

How Does Mental Accounting Influence Financial Decision-Making Among New Employees in Indonesia?

Riza Amalia Rifani*¹, Adriansyah Adriansyah², Muhammad Nur Farid Iqra³
Email: rizaamalia@amsir.ac.id*¹

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Abstract

Mental accounting is a concept that explains how individuals categorize, group, and evaluate their economic decisions. The study hypothesizes that income and expense categorization, as well as allocation preferences, influence the financial decision-making of new employees. The research uses a quantitative approach with a descriptive method, collecting primary data through a questionnaire distributed to 200 new employees in Indonesia. The results show that both income and expense categorization and allocation preferences significantly influence the financial decision-making of new employees.

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INTRODUCTION

New employees have recently joined an organization and are adjusting to the work environment, tasks, and organizational culture. In addition to the workload within the organization, many new employees face challenges in managing their finances, particularly in the context of budget allocation, debt management, and savings. How employees perceive their salaries reflects how mental accounting functions.⁴ As an aspect of financial behavior, mental accounting can play a significant role in economic decision-making.

According to Richard Thaler in his paper titled *Mental Accounting Matters*, published in 1999, mental accounting is a concept used to explain how individuals encode, categorize, and evaluate the economic decisions they make. From this perspective, mental accounting aims to track how financial decisions are made, with the expectation that understanding this process can help individuals reduce the likelihood of

¹Accounting Study Program, Faculty of Business, Andi Sapada Institute of Social Sciences and Business, Paraepare, Indonesia

²Accounting Education Study Program, Faculty of Economics and Business, Makassar State University, Makassar, Indonesia

³MSc Finance and Economics Study Program, Sustainable Finance Track, Faculty of Law, Economics and Finance, University of Luxembourg

⁴Publishers, V., & Kosciński, M. (2020). *Decision Making Essentials You Always Wanted to Know*. Vibrant Publishers. <https://books.google.co.id/books?id=OR7YzQEACAAJ>

financial decision-making errors in the future.⁵ Thus, mental accounting acts as a self-regulation mechanism.⁶ However, new employees often fail to apply effective financial management, which can lead to inefficiencies in managing their finances.

Mental accounting varies between individuals.⁷ It is influenced by several factors, including how carefully individuals manage the allocation of income and expenses.⁸ And the budget constraints they consider alter the decision-making process regarding financial management.⁹

Therefore, employees must handle their money more wisely and effectively to avoid gaps or errors in financial management. In other words, mental accounting teaches individuals to be more aware of their economic decisions and to strive to minimize the likelihood of mismanagement that could impact their financial well-being.

Income and expense categorization teaches individuals to separate their funds into categories based on specific purposes or functions. For example, employees can allocate their salaries for routine needs such as monthly bills, future savings, or entertainment expenses. By categorizing their income and expenses, employees become more aware of their finances and can more easily control unnecessary expenditures, reducing the likelihood of financial mismanagement. Additionally, allocation preferences play a crucial role in economic management. This refers to individuals' choices regarding dividing their funds among various purposes, such as saving, investing, or meeting consumption needs. Mental accounting significantly impacts sound financial decision-making.¹⁰

Based on the explanation above, this study aims to examine the application of mental accounting as an aspect of financial behavior among new employees, which can play a significant role in the economic decision-making process, with the following hypotheses:

H₁: Income and expense categorization is hypothesized to influence the financial decision-making of new employees.

H₂: Allocation preferences are hypothesized to influence the financial decision-making of new employees.

RESEARCH METHODS

⁵Rifani, R. A., Kamidin, M., & Ramdani, M. R. (2024). Mental Accounting and Self-Control Over Daily Expenses of Students. ... *Accounting & Finance Journal*, 2015, 57–63. <http://stieamsir.ac.id/journal/index.php/aafj/article/download/526/292>

⁶Cheema, A., & Soman, D. (2006). Malleable mental accounting: The effect of flexibility on the justification of attractive spending and consumption decisions. *Journal of Consumer Psychology*, 16(1), 33–44.

