

Mental Accounting within Balinese Local Wisdom Framework: Interpretive Study of MSME Financial Management Practices

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Abstract

Research Purpose: This study aims to understand the practice of mental accounting among Balinese MSME owners in managing business finances, which is influenced by the values of Balinese local wisdom.

Method or Approach: This study employs a qualitative approach using Interpretative Phenomenological Analysis (IPA). Data were collected through in-depth interviews with Balinese MSME owners operating in the fashion and creative business sectors.

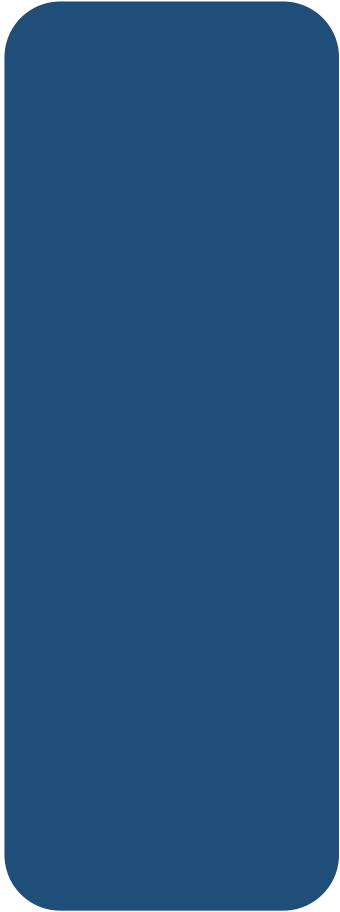
Research Findings: The findings reveal four major themes: mental account separation in financial management, spirituality in interpreting money and livelihood, survival strategies under financial pressure, and the influence of Balinese cultural values on financial decision-making. Mental accounting practices are reflected in the separation of business and personal finances, the establishment of specific expenditure categories, and the allocation of funds for cultural and spiritual purposes. Furthermore, experiences of economic hardship shape MSME owners' financial behavior, making them more cautious in decisions related to borrowing, investment, and business capital management. The findings also indicate that Balinese cultural values, such as Tri Hita Karana, customary obligations, and spiritual activities, influence how MSME owners perceive money, manage financial resources, and determine spending priorities.

Recommendations and Novelty: This study extends mental accounting theory by showing that MSME financial behavior is influenced not only by economic considerations but also by local cultural values and spirituality. The findings enrich behavioral accounting literature in the context of Balinese MSMEs and provide insights for designing culturally based financial literacy and business assistance programs.

Abstrak

Tujuan penelitian: Penelitian ini bertujuan untuk memahami praktik mental accounting pada pelaku UMKM Bali dalam pengelolaan keuangan usaha yang dipengaruhi oleh nilai-nilai kearifan lokal Bali.

Metode atau pendekatan: Penelitian ini menggunakan pendekatan kualitatif dengan metode *Interpretative Phenomenological Analysis*



(IPA). Data diperoleh melalui wawancara mendalam terhadap pelaku UMKM Bali yang bergerak di bidang fashion dan usaha kreatif.

Temuan penelitian: Hasil penelitian menunjukkan empat tema utama, yaitu pemisahan akun mental dalam pengelolaan keuangan, spiritualitas dalam memaknai uang dan rezeki, strategi bertahan dalam tekanan finansial, serta nilai budaya Bali dalam pengambilan keputusan keuangan. Praktik mental accounting tercermin melalui pemisahan uang usaha dan uang pribadi, pembentukan pos-pos pengeluaran tertentu, serta pengalokasian dana untuk kebutuhan adat dan spiritual. Selain itu, pengalaman menghadapi tekanan ekonomi membentuk perilaku finansial pelaku UMKM menjadi lebih berhati-hati dalam mengambil keputusan terkait pinjaman, investasi, dan pengelolaan modal usaha. Temuan penelitian juga menunjukkan bahwa nilai-nilai budaya Bali, seperti Tri Hita Karana, kewajiban adat, dan aktivitas spiritual, turut memengaruhi cara pelaku UMKM memaknai uang, mengelola sumber daya keuangan, serta menentukan prioritas pengeluaran.

