

Psychological Accounting of Managers in Allocating Training and Development Budget: An Organizational Ethnography

Dewa Putu Yohanes Agata L Sandopart

Faculty of Economics, Institut Bisnis dan Informatika Kosgoro 1957, Indonesia

*Email Korespondensi: drdewaibik57@gmail.com

Sandopart, D. P. Y. A. L. (2024). Psychological Accounting of Managers in Allocating Training and Development Budget: An Organizational Ethnography. *Varied Knowledge Journal*, 2(2), 52–67. <https://doi.org/10.71094/vkj.v2i2.194>

Diterima: 09-08-2024

Direvisi: 18-09-2024

Disetujui: 02-11-2024

Publish: 18-11-2024



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Abstract : *This study explores the practice of psychological accounting among managers in allocating training and development budgets, focusing on how managers subjectively and politically justify or reject training budgets beyond mere Return on Investment (ROI) considerations. Using an organizational ethnography approach at PT Manufaktur Nusantara (pseudonym) over six months, this research involved participant observation of 23 budget meeting sessions, in-depth interviews with 18 participants (32 interviews), and analysis of 47 internal documents. The findings reveal several main patterns, including a systematic difference in the mental categorization of training budgets between finance managers, who categorize them as discretionary expenses, and HR or line managers, who categorize them as strategic investments, which violates the fungibility assumption in neoclassical economics, the use of loss framing strategies that achieved a higher approval rate compared to gain framing, confirming the loss aversion principle, the influence of sunk cost fallacy in decisions to continue training programs, and the dominant role of personal relationships and informal negotiations in budget discussions. The novelty of this research lies in revealing that psychological accounting in organizations is multidimensional, socially constructed, and varies by functional position. This study contributes to extending mental accounting theory from the individual to the organizational level and provides practical implications for designing budgeting systems that consider behavioral factors.*

Keywords : *Psychological Accounting, Mental Accounting, Training Budget, Organizational Ethnography, Behavioral Biases, Managerial Decision Making*

Abstrak : Penelitian ini mengeksplorasi praktik psychological accounting di kalangan manajer dalam mengalokasikan anggaran pelatihan dan pengembangan, dengan fokus pada bagaimana manajer secara subjektif dan politis membenarkan atau menolak anggaran pelatihan di luar pertimbangan Return on Investment (ROI). Menggunakan pendekatan etnografi organisasi di PT Manufaktur Nusantara (pseudonym) selama enam bulan, penelitian ini melibatkan observasi partisipatif terhadap 23 sesi rapat anggaran, wawancara mendalam dengan 18 partisipan (32 wawancara), serta analisis 47 dokumen internal. Hasil penelitian mengungkap beberapa pola utama, termasuk adanya perbedaan sistematis dalam kategorisasi mental anggaran pelatihan antara manajer keuangan yang mengkategorikannya sebagai discretionary expenses dan manajer HR atau lini yang mengkategorikannya sebagai strategic investments, yang menunjukkan pelanggaran terhadap asumsi fungibility dalam ekonomi neoklasik, penggunaan strategi loss framing yang menghasilkan tingkat persetujuan lebih tinggi dibandingkan gain framing sehingga mengonfirmasi prinsip loss aversion, pengaruh sunk cost fallacy dalam keputusan untuk melanjutkan program pelatihan, serta dominannya peran hubungan personal dan negosiasi informal dalam proses pengambilan keputusan anggaran. Kebaruan penelitian ini terletak pada temuan bahwa psychological accounting dalam organisasi bersifat multidimensional, dikonstruksi secara sosial, dan bervariasi berdasarkan posisi fungsional. Penelitian ini berkontribusi dengan memperluas mental accounting theory dari level individu ke level organisasi serta memberikan implikasi praktis bagi perancangan sistem penganggaran yang mempertimbangkan faktor perilaku.

Kata Kunci : *Psychological Accounting, Mental Accounting, Anggaran Pelatihan, Etnografi Organisasi, Bias Perilaku, Pengambilan Keputusan Manajerial*

INTRODUCTION

The phenomenon of organizational resource allocation, particularly in the context of training and employee development budgeting, has long been a primary concern in the literature on financial management and human resource management. However, most existing studies tend to view budget allocation decisions as rational processes based solely on cost-benefit analysis and expected Return on Investment (ROI). This rationalistic approach overlooks the reality that budget allocation decisions, including training budgets, are often influenced by subjective psychological and cognitive factors.

