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The Concept of "Mental Accounting" as the Spirit of Personal Financial Management for Millennial Women

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ABSTRACT

The research objective seeks to examine the ethno-economic dimensions that encourage Millennial Women to form behavioral decisions in managing personal finances. The novelty in this research is describing and analyzing the concept of "Mental Accounting" in managing personal finances, thus creating financial independence for women in Indonesia and becoming a new color in accounting research. The ethno-economic method was chosen in the research with the aim of explaining the reality of the behavior of the millennial generation in managing personal finances. The results of the study found the meaning of the concept of "mental accounting" applied by Millennial Women in managing personal finances in accordance with the Ethno-Economic dimension, namely past financial expenditure, budgeting planning for future expenditure and financial behavioral decisions. The theoretical contribution to this research is to strengthen the concept of "Mental Accounting" and human capital theory. The practical contribution of this research can be used as a basis for forming a personal financial management model for millennial women in Indonesia.

Keywords: Accounting Behavioral, Mental Accounting, Millenial Financial.

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INTRODUCTION

Financial science had focused in the past on aspects of rationality, using cognitive skills to make financial decisions. In making financial decisions, the aspect of rationality is often at risk because people themselves believe that they are not always prioritising their reasoning, but that they are not free from bias when making decisions or mistakes. This led Richard Thaler to develop a theory, namely the concept of mental accounting. The separation of current and future assets into separate categories is considered by each individual. Therefore, as a result of psychology factors individuals are inclined to split their money into various categories on the basis of what is in their minds (Hartono et al., 2020). The theory argues that the individual assigns different levels of leverage to each asset group, which then affects consumption decisions, investment decisions and other financial behaviour. An approach of psychology and financial science is employed for analysis of this theory in order to analyse economic behaviour.

Behavioral accounting is a branch of finance that studies how psychological phenomena affect the financial behaviour of individuals (Yushita, 2017). Human capital theory which looks at a person's role in terms of qualifications, educational background, experience and skills that increase their mental ability and productivity for the good of society will also support the concept of mental accounting. The process of making a decision is very much involved for all individuals, and it can happen at any time. In general, the issue of personal finance management is frequently encountered by everyone, especially young men and women (Wahyuni et al., 2023). Now the problem is for a large number of female Millennial women to be insufficiently careful with money management, so that they can actually worsen it by influencing their personal consumption patterns into the future.

The dynamics of the financial life of the millennial generation are related to the phenomenon of widespread recognition of social status both in social life and social media. The desire for recognition of social status increases the personal financial consumption behavior of the millennial generation to fulfill their hedonistic needs such as high-end goods, holidays, and food. Not many people even get caught up in online loans to meet these needs. (Insani et al., 2018) Revealing wasteful behavior and lifestyle makes mental accounting not only lead someone into consumer behavior but also as a tool for self-control. In line with research of (Eldista et al., 2020) mental accounting is linked to decision-making in daily financial life, apart from managing sources of income as well as decisions about spending that money.

Not only in Indonesia, but also in other countries, there is a phenomenon of dynamics in the management of personal finances. The results of research conducted by (Abio et al., 2021) Australia, Spain, Finland and the United Kingdom have shown that when it comes to managing money transferred into a person's account, literacy is required for achieving prosperity. (Ningtyas, 2019) The report also states that the Millennial generation has grown used to consumerism and hedonism, thus it is important for them to become more aware of financial literacy. The findings of the above research demonstrate that more people learn about finance concepts, they become able to apply good practice in this area. Financial planning which includes the ability to save, discipline in paying bills on a monthly basis and other things can be seen as good financial behaviour.

Good Financial Literacy & Knowledge are needed to underpin this dynamic in the management of personal finances. Financial literacy is a person's ability to use money management in terms of obtaining and evaluating information generally intended for decision making, as well as the consequences that come with it (Ningtyas, 2019). (Pradiningtyas & Lukiastuti, 2019) they said every person needs financial knowledge to take care of their own finances. Financial knowledge is not only about the ability to use money, but it can also contribute to the sustainability of the economy. Financial literacy may be used to differentiate financial decision making from discomfort, plan the future and respond effectively to life's events which influence daily financial decisions including those affecting the economy in general (Wahyuni et al., 2023)

This study confirms the findings of earlier research and shows that young women need financial literacy training in order to be able to make efficient use of mental accounting as a means of managing their own finances. The purpose of this research is to explore the concept of mental accounting when it comes to dealing with a woman's own finances in her twenties. The use of the concept of mental accounting, based on a phenomenological approach, is new to this research. Different from previous research (Abio et al., 2021), (Ningtyas, 2019). Because this research focuses on the personal financial management of young women by way of an Ethnoeconomicological approach, which marries ethnoeconomical specifications with them. Strengthening the theory of behavioural finance and human capital is a theoretical contribution to this research. The practical contribution of these studies may be used as a basis for the application of the concept of mental accounting in managing personal finances. In this respect, the author would like to carry out research into "psychiatric accounting" concept as a way of thinking about personal financial planning for Millennial women.