Kontribusi dan Kebaruan: Penelitian ini memberikan kontribusi pada pengembangan teori mental accounting dengan menunjukkan bahwa perilaku keuangan UMKM tidak hanya dipengaruhi oleh aspek ekonomi dan psikologis, tetapi juga oleh nilai budaya dan spiritualitas yang terinternalisasi dalam kehidupan pelaku usaha. Temuan ini memperkaya kajian akuntansi keperilakuan dalam konteks budaya lokal serta memberikan implikasi praktis bagi pengembangan program literasi dan pendampingan keuangan UMKM yang lebih kontekstual dan berbasis kearifan local.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in promoting economic growth, creating employment opportunities, and improving community welfare. MSMEs have also proven to be relatively resilient during various economic crises and make a significant contribution to the national economy. Data from the Ministry of Cooperatives and SMEs indicate that the MSME sector contributes more than 60% of Indonesia's Gross Domestic Product (GDP) and absorbs approximately 97% of the national workforce (Kementerian Koordinator Bidang Perekonomian RI, 2025). In regions characterized by tourism and creative economies, such as Bali, MSMEs not only serve as drivers of local economic development but also support the sustainability of social and cultural life within the community.

Despite their substantial contribution to the economy, MSMEs continue to face various challenges in financial management. Many MSME owners are unable to separate personal and business finances, lack long-term financial planning, and encounter difficulties in managing cash flow and making financial decisions (Muhammad Suras et al., 2024; Putri & Suidarma, 2026). These challenges are compounded by the relatively low level of financial literacy among Indonesian MSME owners, which averages only around 38%. As a result, many entrepreneurs have limited understanding of financial record-keeping, debt management, and business financial planning (Idrus & Rastina, 2025). Nevertheless, financial management practices among MSMEs are not solely influenced by technical competencies and financial literacy.

Psychological factors, subjective experiences, social environments, and cultural values embedded in daily life also shape financial decision-making processes.

One concept that explains such financial decision-making behavior is mental accounting, introduced by Richard Thaler. This concept suggests that individuals tend to categorize money into specific "mental accounts" based on its source, intended purpose, and the subjective meaning attached to it (R. Thaler, 1985). From the perspective of mental accounting, money is not always treated as fully fungible; rather, it is perceived differently depending on the individual's social and psychological context (R. H. Thaler, 1999). Within MSMEs, mental accounting practices can be observed in how business owners allocate income for business capital, household expenses, savings, emergency funds, and social or cultural obligations.

Previous studies have shown that MSME owners tend to employ informal approaches to financial management, relying more on personal experience, intuition, and daily habits than on formal accounting systems (Paska, 2025). These findings indicate that financial decisions in MSMEs are not always based on economic rationality as assumed by classical economic theory. Furthermore, several studies suggest that local culture influences economic behavior, including business practices and financial management (Wahyuni & Anantawikrama, 2022; Wira et al., 2021). However, most research on mental accounting has been dominated by quantitative approaches focusing on investment decisions and personal financial management. Existing studies also tend to conceptualize mental accounting as an individual psychological phenomenon, leaving the social and cultural dimensions underlying financial behavior relatively underexplored. In fact, individual economic behavior cannot be separated from the social and cultural contexts in which individuals live and interact (Ar & Arfianty, 2026). Consequently, while previous studies have successfully explained the relationship between mental accounting and economic behavior in general, they remain limited in explaining how local cultural values shape the construction of individuals' mental accounts, particularly within culturally embedded MSME settings such as Bali.

In Balinese society, financial management behavior is closely intertwined with cultural values and local wisdom. Daily life in Bali is strongly influenced by the philosophy of Tri Hita Karana, which emphasizes harmony among human beings and God (parahyangan), fellow human beings (pawongan), and the environment (palemahan) (Andy et al., 2026; Sitiari et al., 2024). In addition, values such as *menyama braya*, *ngayah*, *yadnya*, and the concept of balance between the *sekala* (physical) and *niskala* (spiritual) realms serve as important guidelines in social life. These values not only shape social interactions but also influence how individuals perceive money, determine spending priorities, and make economic decisions.

Previous studies have found that MSME owners in Bali often prioritize customary and social obligations in the allocation of business income. In practice, business profits are frequently allocated first to traditional ceremonies, community contributions through the *banjar* system, and religious activities before being used for business expansion. Such expenditures are perceived as forms of social and spiritual investment aimed at maintaining social harmony and preserving local cultural values (Gunawan et al., 2023). From the perspective of modern economics, these decisions may be viewed as inefficient because they

can reduce business capital. However, within the Balinese cultural context, such practices are considered essential for maintaining social and spiritual balance in community life (Tanti et al., 2025). This phenomenon suggests that mental accounting practices among Balinese MSME owners may differ significantly from those found in more individualistic societies. Their mental accounts encompass not only economic categories such as capital, profit, and savings but also social, cultural, and spiritual accounts that hold substantial meaning in their lives.