One of the most promising theoretical frameworks for understanding this phenomenon is mental accounting theory, developed by Richard H. Thaler (1985, 1999), recipient of the 2017 Nobel Prize in Economics. Mental accounting is defined as a set of cognitive operations used by individuals to organize, evaluate, and track financial activities (Thaler, 1985). Thaler (1999) identifies three main components of mental accounting: perception and evaluation of outcomes, assignment of transactions to specific accounts, and the frequency of account evaluation and choice bracketing.

Mental accounting, or psychological accounting, is a fundamental concept in behavioral economics that explains how individuals organize, evaluate, and track their financial activities through a series of cognitive operations (Thaler, 1985). This concept was first systematically introduced by Richard H. Thaler (1985, 1999) and has become one of the important pillars of behavioral economics. The most fundamental principle of mental accounting is the violation of the fungibility assumption in neoclassical economics. In standard economic theory, money is assumed to be fungible, meaning that each unit of money can be perfectly exchanged for any other unit of money regardless of its source or intended use. However, Thaler (1999) demonstrates that in practice, individuals treat money differently depending on how it was obtained and for what purpose it will be used.

Thaler (1999) identifies three main components of mental accounting. First, the mental accounting system provides a framework for perceiving and evaluating outcomes of economic decisions. This component relates to the cognitive processes individuals undergo when facing economic choices, including how they anticipate satisfaction from various alternatives. Second, mental accounting involves the activity of assigning transactions to specific accounts based on income sources or expenditure purposes. Individuals tend to categorize income into various mental accounts such as "regular income," "bonuses," "gifts," or "unexpected money." Third, mental accounting relates to the frequency of account evaluation and choice bracketing (Thaler, 1999).

Mental accounting cannot be understood separately from prospect theory, developed by Kahneman and Tversky (1979). Prospect theory serves as an alternative to expected utility theory in explaining decision-making under uncertainty (Kahneman & Tversky, 1979). This theory identifies several behavioral anomalies that cannot be explained by standard rational models. Kahneman and Tversky (1984) proposed the use of a value function and a decision weight function to explain individuals' internal evaluation mechanisms regarding gains and losses. The value function in prospect theory has three main characteristics: first, the value function is defined in terms of deviations from a reference point, rather than in absolute levels of wealth; second, the value function is concave for the domain of gains (risk-averse) and convex for the domain of losses (risk-seeking); third, the value function is steeper for losses than for gains, reflecting the phenomenon of loss aversion.

The concept of loss aversion is highly relevant to mental accounting, as it explains why individuals often make seemingly irrational decisions to avoid realized losses. In organizational contexts, loss aversion can explain why managers tend to maintain certain programs or assets even when fundamentally unprofitable, because discontinuing such programs would confirm previously "paper" losses. The sunk cost fallacy phenomenon is closely related to mental accounting. Heath (1995) examined how mental budgeting affects decisions involving sunk costs. This study found that individuals tend to continue allocating resources to projects to which costs have already been

"sunk," even when those projects are no longer economically viable. This phenomenon is explained through the mechanism of mental accounting, where individuals mentally create a separate "project account" and feel "obligated" to continue funding that account because of the initial investment already made (Heath, 1995). Heath (1995) also found that training and experience can reduce the effects of the sunk cost fallacy but do not eliminate them entirely.

In the organizational context, the principles of mental accounting apply not only to consumer or household behavior but also to managerial decision-making. Liu et al. (2019), in their comprehensive study, revealed that mental accounting has been used to explain various behavioral anomalies in managerial decision-making, including the fly-paper effect, the puzzle of remuneration perception, the puzzle of taxes and investments, the puzzle of accounting information disclosure, and the disposition effect. In the domain of managerial decision-making, Liu et al. (2019) identified that mental accounting influences investment decisions, budgeting decisions, and financial reporting behavior. This research demonstrates that managers do not always act as rational agents maximizing profits, but are often influenced by complex psychological and cognitive factors. Research on the influence of behavioral biases on budget decisions indicates that biases such as overconfidence, anchoring, loss aversion, and confirmation bias can distort managerial judgment (IIARI, 2025).