METHODS

Based on the background that has been stated, this research aims to understand the meaning of the concept of mental accounting for the behavior of the millennial generation in making personal financial management decisions. Descriptive qualitative research using ethnomethodology methods seeks to explain the reality of the ethno-economic dimensions of mental accounting treatment in personal financial management of the millennial generation. Ethnomethodology in research as a study of the subjective world of individual awareness, perception and actions in their interactions with the social world they live in is in accordance with the principal of qualitative research which also emphasizes the subjective world with social settings. Mental accounting as the independent variable in this research is the dependent variable for millennial generation financial management.

The informants were 30 respondents who fell into the millennial generation category, specifically female gender. The age categorization of respondents is between 25-35 years in Indonesia. The data source in the research is included in primary data by distributing a Google form (https://forms.gle/ttWwWY9ifFPac3EA) on social media and gathering information directly from students and graduate students majoring in Accounting at Muhammadiyah University Gresik and Widyagama Lumajang Institute of Technology and Business. Descriptive research is a type of research that describes what respondents do and then processes it into data. The data is then analyzed to obtain a conclusion. Descriptive research is used to describe how each research variable works. So data analysis in this research was carried out during data collection. Literature searches, document analysis, where data obtained to obtain information or data related to research are also included in the data analysis stage. The data needed includes bulletins, journals, research that has been carried out previously, various blogs and other reading materials that are related to the problem being studied, especially problems that are directly related to personal financial management. Thus, the research method used is not single but rather a combination of various data collection methods with the aim of providing information that is more in line with the research objectives.

RESULTS AND DISCUSSION

Mental Accounting is an economic concept created by Richard Thaler. This concept states that each individual can determine a different level of utility for each asset group which then influences consumption decisions, investment decisions and other financial behavior. Evaluation of past financial expenditures, future budget planning, and behavioral decisions are ethno-economic dimensions that will be studied or analyzed as drivers of the concept of "mental accounting" in personal financial management for Millennial Women. Good financial management is supported by *money attitude* or having a wise attitude in managing finances. The author describes financial management so that future users obtain financial prosperity, as shown in the following picture:

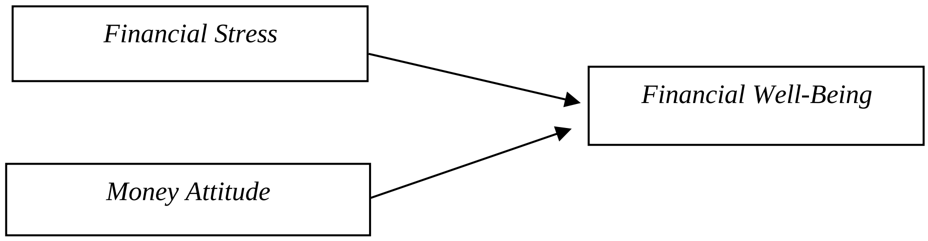

Figure 1. Flow of Financial Welfare
Source: Hartono, Purnomo and Andhini (2020)

Good financial management requires financial stress, meaning that at the beginning of the management process we will definitely feel stressed because we have to be able to control what needs are needed. Performers of " *mental accounting* " must be strong in stressful conditions or under pressure when faced with situations that do not support their personality in the financial management process. Apart from having to be able to deal with stressful conditions, practitioners of " *mental accounting* " must also have a wise attitude in using money (*money attitude*). We have *power prestige* or the power to use the money, but our attitude also needs to control and evaluate the power of the money we have spent. We also need to maintain *retention time* or whether there is retention of the time we have because we don't know what conditions will occur in the future so we need to evaluate time in controlling the money. Performers of " *mental accounting* " will feel prosperity in managing finances when they are able to stabilize themselves in the face of financial stress *and* have wise ethics in managing personal finances (*money attitude*).

Millennial women who have a rational mindset will never be psychologically biased. This mindset occurs because mental accounting will cause someone to take irrational steps to place money differently. This mindset will underlie certain categories such as strategies in finding sources of money (can be through work, getting an inheritance, gambling, getting bonuses, getting grants/scholarships and so on) or the nature of using the money (used for education, recreation and spending other needs). A person might use different monthly budgets for grocery shopping and dining out at restaurants or buying clothes at the mall. A person in using his money will definitely limit one type of purchase when his budget runs out while not limiting other types of purchases even though both expenditures use the same resources or the same income. According to Gita (millennial woman) in life there is a need to manage personal finances as in the following interview excerpt:

Q : " *According to Ms. Gita, is there a need for the millennial generation to manage their personal finances*?"