Based on the above discussion, examining mental accounting through the lens of Balinese local wisdom is both relevant and necessary. This study seeks to address the limitations of previous research by exploring mental accounting not merely as an individual psychological phenomenon but also as a socio-cultural construct shaped by customary values, social relationships, and the spiritual meanings embedded in Balinese society. The novelty of this study lies in its use of an interpretive perspective to understand how local cultural values shape the mental accounting practices of Balinese MSME owners in financial decision-making. Therefore, this research aims to analyze the mental accounting practices of MSME owners within the framework of Balinese local wisdom while contributing theoretically to the development of culturally grounded behavioral accounting research and enhancing contextual understanding of MSME financial behavior in Bali.

TINJAUAN LITERATUR (*LITERATURE REVIEW*)

Mental Accounting Theory

The concept of mental accounting was introduced by Richard Thaler as part of the behavioral economics literature. Mental accounting explains that individuals tend to categorize and treat money differently based on its source, purpose, and subjective meaning (R. Thaler, 1985). In practice, individuals often create specific “mental accounts” for various purposes, including business capital, household expenses, savings, emergency funds, and social or religious expenditures. According to (R. H. Thaler, 1999) mental accounting refers to the cognitive process through which individuals organize, evaluate, and control their financial activities (Pasek, 2024). Financial decision-making is not always conducted in a fully rational manner; rather, it is influenced by psychological factors, personal experiences, emotions, and the surrounding social environment (Shefrin & Thaler, 1988).

In the context of MSMEs, mental accounting practices can be observed in how business owners allocate financial resources among business operations, family needs, and various social obligations. Previous studies have shown that mental accounting significantly influences the financial decision-making of MSME owners in Bali, particularly in determining priorities for the utilization of business funds. Research by Riyanti & Fa'iza, (2024) further revealed that mental accounting has a positive effect on MSME performance and financial inclusion. In addition, studies on MSME financial behavior indicate that entrepreneurs' financial decisions are often shaped by psychological factors and habitual patterns in managing business finances.

Within the Balinese context, mental accounting practices are influenced not only by economic considerations but also by local cultural values, such as Tri Hita Karana, menyama

braya, ngayah, and dana punia. These values shape how MSME owners perceive profit and determine priorities in the allocation of financial resources. Consequently, the mental accounting perspective is considered highly relevant for understanding the dynamics of financial decision-making among Balinese MSMEs in a more contextual and culturally embedded manner.

Behavioral Accounting

Behavioral accounting is a branch of accounting that examines the influence of psychological, social, and cultural factors on financial decision-making processes. This perspective emerged as a critique of classical economic theory, which assumes that individuals always act rationally in economic decision-making. In practice, financial decisions are frequently influenced by perceptions, experiences, emotions, social environments, and cultural values held by individuals.

Research on decision-making behavior was strengthened by the work of (Tversky & Kahneman, 1974), who demonstrated that individuals are prone to cognitive biases and often rely on heuristics when making economic decisions. Furthermore, studies on behavioral finance in MSMEs indicate that entrepreneurs' financial behavior is influenced by psychological factors, business experience, and financial management capabilities (Risman et al., 2023). These findings suggest that financial decisions are not solely based on objective economic calculations but are also shaped by subjective and contextual considerations.

In the context of Balinese MSMEs, business owners' financial decisions involve not only considerations of profitability but also customary obligations, social relationships, and spiritual values. This condition indicates that mental accounting practices among Balinese MSME owners can be understood as part of a broader financial behavior framework shaped by the social and cultural experiences embedded within Balinese society.

Balinese Local Wisdom

Local wisdom refers to the values, norms, and knowledge systems that develop within a community and serve as guidelines for social life. In Balinese society, cultural values such as Tri Hita Karana, menyama braya, ngayah, and dana punia exert a strong influence on people's mindsets and behaviors, including the management of business finances.

The philosophy of Tri Hita Karana emphasizes harmonious relationships among human beings and God (parahyangan), fellow human beings (pawongan), and the environment (palemahan) (Sitiari et al., 2026). These principles shape how MSME owners perceive profit and allocate financial resources, not only for economic purposes but also for maintaining social and spiritual harmony. As a result, financial management decisions often reflect a balance between economic interests and cultural responsibilities.

In practice, Balinese MSME owners frequently continue to prioritize customary expenditures and religious activities even when their businesses are experiencing financial difficulties. Such behavior illustrates that financial decisions are deeply embedded within the cultural values and social structures of Balinese society. Consequently, mental accounting practices among Balinese MSME owners cannot be fully understood through economic

rationality alone but must also be interpreted through the lens of local cultural wisdom that shapes their perceptions, priorities, and financial behaviors.

RESEARCH METHODS

This study employs a qualitative approach within an interpretive paradigm to understand the lived experiences of Balinese MSME owners in practicing mental accounting amid the influence of local culture, customary obligations, and the spiritual values embedded in Balinese society. The interpretive paradigm assumes that social reality is socially constructed through individuals' experiences, interactions, and interpretations of their everyday lives (Smith et al., 2021). This approach was selected because the study focuses on how MSME owners perceive money, establish spending priorities, and make financial decisions based on their lived experiences and cultural values.