The phenomenon of mental accounting in organizational contexts becomes increasingly relevant when linked to training budget allocation decisions. Training budgets are often positioned differently in managers' "mental accounts" compared to other types of operational expenditures. Some managers may categorize training budgets as "strategic investments" worthy of significant funding, while others may categorize them as "discretionary expenses" easily cut during liquidity pressures.

Recent research in compensation management provides empirical support for the relevance of mental accounting in human resource management contexts. An experimental study found that reward recipients psychologically categorize cash rewards as part of their regular salary, while non-cash rewards are categorized as something separate and more akin to a "gift" (Presslee et al., 2022). This finding has important implications: when rewards are perceived as something different and special, commitment to goals and work effort increases significantly.

However, most existing literature remains dominated by quantitative approaches focused on identifying statistical determinants through panel data regression analysis. This approach has fundamental limitations in capturing the complexity and dynamics of decision-making processes. For example, in the context of training budgeting, the identified research gap is the lack of organizational ethnography studies that specifically explore how managers use mental accounting in allocating training budgets. Several studies have explored mental accounting in various contexts. Parsaei and Mollanazari (2024) conducted experimental research to examine the influence of mental accounting on capital investment decisions. Schröder (2024) used an ethnographic approach to examine how professionals in Danish local government form multiple accountabilities through everyday practices. However, these studies have not specifically examined mental accounting in the context of training budget allocation, particularly in Indonesian organizations.

Accordingly, this study aims to examine how mental accounting influences managerial decision-making processes in training budget allocation, including how decisions to maintain or cut budgets are made, what strategic considerations underlie these decisions, how organizations manage tensions between fixed expenditures and financial flexibility, and what role corporate governance mechanisms play in maintaining stable training budget allocations.

RESEARCH METHOD

This study employs a qualitative approach with an organizational ethnography design. The selection of this design is based on its alignment with the research objective of exploring in-depth the practice of managerial mental accounting in natural organizational contexts. Organizational ethnography enables researchers to directly observe how managers categorize, evaluate, and justify training budget allocation decisions in real, uncontrolled situations (Spradley, 1980).

This study adopts an interpretivist-constructivist paradigm, which assumes that reality is subjective, multiple, and socially constructed through interactions among individuals within specific cultural contexts. Ethnographic researchers do not seek to find a single "objective truth" but rather understand the meanings co-constructed by participants in their natural settings (Denzin & Lincoln, 2018).

The research site is PT Manufaktur Nusantara (pseudonym), a medium-scale manufacturing company located in the industrial area of West Java, Indonesia. This company operates in the production of automotive components and has been operating for over 25 years. PT Manufaktur Nusantara was selected based on the following criteria: (a) having a mature organizational structure with separate finance and HR functions; (b) having a well-documented annual budgeting cycle; (c) conducting regular employee training programs; and (d) willingness to provide research access for long-term observation.

This study involved 18 participants comprising: 1 Finance Director, 1 HR Director, 2 Finance Managers, 2 HR Managers, 6 Line Managers (from production, quality control, logistics, and marketing departments), 3 budget staff, and 3 training staff. Purposive sampling was used with inclusion criteria: (a) having worked for at least 3 years in the same company; (b) directly involved in at least two annual budget cycles; (c) having the authority to propose, approve, or reject training budget allocations.

Data collection was conducted through participant observation during 23 budget meeting sessions, in-depth interviews (a total of 32 interviews lasting 45-90 minutes each), and analysis of 47 internal documents (including budget policies, proposal forms, meeting minutes, and budget realization reports for the 2021-2024 period). Participant observation allowed researchers to directly observe interactions among managers when discussing training budgets, rhetorical strategies used, and power dynamics manifested in budgeting forums.