⁷Rohmawati, N., & Widjatkiko, A. G. (2023). Penerapan Mental Accounting Pada Generasi Z dalam Pengelolaan Keuangan Pribadi. *Neraca: Jurnal Ekonomi, Manajemen Dan Akuntansi*, 1(1), 506–518. <http://jurnal.kolibri.org/index.php/>

⁸Chudziak, S. (2024). Consumption modelling using categorisation-enhanced mental accounting. *Computational Economics*, 64(3), 1391–1442.

⁹Skwara, F. (2023). Effects of mental accounting on purchase decision processes: A systematic review and research agenda. *Journal of Consumer Behaviour*, 22(5), 1265–1281.

¹⁰Silva, E. M., de Lacerda Moreira, R., & Bortolon, P. M. (2023). Mental Accounting and Decision Making: a systematic review of the literature. *Journal of Behavioral and Experimental Economics*, 102092.

Research Design

The research employs a descriptive method with a quantitative approach. This study's data type is primary data collected through a questionnaire. The questionnaire was distributed to respondents who are new employees in Indonesia, with 1–5 years of work experience and career levels ranging from staff to lower management. The study uses a probability sampling method, specifically Simple Random Sampling, by selecting participants randomly. A total of 200 questionnaires were distributed. The analytical tool used in this research is Partial Least Squares (PLS). PLS is a multivariate statistical technique that examines the relationship between dependent and independent variables.¹¹ The dependent variable in this study is financial decision-making among employees (Y), while the independent variables are income and expense categorization (X₁) and allocation preferences (X₂).

RESULTS AND DISCUSSION

Results

The respondents consist of employees from various fields of work in Indonesia, with career levels ranging from staff to lower management, totaling 200 respondents. The profile data of the respondents, which serves as the research subjects, is presented in the following table:

Table 1. Profile of Research Respondents

N	Total
Male	107
Female	93
Total	200

Source: Processed data (2024)

Table 2. Indicator Validity

Indicators		Loading	Description
Income and expense categorization	X _{1.1}	0,813	Valid
	X _{1.2}	0,776	Valid
	X _{1.3}	0,836	Valid
Allocation preference	X _{2.1}	0,792	Valid
	X _{2.2}	0,784	Valid
	X _{2.3}	0,818	Valid
	X _{2.4}	0,824	Valid
Financial decision-making	Y1	0,880	Valid
	Y2	0,883	Valid
	Y3	0,866	Valid

Source: Processed data (2024)

¹¹Pituch, K. A., & Stevens, J. P. (2015). *Applied multivariate statistics for the social sciences: Analyses with SAS and IBM's SPSS*. Routledge.

From the results above, it is evident that all indicators in the questionnaire distribution have values greater than 0,50, indicating that the construct is acceptable. The measurement of each indicator exceeds 0,70, which can be considered valid.¹²