More specifically, this research adopts the Interpretative Phenomenological Analysis (IPA) approach. IPA is designed to explore individuals' subjective experiences and how they make sense of those experiences within their daily lives (Smith et al., 2021). This approach is particularly relevant because the study seeks to gain an in-depth understanding of how Balinese MSME owners experience and interpret financial management practices that are influenced by social, cultural, and spiritual dimensions.

Research participants were selected using purposive sampling, whereby informants were chosen according to criteria relevant to the objectives of the study (Sugiyono, 2024). The selection criteria included: (1) MSME owners who had operated their businesses for at least three years; (2) individuals directly involved in managing business finances; (3) active participation in Balinese customary or community activities; and (4) willingness to share their experiences related to business financial management. The number of participants was determined based on the principle of data saturation, which was reached when recurring patterns emerged and no substantial new information was obtained (Rijal Fadli, 2021).

The study utilized both primary and secondary data sources. Primary data were collected through in-depth interviews with the selected informants, while secondary data were obtained from documentation, field notes, and relevant literature. Data collection involved three techniques: interviews, observation, and documentation. Semi-structured interviews were conducted to allow participants the flexibility to describe their experiences and perspectives regarding financial management practices. Observation was undertaken to gain a deeper understanding of the participants' business activities and socio-cultural contexts, while documentation served as supporting evidence for the research findings.

Data analysis followed the stages of Interpretative Phenomenological Analysis (IPA), namely: (1) reading and re-reading, (2) initial noting, (3) developing emergent themes, (4) searching for connections across emergent themes, (5) moving to the next case, and (6) looking for patterns across cases (Smith et al., 2021). These stages were employed to facilitate an in-depth understanding of participants' experiences and to identify patterns of mental accounting practices among Balinese MSME owners.

To ensure the trustworthiness and credibility of the findings, this study employed source triangulation, methodological triangulation, and member checking. Triangulation was conducted by comparing information obtained from interviews, observations, and documentation. Member checking was carried out by returning the researchers' interpretations to the participants for confirmation, ensuring that the findings accurately reflected the meanings and experiences intended by the informants (Sugiyono, 2024).

RESULT AND DISCUSSION

Based on the results of data analysis using Interpretative Phenomenological Analysis (IPA), this study identified four major themes that illustrate the dynamics of mental accounting practices among Balinese MSME owners in managing their business finances. These themes indicate that financial decisions are influenced not only by economic considerations but also by cultural values, social obligations, and spiritual beliefs embedded within Balinese society.

The four major themes identified in this study are as follows:

- 1) The Separation and Allocation of Mental Accounts in Financial Management
- 2) Spiritual Interpretations of Money and Livelihood
- 3) Local Wisdom as a Basis for Financial Decision-Making
- 4) Adaptive Financial Strategies under Economic Pressure

The findings further reveal that mental accounting practices among Balinese MSME owners are not always manifested through formal accounting records or structured financial systems. Instead, these practices are predominantly carried out at a psychological level and are shaped by individuals' lived experiences, personal interpretations, and everyday financial routines. This suggests that financial management within Balinese MSMEs is deeply embedded in the socio-cultural and spiritual contexts in which business owners operate, reflecting a broader understanding of financial behavior beyond purely economic rationality.

Tabel 1. Matriks Tema Informan

Main Theme	Informant Anik	Informant Susmitha	Informant Djani
The Separation and Allocation of Mental Accounts in Financial Management	Separation of business income, household finances, and customary expenses.	Separation of business and personal bank accounts, along with the allocation of financial resources into different business expenditure categories.	Separation of business, personal, and emergency fund accounts.
Spiritual Interpretations of Money and Livelihood	Business activities are perceived as a source of livelihood and a blessing from God.	Allocation of specific funds for spiritual and religious purposes.	Religious worship and spiritual practices remain an integral part of business activities.

Main Theme	Informant Anik	Informant Susmitha	Informant Djani
Local Wisdom as a Basis for Financial Decision-Making	Menyama braya values and customary obligations are considered part of household expenditures.	The philosophy of Tri Hita Karana influences business operations and long-term business sustainability.	Preservation of endek cultural heritage and participation in ngayah activities are viewed as integral aspects of business life.
Adaptive Financial Strategies under Economic Pressure	Business expansion is carried out gradually and cautiously.	Investment decisions are primarily based on expected economic benefits.	Greater caution in obtaining bank loans following experiences during the COVID-19 pandemic crisis

Source: Authors' elaboration based on interview data (2026).

