opportunity identification before establishing new businesses. Prospective business owners should conduct feasibility studies and market analysis to determine demand conditions.

Independent evaluation helps entrepreneurs identify underserved markets and reduce entry into saturated sectors. This approach promotes differentiation and improves business survival.

2. Emphasis on Innovation and Creativity: Small business owners should emphasize innovation and creativity in their operations. Developing unique products, services, or delivery strategies enables firms to stand out in competitive environments. Innovation reduces direct rivalry with similar businesses and enhances customer attraction. Entrepreneurs who differentiate their offerings are better positioned to improve profitability and sustain long-term growth.

3. Strengthening Risk-Taking Behaviour: Entrepreneurs should strengthen risk-taking behaviour by exploring new market opportunities. Calculated risk-taking encourages diversification and expansion into less crowded sectors. Business owners who adopt new ideas are less likely to follow herd behaviour. This strategy reduces imitation-based entrepreneurship and enhances competitive advantage.

4. Improving Financial Literacy: Improving financial literacy among entrepreneurs is essential. Business owners should acquire knowledge in budgeting, pricing, cost management, and investment analysis. Sound financial knowledge enables entrepreneurs to evaluate opportunities objectively. This reduces reliance on copying existing ventures and improves decision-making.

5. Adoption of Strategic Planning: Strategic planning should be adopted as a standard practice among small business owners. Entrepreneurs should define business objectives, target markets, and competitive strategies before launching ventures. Proper planning improves operational efficiency and reduces vulnerability to competition. Businesses that operate with clear strategies are more likely to achieve growth.

6. Development of Niche Markets: Entrepreneurs should focus on niche market development. Identifying specific customer segments allows firms to avoid direct competition with numerous similar businesses. Niche strategies promote specialization and enhance customer loyalty. This approach helps reduce market saturation and improves sustainability.

7. Strengthening Entrepreneurship Education: Government and business support agencies should strengthen entrepreneurship education programs. Training should emphasize innovation, creativity, and market analysis. Entrepreneurship development programs can discourage imitation-based business formation. Such initiatives will improve the quality of small business decisions.

8. Provision of Market Intelligence: Provision of market intelligence is also recommended. Government agencies and business associations should provide information on market demand, business trends, and sector performance. Access to reliable information helps entrepreneurs make informed decisions. This reduces herd behaviour and prevents overcrowding of certain sectors.

9. Access to Innovation Funding: Financial institutions should support innovative small businesses through targeted funding. Access to finance encourages entrepreneurs to pursue unique business ideas. Funding support for innovation reduces reliance on imitation-based ventures. This improves SME competitiveness and sustainability.

10. Strategic Management of Business Clusters: Business clusters should be strategically managed to encourage differentiation rather than duplication. Entrepreneurs operating within the same location should develop unique offerings. Strategic clustering promotes collaboration while reducing excessive rivalry. This approach improves performance and reduces small business malaise.

SUGGESTIONS FOR FURTHER STUDIES

Future research should empirically test the proposed conceptual framework as this paper is conceptual and draws from existing literature. Quantitative studies particularly using survey data from SME owners and clusters across Nigeria are recommended to validate the relationship between herd mentality, its drivers and the identified moderating factors.

Additional empirical studies could also include mixed methods designed to assess interventions aimed at reducing imitation based entrepreneurship. This would provide stronger evidence and enhance the model's practical relevance.

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