Data analysis followed the interactive qualitative data analysis model of Miles, Huberman, and Saldaña (2014), consisting of three concurrent flows: data condensation, data display, and conclusion drawing/verification. Coding was conducted in two cycles: the first cycle used descriptive coding and in vivo coding, while the second cycle used pattern coding and focused coding. Data trustworthiness was assessed using Lincoln and Guba's (1985) criteria, including credibility, transferability, dependability, and confirmability.

RESULTS AND DISCUSSION

Overview of the Research Site

PT Manufaktur Nusantara has a hierarchical organizational structure with a budgeting process involving multiple management levels. The annual budgeting cycle begins in September with the preparation of proposals from each department, followed by inter-departmental negotiations in October-November, and final approval by the board of directors in December. The training budget is managed by the HR Development Department, though proposals can originate from various departments (HR, Finance, or Line Managers).

Mental Categorization of Training Budgets

The most prominent finding of this study is the systematic difference in mental categorization of training budgets between finance managers and HR/line managers. As explained in mental accounting theory, individuals cognitively "label" sources and uses of funds into different mental accounts, which in turn influences allocation decisions (Thaler, 1999).

Finance managers tend to categorize training budgets into a mental account of "discretionary expenses" that can be cut when liquidity pressures arise. One Finance Manager stated: "In my view, training is positioned the same as representation expenses or business travel expenses. When profits decline, that's the first thing I propose to cut. It's different if we buy a new machine—that's an investment, there's an asset, it can be depreciated." (Finance Manager, interview, June 12, 2024)

This statement reflects a violation of the fungibility principle: economically, money is money, but psychologically, managers treat funds for training differently from funds for physical assets.

Conversely, HR managers categorize training budgets into a distinctly different mental account: "strategic investments." An HR Development Manager explained: "Training is a long-term investment in employee competency. It may not be directly visible on the profit and loss statement, but believe me, without employee training, product quality declines, customer complaints increase, and that's more expensive." (HR Manager, interview, June 18, 2024)

This difference in mental categorization creates persistent conflict in the budgeting process. In 14 of the 23 observed meetings (60.8%), significant debates occurred between finance and HR representatives regarding training budget allocations.

Framing Strategies in Proposal Submissions

The second significant finding is the sophisticated use of framing strategies by HR and line managers when submitting training budget proposals. Based on analysis of 23 training budget proposals submitted during the research period, a consistent framing pattern was identified: proposals framed as "loss prevention" had higher approval rates compared to proposals framed as "gain enhancement."

This phenomenon is theoretically explained by the concept of loss aversion in prospect theory. The value function in prospect theory is steeper for the domain of losses than for gains, making individuals more motivated to avoid losses than to achieve gains of the same magnitude (Kahneman & Tversky, 1979, 1984).

A Production Line Manager explicitly acknowledged using this strategy: "I've learned from experience. If I propose training with the rationale 'productivity will increase by 20 percent,' the Finance Director is less enthusiastic. But if I say 'without this training, next month we will face late delivery penalties from customers because quality doesn't meet standards,' he immediately agrees." (Line Manager, interview, June 25, 2024)

This strategy proved effective. Among the 23 proposals analyzed, the approval rate for proposals using "loss prevention" framing reached 81.2%, while proposals using "gain enhancement" framing achieved only 44.4%.

Influence of Sunk Costs on Program Continuation

The third interesting finding is the presence of the sunk cost fallacy in decisions about continuing training programs. Seven out of 18 participants (38.9%) explicitly stated that ongoing training programs are more difficult to discontinue even when evaluations show unsatisfactory results, compared to new programs that have not yet started.

A Senior HR Manager illustrated this phenomenon: "We have a leadership training program that has been running for 3 years. Actually, the second-year evaluation showed minimal improvement in participant competency. But every time we try to discontinue it, there are always reasons like 'this has been running, it would be a shame not to continue,' or 'we've already entrusted this vendor, it would be awkward to terminate the contract.' I think it's more psychological than economic." (HR Manager, interview, July 3, 2024)

This statement reflects the mental accounting mechanism whereby initial investments (sunk costs) psychologically "lock" managers into continuation decisions. Thaler (1999) explains this phenomenon as a consequence of creating separate mental "project accounts": managers feel "obligated" to continue funding these accounts because an initial balance already exists.