Table 1 summarizes the key themes identified across the three informants. Although each informant demonstrated unique experiences and business backgrounds, common patterns emerged regarding the separation of financial resources, the influence of spirituality and local cultural values, and the strategies adopted to maintain business sustainability under financial pressure. These findings suggest that mental accounting practices among Balinese MSME owners are embedded within a broader socio-cultural and spiritual framework that shapes financial decision-making and resource allocation.

Theme 1: The Separation and Allocation of Mental Accounts in Financial Management

The findings indicate that all participants practiced mental accounting in managing their business finances. This practice was reflected in the separation of business and personal funds, the creation of specific financial categories, and the allocation of resources according to their intended purposes. Such separation was undertaken to maintain control over business cash flows, prevent the excessive use of business funds for personal needs, and support the long-term sustainability of the business. Anik explained that she and her husband deliberately separate business funds into several financial categories, including employee salaries, daily operational expenses, raw material purchases, and business profits :

"[Personal money and business money are different]. We have separate savings for employee salaries, daily operational expenses, and purchasing raw materials. **[We also set aside profits in a separate account]**, which can later be used for household expenses and menyama braya obligations."

A similar practice was observed in Susmitha's business. She separates business and personal bank accounts and further categorizes business income according to different sales activities:

"[Everything has already been separated]. At the moment, I use two accounts: one for business and one for personal purposes. For the business account, I separate income

from exhibitions and income generated from the store. For personal needs, such as household expenses, kitchen expenses, children's needs, and menyama braya obligations, I use a different account."

Likewise, Djani demonstrated mental account separation through the use of different bank accounts for business activities, personal expenditures, and emergency funds:

"Business income goes into my Mandiri account, personal expenses are paid from my BCA account, and emergency funds are kept in a BPD account."

Djani further explained that sales revenues are immediately allocated to predetermined expenditure categories:

"Whenever I receive sales income, **[I immediately set aside money for odalan ceremonies and household needs]**. Each allocation already has its own category and should not be used for other purposes before the designated time."

These findings suggest that Balinese MSME owners consciously categorize financial resources into distinct accounts based on their functions and spending priorities. Such practices are consistent with Thaler's concept of mental accounting, which describes individuals' tendency to organize and manage money within separate mental categories according to its intended use. Interestingly, the mental accounts identified in this study extend beyond business operational needs and include social, cultural, and spiritual obligations, such as menyama braya, odalan ceremonies, and other religious activities. The findings demonstrate that financial management among Balinese MSMEs is not solely guided by economic rationality. Rather, it is closely intertwined with cultural values and everyday lived experiences. The allocation of funds for customary and religious purposes indicates that financial decisions are embedded within broader social and cultural contexts, where maintaining social relationships and fulfilling spiritual responsibilities are considered equally important as sustaining business operations.

Another notable finding is that the separation of mental accounts was not necessarily reflected in sophisticated formal accounting systems. Most participants relied on practical mechanisms, including separate bank accounts, simple bookkeeping practices, and self-defined financial categories that were easily understood and managed by the business owners themselves. This suggests that mental accounting among MSME owners operates primarily as an informal cognitive and behavioral mechanism rather than as a formal accounting procedure.

These findings are consistent with the study of Pratiwi et al., (2025) which found that mental accounting contributes positively to MSME sustainability by promoting more structured financial management practices. Similarly, (Y. N. Pratiwi et al., 2022) reported that financial management and accounting practices positively influence business continuity among MSMEs. The present study also supports the findings of (Arifah et al., 2026), who demonstrated that mental accounting assists MSME owners in financial decision-making and enhances business sustainability.

From a theoretical perspective, these findings support the Behavioral Life-Cycle Hypothesis proposed by Shefrin & Thaler, (1988) The theory argues that individuals exercise self-control by creating separate mental accounts that restrict how money can be used according to predetermined objectives. However, the present study extends this perspective by demonstrating that, within the Balinese cultural context, mental accounts are not limited to economic purposes. Instead, they also incorporate social, cultural, and spiritual dimensions that influence financial behavior. Consequently, mental accounting among Balinese MSME owners can be understood as a culturally embedded practice in which financial decisions are shaped not only by economic considerations but also by local values, customary obligations, and spiritual beliefs.

Theme 2: Spiritual Interpretations of Money and Livelihood

The findings reveal that spirituality plays a significant role in shaping how Balinese MSME owners perceive money, livelihood, and business sustainability. For the participants, money is not merely viewed as an economic resource or a means of generating profit. Instead, it is closely associated with gratitude, blessings, life balance, and the relationship between human beings and God. These spiritual values subsequently influence how financial resources are managed and allocated within their businesses. Anik perceived her business as a blessing and a gift from God. This belief fostered a sense of gratitude and encouraged her to manage the business with responsibility and care:

"This business is like **[a gift from God for me and my husband]**. Whatever we earn from it, we are always grateful for it, and we try to manage it in the best way possible."