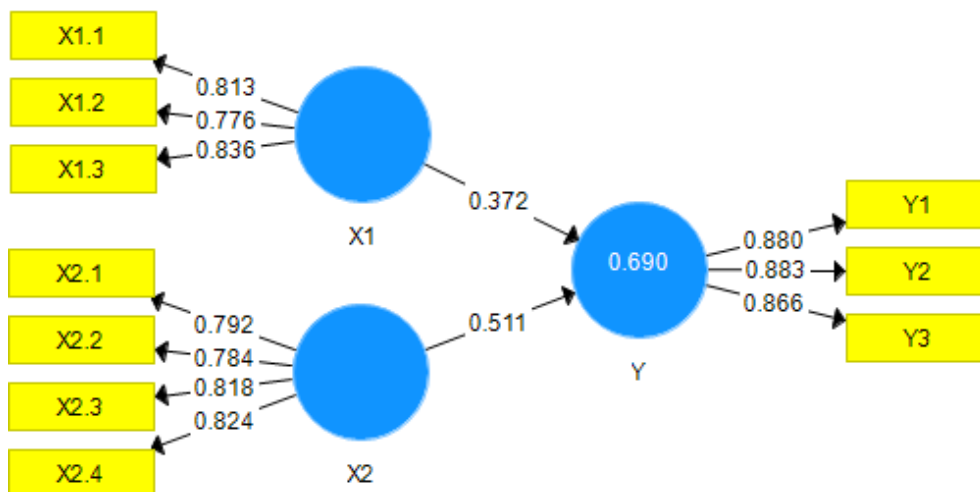


Figure 1. Results of PLS-SEM Test, Processed Data (2024)

Figure 1 shows that each statement for every indicator in this study's variables has exceeded a value of 0,70. Therefore, the research variable indicators statements have met the validity test requirements.

Table 3. Reliability Test

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Income and expense categorization (X ₁)	0,735	0,739	0,850	0,654
Allocation Preference (X ₂)	0,819	0,820	0,880	0,647
Financial Decision-making (Y)	0,849	0,850	0,908	0,767

Source: Processed data, PLS (2024)

Table 3 shows that all the constructs of the research variables meet the reliability testing requirements. This is indicated by the Cronbach Alpha and Composite Reliability values, both exceeding 0,5.

Table 4. Coefficient of Determination Test

	R Square	R Square Adjusted
Y	0,690	0,687

Source: Processed data (2024)

Table 4 shows that the R-Square value is 0,690, meaning the independent variables can explain 69% of the variance in the financial decision-making variable of employees, with the remaining variance explained by other variables. This indicates that the independent variables are related to the dependent variable.

¹²Widianto, A., & Aryanto, A. (2018). Kajian Perilaku Pengguna (User) Terhadap Penggunaan Sistem Informasi Industri Kecil Menengah (SI-IKM) Kota Tegal. *Jurnal Riset Bisnis Dan Investasi*, 4(1), 1–13.

Discussion

Table 5. Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
X1 -> Y	0,372	0,373	0,058	6,382	0,000
X2 -> Y	0,511	0,510	0,060	8,510	0,000

Source: Processed data (2024)

Based on the calculations in Table 5, a statistical value of 6,382 and a P-value of 0,000 were obtained. This value indicates a probability or significance value less than 5% ($0,000 < 0,05$). Hypothesis 1 is accepted, and it is known that the relationship between income and expense categorization and financial decision-making of new employees is likely not coincidental but due to a real influence. In other words, employees (individuals) who categorize their income and expenses into financial categories will make more effective financial decisions. This also makes employees with high mental accounting more aware of their costs because they examine their spending more carefully and allocate their money into specific categories to help control spending, avoid impulsive purchases, reduce overall expenditures, and choose to save rather than spend on unnecessary items. On the other hand, employees who do not categorize their income and expenses in managing their finances will have lower mental accounting, leading to less effective financial decision-making, where applying the mental accounting concept helps individuals deal with the challenges of complex financial management.¹³

Furthermore, Hypothesis 2 is accepted, indicating that the relationship between fund allocation perspectives and financial decision-making is significant. The importance of understanding that influences the decision-making process in controlling daily expenses.¹⁴ Employees who apply fund allocation, such as investment, savings, and expenditure for necessities, make better financial decisions. This is due to their self-control in avoiding unnecessary purchases. They become more disciplined in managing their budget and are less likely to be tempted by credit or debt.

CONCLUSIONS AND SUGGESTIONS

Based on the research findings, it can be concluded that income and expense categorization, as well as fund allocation perspectives, significantly impact the financial decision-making of new employees. Therefore, enhancing mental accounting through income and expense categorization and applying fund allocation perspectives can be an essential strategy to improve the effectiveness of financial decision-making among new employees.

¹³Melia, M., & Yantiana, N. (2023). Mengungkap Peran Mental Accounting dalam Pengelolaan Keuangan Geprek Generation. *Jurnal Pendidikan Akuntansi (JPAK)*, 11(3), 275–287.

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