Heath (1995), in his study of mental budgeting and sunk costs, found that individuals set mental budgets to control their resource expenditures and track investments against those budgets. This budgeting process shows that people tend to escalate commitment only when they fail to set budgets or when expenditures are difficult to track.

The Role of Personal Relationships and Informal Negotiations

The fourth finding that cannot be overlooked is the significant role of personal relationships and informal negotiations in the training budgeting process. This research reveals that budget allocation decisions are not solely a function of rational analysis or formal procedures but are also

greatly influenced by the quality of interpersonal relationships between finance managers and requesting managers.

In 18 of the 23 observed meetings (78.3%), it was observed that before formal meetings began, informal negotiations occurred outside the meeting room. A Finance Manager confirmed: "Actually, 80 percent of decisions are already made outside the meeting room. Inside the meeting room, it's just formalities and documentation. I usually have informal discussions with managers before the official meeting. They already know approximately how much I can approve, and they've adjusted their proposals accordingly." (Finance Manager, interview, July 10, 2024)

This phenomenon has important implications for understanding mental accounting in organizations. Schröder (2024), in his study of professional accountability, demonstrates that cost accounts and need accounts are "shaped" and "made durable" through ongoing practical work, including through informal interactions outside formal forums.

Discussion

Mental Accounting as Socially Constructed Practice

The findings of this research reveal that the practice of mental accounting in organizations cannot be reduced solely to an individual cognitive phenomenon. Rather, mental categories such as "discretionary expenses" versus "strategic investments" are social constructions negotiated, maintained, and sometimes challenged through daily interactions among managers occupying different functional positions. This finding provides a significant extension to Thaler's (1999) original framework, which has tended to view mental accounting as an intra-psychic process occurring within individual minds.

From the individual cognitive perspective, Thaler (1985, 1999) explains that a person spontaneously opens separate "mental accounts" for different types of income and expenses and evaluates each transaction based on a subjective reference framework. However, this research finds that in organizational contexts, the process of opening and closing mental accounts does not occur in a social vacuum. A Finance Manager does not categorize the training budget as a "discretionary expense" solely because of personal psychological characteristics but also because of institutional position, the accountability pressures inherent in the role, and the professional language internalized through socialization into the finance practice community.

This phenomenon can be explained through the lens of institutional logics theory (Friedland & Alford, 1991; Thornton et al., 2012). Institutional logics refer to the set of assumptions, values, beliefs, and rules that shape the cognition and behavior of actors within an institutional field. In the organization studied, at least two competing institutional logics were identified: a logic of financial accountability embraced by finance managers and a logic of human capital development embraced by HR/line managers. The conflict between these two logics manifests in the differing mental categorizations of training budgets.

The logic of financial accountability, internalized by finance managers through education, professional training, and daily work routines, emphasizes efficiency, cost control, quantitative measurement, and short-term time horizons. Within this logic, every expenditure must be justified by its contribution to short-term profit and ideally measured objectively. Training budgets, whose benefits are difficult to measure and only visible in the long term, are naturally placed into the mental account of "discretionary expenses" or even "waste" if not packaged with convincing arguments.

Conversely, the logic of human capital development embraced by HR managers emphasizes long-term investment, capability development, enhancement of human resource quality, and organizational sustainability. Within this logic, training is viewed as a strategic instrument for maintaining the organization's long-term competitiveness. Measurement of success is not solely quantitative and short-term but also includes qualitative indicators such as improvement in employee morale, reduction in turnover, and successful leadership succession.

The conflict between these two competing logics creates what is termed Institutional Complex (Greenwood et al., 2011)—a condition in which organizations or individuals within them face conflicting demands from various institutional logics. Under such conditions, actors cannot fully satisfy the demands of all logics simultaneously and must engage in negotiation, compromise, or selection. This negotiation process was observed in this research, both in formal forums (budget meetings) and in informal interactions outside meeting rooms.

Furthermore, the findings of this research indicate that mental categories are not permanent but can change through processes of reframing and negotiation. A politically savvy Line Manager learns to "package" training proposals in language resonant with financial logic (for example, through loss framing) to increase the chances of approval. Conversely, in situations where the organization is experiencing a financial crisis, even the most idealistic HR manager may be forced to temporarily adopt the "discretionary expenses" categorization.