Anik further explained that she had been actively involved in spiritual activities long before establishing the business. Consequently, she believes that business success cannot be separated from divine intervention and spiritual guidance.

The influence of spirituality on financial management was also evident in Susmitha's experience. She consciously allocates a specific budget for religious and spiritual activities related to her business:

"**[I have a spiritual budget every month because we are Hindus living in Bali]**. In the store, we observe ceremonies such as Purnama Tilem and Tumpek Landep, especially because we have machines that require ritual offerings. Therefore, there is a dedicated budget for spiritual activities every month. **[I also allocate funds for mepunia and activities at Pura Melanting]**. From the beginning, these funds have been specifically designated for spiritual purposes."

Susmitha explained that these allocations are used for various spiritual needs, including canang sari offerings, incense, dana punia (religious donations), and worship activities at Pura Melanting. Rather than perceiving such expenditures as financial burdens, she views them as an essential component of maintaining balance in life and expressing gratitude to God:

"**[We need space to draw closer to God]**. Life is not only about selling products and running a business. There are things that should be **[allocated for spiritual purposes]**."

Sometimes, when we focus too much on business and profit, we lose the opportunity to pause and reflect. Maintaining a relationship with God helps us feel more at peace and enables us to make better decisions for the business.”

A similar perspective was expressed by Djani, who emphasized the importance of spiritual activities during periods of business success and financial prosperity:

“When we receive many orders and earn more income, we usually go on a tirta yatra pilgrimage to several temples as a way of **[expressing gratitude for the blessings that God has given us.]**”

Djani further explained that spiritual practices such as preparing offerings (banten), making canang sari, and participating in ngayah (voluntary community service in temples) are inseparable parts of daily life as a business owner in Bali. These findings suggest that mental accounting practices among Balinese MSME owners are strongly influenced by religiosity and Balinese Hindu spiritual values. Spiritual expenditures are placed within a distinct mental account that is regarded as equally important as operational business expenses. Activities such as preparing canang sari, contributing dana punia, organizing religious ceremonies, and participating in worship during Purnama and Tilem observances are perceived as essential practices for maintaining harmony between business activities, personal life, and spiritual obligations.

From a mental accounting perspective, participants consciously allocate financial resources to spiritual activities because these expenditures carry significant psychological and emotional value. Rather than being viewed as reductions in business profits, spiritual expenditures are perceived as forms of spiritual investment that contribute to inner peace, business continuity, and the attainment of blessings and prosperity. This finding highlights that the meaning attached to money extends beyond its economic function and incorporates symbolic and spiritual dimensions that influence financial decision-making. The findings are consistent with the study of Karyada & Sabaruddin, (2025), which demonstrated that spirituality and eco-spirituality influence sustainable business practices and entrepreneurial decision-making in Bali. Their research suggests that spirituality functions not only as a religious practice but also as a foundation for business sustainability and social responsibility. Similarly, (Lestari et al., 2023) found that religiosity influences the financial behavior of MSME owners and contributes to business performance sustainability. Their study showed that religious values shape how entrepreneurs manage money, make financial decisions, and prioritize business expenditures.

From a theoretical perspective, this study extends Thaler’s concept of mental accounting by demonstrating that mental account categorization is not solely driven by economic rationality. Instead, it is also shaped by cultural values, spiritual beliefs, and the symbolic meanings attached to money within everyday life. In the Balinese context, financial resources are not merely allocated according to economic objectives but are also directed toward fulfilling spiritual responsibilities and maintaining harmony between material and non-material aspects of life. These findings suggest that mental accounting should be understood as a

culturally and spiritually embedded process, particularly within societies where religious and cultural values play a central role in shaping economic behavior.

Theme 3: Adaptive Financial Strategies under Economic Pressure

The findings indicate that experiences of economic hardship have shaped the financial behavior of Balinese MSME owners, making them more cautious, selective, and adaptive in their financial decision-making. All participants developed their own strategies for coping with financial pressures and maintaining business sustainability, whether through controlled business expansion, careful investment considerations, or a more conservative approach toward debt financing. Anik explained that she prefers to expand her business gradually and avoids opening new branches before existing operations have become fully stable. Observing the failures of other businesses has served as an important learning experience in shaping her business decisions:

"I do not want to rush. **[I always try to analyze what causes other businesses to fail]**. That is why I only open a new branch when the previous one has reached its optimal condition."