G : " *It's really necessary, and we also need to record our income and expenses so that our finances are organized, both my income and expenses both this month and next month so that they can be compared."*

Q : " *Then how does Ms. Gita arrange so that we can use our income to live, at least for 1 month?"*

G : " *The way I do it is to allocate things that are urgent and primary needs because that way we will use enough of them and of course we have to record them so we can use them as evaluation material*"

The behavior of shoppers in a supermarket will be to spend less money in the market when paying with cash compared to a debit or credit card. When paying for products to be consumed, even if you use cash, a credit card or debit card, this is the same economic resource. Performers of " *mental accounting* " will compare the prices of goods with a smaller mental account, for example the cash in their wallet will be compared with a larger mental account, namely the money in their bank account. An important concept in making decisions is the existence of risk. A risky outlook will be expressed as a series of events with probabilities assigned to each event. " *Mental accounting "* practitioners not only consider estimates of prospects to be purchased, but also involve psychological factors in decision making, which means that analytical approaches begin to use psychology and financial science in an effort to understand financial behavior. Financial behavior using the concept of " *mental accounting* " is quite interesting, as stated by Oktavia (millennial woman) in the following interview excerpt:

Q : "*According to Ms. Oktavia, what is the strategy for managing personal finances and what strategic decisions does Ms. Oktavia make?"*

O : " *Personally, I am not the type of person who is afraid of being behind the times and wants to keep abreast of developments in education, technology and current developments in positive terms according to my financial capabilities. The financial strategy that I carry out is by grouping according to needs. "From my salary, I save 20% for savings, 40% for daily expenses, 30% for installments, 5% for alms for good deeds and 5% for reserve funds in case of sudden needs*"

Q : " *Then did Ms Oktavia also plan beforehand in using this finance?"*

O : "*Yes, I* definitely *plan carefully. "Plan first and consider very carefully and then decide to* *buy something because if you rush, you might regret it after buying the product."*

Q : "*Are any of the funds saved earlier prepared for shopping for big discounts/flash sales?"*

O : " *No, we have to be able to control our finances. Just buy what you need, if you already have it, you don't need to buy any more. However, when faced with a situation where we need something and don't have the item, even though there is no discount, we still buy it using the 5% funds that we have prepared as reserve funds to buy something that we suddenly need to buy. "For example, the laptop we use for work suddenly breaks down, whether we like it or not, we need to spend money to service the laptop or buy a new laptop if it is really necessary."*

Performers of " *mental accounting* " not only consider the expenses that will be incurred during an event but also organize financial management so that financial literacy is needed. Financial literacy is an individual's ability to apply financial management, both in obtaining and evaluating information generally intended for decision making and seeing the consequences that will be received (Ningtyas, 2019). If people tend to lack knowledge about the financial concepts they need, this will have an impact on decision making. Making decisions in everyday life will definitely experience difficulties/constraints. People will find it difficult to make decisions that are most beneficial for their economic well-being (*financial well-being*), such as having excessive debt and perhaps even "digging *a hole and covering a hole* ". The process of paying debts by looking for other debts/loans to cover them and then looking for other loans to cover the debts again is what is called " *digging a hole and closing the hole* ". Financial behavior conditions like this require personal financial management as stated by Frisma (millennial woman) in the following interview excerpt:

Q : " *According to Ms. Frisma, how important is personal financial management in our lives?"*

F : " *Talking about financial management, especially personal finance, of course cannot be separated from lifestyle management. For example, employees in urban areas and farmers in rural areas. The lifestyle of employees in urban areas is certainly different from the lifestyle of a farmer in rural areas. Apart from that, because the cost of living in urban areas tends to be expensive, the needs of an employee and a farmer cannot be the same. A farmer certainly doesn't need to buy formal clothes for work, nor does he need complete gadgets such as laptops, smartphones and so on. However, this is not the only reason why employees have far fewer assets than farmers. Greater employee income should be able to further optimize their income. It is on this basis that it is important for every individual to understand how to manage finances. There are also quite a few cases of people who have more income but also have more consumer debt*"

Q : *"According to Ms. Frisma, is there a strategy for managing personal finances that has been set up by Ms. Frisma herself?"*

F : *"Personally, the financial management process requires the 50/30/20 principle in managing finances. This principle must be implemented by millennials, whether they are already working or want to learn to manage their finances. This principle has basic rules for managing finances by dividing income after tax and allocating it to be spent 50% for daily needs, 30% for desires and setting aside 20% for savings."*