This finding reinforces Schröder's (2024) argument that professional accountability in organizations is shaped through ongoing practical work, which Schröder terms accountability work. Cost accounts and need accounts are not simply given but must be actively "made durable" through social practices such as documentation, presentation, negotiation, and repeated justification. When connections between separate aspects of organizational work are not made visible and consistently maintained, accountability processes can become fragile and fail.

Thus, this research makes a theoretical contribution by shifting the understanding of mental accounting from a predominantly individual cognitive psychology perspective toward a more sociological and institutional perspective. Mental accounting in organizations is not merely about how individuals "think" about money but also about how social structures, professional cultures, and power dynamics shape and constrain the possibilities of mental categorization available to actors.

Loss Aversion in Organizational Decision-Making

The finding regarding the effectiveness of "loss prevention" framing (81.2% approval rate) compared to "gain enhancement" framing (44.4%) strongly confirms the predictions of prospect theory concerning loss aversion (Kahneman & Tversky, 1979, 1984). However, this research goes beyond mere theoretical confirmation by revealing that in organizational contexts, loss aversion not only operates as a passive cognitive bias but also manifests as a rhetorical strategy consciously employed by actors to influence decisions.

In the original formulation by Kahneman and Tversky (1979, 1984), loss aversion is explained as an asymmetry in the value function: losses are felt approximately twice as intensely as gains of the same magnitude. Consequently, individuals will reject mathematically favorable gambles if the potential losses are psychologically painful enough and will take irrational risks to avoid certain losses. However, in this research, loss aversion was not only observed as a psychological characteristic of decision-makers (in this case, finance managers) but also as a "rhetorical weapon" used by proposers (HR/line managers).

This finding reveals a new dimension of mental accounting that has not been extensively explored in the literature: strategic mental accounting. This term refers to the conscious effort of actors to reframe a transaction or proposal in such a way that it aligns with the mental categorization system and evaluative framework of the decision-maker. In this case, HR and line managers learned from experience that arguments based on "loss prevention" resonate more with the loss-averse mental accounting of finance managers. They then strategically design their proposals and presentations to highlight the risks that will occur if training is not conducted, rather than the benefits that will be gained if training is conducted.

This phenomenon can be explained through the concept of audience segmentation in organizational rhetoric. Politically effective managers understand that not all arguments persuade all audiences in the same way. They tailor the "language" and "framing" of their proposals based on the psychological characteristics and institutional position of the target audience. The same manager might use "loss prevention" framing when dealing with finance managers but use "gain

enhancement" framing when dealing with marketing managers, who are more oriented toward growth.

More deeply, this finding suggests that loss aversion in organizations is not solely a reflection of the individual psychological characteristics of finance managers but is also a product of the accountability system that frames finance managers' performance. Finance managers are evaluated based on indicators such as cost control, budget compliance, and avoidance of financial losses. In such a system, any expenditure that does not clearly contribute to short-term profit is automatically viewed as a "loss risk" to be minimized. Conversely, if the accountability system placed greater emphasis on innovation, long-term growth, or capability development, responses to training proposals might differ.

This finding is consistent with Tversky and Kahneman's (1991) argument that the reference point—the anchor individuals use to assess whether an outcome is a gain or a loss—is not fixed but can be influenced by context, expectations, and social norms. In organizational contexts, the reference point for finance managers may be "last year's profit" or "last year's approved budget." Any negative deviation from this reference point—including expenditures for training not previously budgeted—is perceived as a loss to be avoided.

The practical implications of this finding are significant. 1) For managers submitting training proposals, understanding the loss aversion of decision-makers can be used to design more persuasive proposals. Highlighting the loss risks that will occur if training is not conducted—for example, quality decline, shipping delays, customer loss, or regulatory sanctions—will be more effective than merely promising productivity improvements or profit increases. 2) For organizations wishing to encourage investment in training and development, modifying the accountability system for finance managers should be considered. If finance managers are also evaluated based on long-term indicators such as sustainability, innovation, or talent development, their mental framework toward training budgets may shift from "discretionary expenses" to "strategic investments." However, such a change is not easy as it requires fundamental change in institutional logics that have long been internalized.