This strategy reflects a cautious approach to capital management and business expansion. Rather than pursuing rapid growth, Anik prioritizes operational stability, employee readiness, and effective managerial control before making further expansion decisions. Similarly, Susmitha emphasized that every financial decision, particularly those related to purchasing business equipment or obtaining credit, is carefully evaluated based on its future economic benefits:

"[I always think carefully before buying something, such as a sewing machine]. I consider how much return I will receive after purchasing that equipment."

She further explained that decisions regarding credit financing are based on the business's ability to meet future repayment obligations:

"When considering a loan, **[I always look at the repayment period and whether I will realistically be able to repay it within that timeframe]**."

These statements suggest that financial decisions are made through rational assessments of risks, expected benefits, and the long-term financial capacity of the business. In contrast, Djani's financial behavior was strongly influenced by her experience during the COVID-19 pandemic, when her cosmetics business experienced a significant decline and required substantial asset restructuring. This experience led her to adopt a more cautious attitude toward interest-bearing loans from financial institutions:

"At the moment, **[I am not confident about taking out an interest-bearing loan]**. If I receive a large order, I would rather use the purchase order as collateral. The financing can then be repaid directly from the customer's payment."

Djani therefore prefers purchase-order financing over conventional loans because she perceives it as safer and more compatible with her business conditions. These findings

demonstrate that past experiences play a significant role in shaping risk perceptions and financial survival strategies among MSME owners. Experiences of economic crises, unstable income, and previous business difficulties encourage entrepreneurs to become more prudent in managing money, obtaining credit, and expanding their businesses. From a mental accounting perspective, such practices are reflected in how business owners restrict and allocate financial resources toward activities that are considered most essential for business continuity. Participants tended to prioritize core operational expenditures, maintain cash flow stability, and avoid expenses or financial risks that could threaten the sustainability of their businesses.

The findings further indicate that experiences of economic pressure have fostered a more cautious financial mindset among MSME owners. Participants became more selective in obtaining loans, more careful in evaluating investment opportunities, and more focused on maintaining business continuity rather than pursuing high-risk expansion strategies. These behavioral adaptations illustrate how financial experiences influence the formation of decision-making patterns and spending priorities. The results are consistent with Dewi et al., (2020), who found that experiences of financial hardship influence financing decisions through psychological considerations, risk perceptions, and individual religiosity. Likewise, Purwidiyanti et al., (2024) reported that risk attitudes and mental accounting practices significantly affect investment and financing decisions among MSMEs. These findings are further supported by Paeleman et al., (2023), who argued that crisis experiences encourage MSMEs to become more adaptive, conservative, and prudent in managing financial strategies to ensure business continuity.

From a theoretical perspective, these findings support Thaler's mental accounting framework, which suggests that individuals categorize and restrict the use of money according to specific priorities and perceived purposes. In this study, past financial experiences contributed to the formation of new mental accounts that encouraged MSME owners to become more disciplined, defensive, and selective in utilizing business financial resources. The findings therefore suggest that mental accounting is not a static cognitive process but rather a dynamic mechanism that evolves through experience and adapts to changing economic conditions. Through this process, financial experiences become embedded in entrepreneurs' decision-making frameworks, shaping how they perceive risk, allocate resources, and develop strategies for long-term business survival.

Theme 4: Local Wisdom as a Basis for Financial Decision-Making

The findings reveal that Balinese cultural values exert a strong influence on how MSME owners manage their businesses and make financial decisions. Cultural principles such as Tri Hita Karana, customary obligations, *menyama braya*, and the preservation of local cultural heritage constitute important elements that shape the participants' economic behavior and decision-making processes. In this context, financial decisions are not solely driven by considerations of economic profit but also by concerns for social harmony, cultural continuity, and spiritual balance. Susmitha explained that the philosophy of Tri Hita Karana indirectly

influences the way she manages her business, particularly in maintaining harmonious relationships with God, fellow human beings, and the natural environment:

"[Tri Hita Karana is about the relationship with God, the relationship with other people, and the relationship with the environment]. I think it is closely related to sustainability. For example, in my business, I use natural materials. Most of the fabrics are cotton with minimal polyester content. That is one way of preserving the environment. Perhaps the impact is not very visible on a larger scale, but those values are still present and influence how I run my business."