Making wrong decisions will end in poor and ineffective economic management. The impact can result in people's behavior that is vulnerable to financial crises. Another impact would be the potential for losses due to crime (*fraud*) in the financial sector. The level of financial literacy is greatly influenced by each individual. Generation Y is a vulnerable generation born in 1980 - 1994. Generation Y or what is usually called the millennial generation is a generation that is confident, expressive, liberal, enthusiastic and open to challenges, characteristics that are very different from the previous generation, namely generation X (Carrasco-Gallego , 2017). This millennial generation grew up at the same time as computers and the internet were born, so it can be said that they have natural intelligence and skills in using new technology. This generation is accustomed to goods that are always *up to date* and prioritizes desires rather than basic life needs. Alderman (2021) said that women need to pursue advances in financial literacy based on technology and improving emotional

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intelligence skills which are unlikely to be replaced by machines such as collaboration, teamwork and ethical decision making.

The practice of personal financial management is a person's ability to organize planning, budgeting, auditing, managing, controlling, disbursing and storing daily financial funds. Wahyuni (2022) said that there are empathy factors that need to be considered in personal financial management behavior, including:

1. Consumption (*Consumption*);
2. Cash Flow (*Cash-flow Management*);
3. Savings and Investment (*Saving and Investment*), and
4. Loan / Debt Management (*Credit Management*).

The important thing that needs to be done in managing personal finances is doing mental budgeting. Mental budgeting is very important for personal financial management for several reasons. First, mental budgeting influences consumer decisions so that a consumer may consume less in a particular category if he or she makes an unplanned purchase. Another reason is that people often engage in a mental budgeting process to control their spending behavior and avoid or minimize debts/loans, both short and long term. The next reason is to carry out mental budgeting to obtain savings or investments. Consumer decisions are also influenced by personal intentions to carry out mental budgeting. It will be difficult for someone to do this if they do not have a strong personal intention to carry out mental training so that they need to do it consciously to engage in this behavior.

Based on existing findings, the author tries to create a flow of *"mental accounting" actors* applying mental budgeting behavior in making decisions regarding the use of personal finances, as follows:

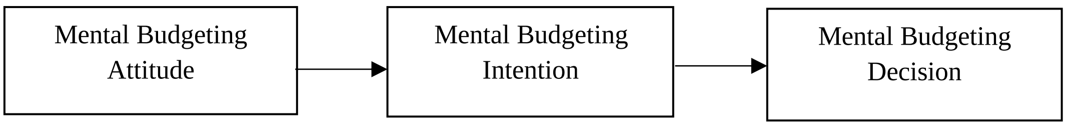

Figure 2. Flow of Mental Budget Behavior
Source: Hartono, Purnomo and Andhini (2020)

The flow of mental budgeting behavior above conveys that before making a decision, a strong attitude or mentality is needed in budgeting so as not to get trapped in a consumerist nature. Individuals need to allocate a certain amount/portion of funds for each budget depending on the purpose of developing the budget. If an individual already has a wise attitude in budgeting, he/she will continue to have a conscious intention that this needs to be done so that budgeting decisions will also be in accordance with what the individual has planned. This mental budgeting intention is supported by the mental attitude of budgeting and budgeting behavior in the past.

The ethno-economic dimensions that are the object of study in this research are the social dimension, economic dimension and cultural dimension. These social activities form a social mindset in managing finances. If the social environment of this millennial generation is healthy in managing personal finances supported by their financial literacy, it will form " *mental accounting* " behavior from their individual attitudes. This social activity is definitely supported by the culture in their environment so it is necessary to create a healthy culture in managing personal finances. These social and cultural activities will become the basis for the millennial generation, especially women who in fact have a "consumptive" nature and are able to become practitioners of " *mental accounting* ". Ethno-economic activities observed by the author include evaluations of past financial expenditures, planning for further expenditure budgeting and economic behavioral decisions.

CONCLUSION

This research presents a descriptive model of personal financial management to attempt to examine the ethno-economic dimensions of Millennial Women. The results of the study found the meaning of the concept of "mental accounting" applied by Millennial Women in managing personal finances by the Ethno-Economic dimension. The ethno-economic dimensions that are the object of study in this research are the social dimension, economic dimension and cultural dimension. Ethno-economic activities observed by the author include evaluations of past financial expenditures, planning for further expenditure budgeting, and economic behavioral decisions. This research has described and analyzed the concept of "Mental Accounting" in managing personal finances, thereby creating financial independence for women in Indonesia and becoming a new color in accounting research. The theoretical contribution to this research is to contribute to strengthen the concept of "Mental Accounting" and human capital theory. The practical contribution of this research can be used as a basis for forming a personal financial management model for millennial women in Indonesia.

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