These values are reflected in her decision to use environmentally friendly materials while continuing to allocate financial resources to spiritual and social activities. According to Susmitha, a business should not focus solely on profit generation but should also maintain harmony with the environment and the broader community. Similarly, Djani associated her business activities with efforts to preserve Balinese cultural heritage, particularly endek weaving as a traditional cultural legacy:

"My family comes from Klungkung, where endek weaving has long been a family tradition. Culture is therefore very closely connected to the business I run. Endek is not merely a product; it is part of Balinese culture. People who understand the traditions of wearing kebaya or kamen know that there are cultural rules and values that must be preserved. **[That is why I try to maintain those cultural elements through my business.]**"

Djani explained that her fashion business is not solely intended to generate economic returns but also serves as a medium for preserving Balinese cultural identity through the incorporation of endek textiles and traditional clothing elements into her product designs. In this sense, entrepreneurship is viewed as a form of cultural responsibility that must be maintained and transmitted across generations. Anik likewise emphasized that customary and social obligations have become integral components of both family and business financial planning. Expenditures related to menyama braya and customary activities are treated as routine and essential financial commitments:

"[Traditional customary expenses have become part of our daily needs.] From the beginning, they are included in our financial planning together with other household expenses because they are simply part of life in Bali."

These findings demonstrate that the economic behavior of Balinese MSME owners cannot be separated from the local cultural context embedded in their daily lives. Financial management and decision-making are carried out with careful consideration of social relationships, customary responsibilities, and cultural values inherited within Balinese society. As a result, economic actions are closely intertwined with social and cultural obligations. From a mental accounting perspective, these cultural values create distinct mental accounts within the financial management practices of MSME owners. Expenditures related to customary ceremonies, menyama braya, cultural preservation, and community activities are perceived as

important and obligatory forms of spending, even when they do not generate immediate economic returns. This finding suggests that money carries broader social and cultural meanings beyond its function as a medium of economic exchange. Financial resources are therefore allocated not only to maximize business performance but also to maintain social relationships, cultural continuity, and community cohesion. The findings are consistent with Sitiari et al., (2026), who found that the values of Tri Hita Karana contribute to sustainable business practices and enhance the competitiveness of MSMEs in Bali. Likewise, (Sitiari et al., 2026) demonstrated that the philosophy of Tri Hita Karana influences MSME practices through spiritual activities, social relationships (*menyama braya*), and environmental responsibility, all of which contribute to business sustainability.

From a theoretical perspective, this study demonstrates that Thaler's concept of mental accounting, when applied within the Balinese context, extends beyond rational economic considerations and is significantly shaped by local cultural values that emphasize harmony, balance, and social responsibility. The findings suggest that mental accounts are socially and culturally constructed rather than purely individual cognitive categories. Consequently, the financial management practices of Balinese MSME owners are unique in that they simultaneously integrate economic, cultural, social, and spiritual dimensions into financial decision-making. This study therefore contributes to the development of mental accounting theory by highlighting the role of local wisdom as an important contextual factor in shaping financial behavior and resource allocation among MSME owners.

CONCLUSION AND RECOMMENDATION

This study explored the mental accounting practices of Balinese MSME owners in managing their business finances through an Interpretative Phenomenological Analysis (IPA) approach. The findings reveal that financial management among Balinese MSMEs is shaped not only by economic considerations but also by lived experiences, local cultural values, and Balinese Hindu spirituality. Four major themes emerged from the analysis: the separation and allocation of mental accounts in financial management, spiritual interpretations of money and livelihood, adaptive financial strategies under economic pressure, and local wisdom as a basis for financial decision-making. Mental accounting practices were reflected in the separation of business and personal finances, the creation of specific expenditure categories, and the allocation of funds for business operations, customary obligations, and spiritual activities.

The findings further demonstrate that spirituality and local cultural values significantly influence the financial behavior of MSME owners. Expenditures related to customary and religious activities are not perceived as costs that reduce business profits but rather as essential investments for maintaining social harmony, spiritual balance, and business sustainability. Cultural values such as Tri Hita Karana, *menyama braya*, and *ngayah* serve as important reference points in financial decision-making and resource allocation. In addition, experiences of economic hardship, including those arising during the COVID-19 pandemic, have encouraged MSME owners to adopt more cautious approaches toward borrowing, investment, and capital management. These findings suggest that mental accounting practices among

Balinese MSMEs are culturally and spiritually embedded, reflecting the integration of economic, social, cultural, and spiritual considerations in financial decision-making.

This study contributes to the development of mental accounting theory by demonstrating that financial behavior is not solely shaped by economic rationality and individual cognitive processes but is also influenced by local cultural values and spiritual beliefs. Future research is encouraged to examine mental accounting practices across different cultural contexts and business sectors, as well as to explore their relationship with financial resilience and MSME sustainability. From a practical perspective, the findings highlight the importance of strengthening financial literacy and financial management capabilities among MSME owners, particularly in relation to the separation of business and personal finances, financial record-keeping, and emergency fund management. Government agencies and MSME support organizations are encouraged to develop culturally sensitive financial education programs that align with the social and cultural realities of local communities.

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