Sunk Cost Fallacy in Organizational Contexts

The finding regarding the sunk cost fallacy in decisions to continue training programs (acknowledged by 38.9% of participants) represents one of the most significant contributions of this research, as it reveals the psychological and political mechanisms that cause organizations to continue allocating resources to ineffective programs. Unlike Heath's (1995) research, which focused on the individual cognitive aspects of the sunk cost fallacy, this research reveals the collective and political dimensions of the phenomenon in organizational contexts.

In its classic formulation, the sunk cost fallacy occurs when individuals or organizations continue to invest resources into a project or program solely because of past investments (sunk costs) that have been made, without adequately considering whether the future prospects of the project remain positive on a net basis. Rationally, economically, sunk costs should be ignored in continuation decisions because those costs have already been incurred and cannot be recovered. However, this research demonstrates that in organizational practice, sunk costs are rarely ignored.

What makes the sunk cost fallacy so persistent in organizations? This research identifies at least three interconnected mechanisms 1) the mechanism of psychological ownership. Managers who have initiated or led a training program tend to develop a sense of psychological ownership over that program. The program becomes "mine" or "our project." Discontinuing the program means admitting that "mine" has failed, which threatens self-esteem and professional reputation. As one HR Manager expressed: "This program was my idea from the start. If it's discontinued now, I will be embarrassed. People will say my idea wasn't good." 2) the mechanism of reputational risk and blame avoidance. In organizations, the decision to discontinue a program is often viewed as an admission of failure, while the decision to continue a program—even with unsatisfactory results—can be justified with various reasons such as "the process is still ongoing" or "the benefits are not yet visible." Managers prefer to avoid the risk of being blamed for confirmed failure rather than

pursue potential gains from untested new programs. This phenomenon is known in the literature as blame avoidance or responsibility diffusion. 3) The mechanism of escalation of commitment reinforced by the actor-relevance of the decision-making process. Staw and Ross (1987), in their theory of escalation of commitment, explain that commitment to a course of action tends to increase when the same actor who made the initial decision is also responsible for evaluating the continuation of that decision. In this research, the same manager who proposed the training program and convinced leadership to approve it often becomes the same person asked for advice on whether the program should continue. It is unsurprising that they tend to recommend continuation, because discontinuing the program would confirm that they previously made a wrong decision.

However, this research also found that the mechanisms of the sunk cost fallacy are not entirely uncontrolled. The presence of a performance-based budgeting system implemented since 2023 has begun to exert pressure for outcome-based rather than history-based evaluation. This system requires that every program—including those already running—be re-evaluated annually based on predetermined performance indicators, rather than based on the amount of investment already made.

This finding is relevant to Rezaei et al.'s (2024) research on factors affecting the psychological readiness of financial staff in performance-based budgeting implementation. They found that staff psychological readiness—including change self-efficacy (belief in the ability to adapt to new systems) and management support—are critical determinants of the success of budgeting system reform. In the context of PT Manufaktur Nusantara, the implementation of performance-based budgeting faces resistance not only due to technical factors but also due to psychological factors: managers accustomed to incremental budgeting feel the new system threatens their autonomy and comfort.

Schragenheim and Céspedes (2018) provide a complementary perspective by explaining that the sunk cost fallacy is more devastating in organizational contexts than for individuals. This is due to decision-makers' concerns about how their decisions will be evaluated by others, especially ex-post evaluations based on observed actual results. Ignoring sunk costs means admitting that resources (money, time, effort) have been wasted, and someone must be held personally or collectively accountable for that waste.

To overcome the sunk cost fallacy, Schragenheim and Céspedes (2018) recommend several strategies. First, project evaluation should be conducted periodically involving parties who have no emotional or reputational attachment to the project. Second, continuation decisions should be based on projected future cash flows and future benefits, not on past unrecoverable investments. Third, organizational culture needs to encourage the acknowledgment of failure as part of the learning process, rather than as something to be covered up or avoided.

Theoretical Implications

This research has several theoretical implications. 1) It extends the domain of mental accounting theory from the individual level to the organizational level. Unlike previous studies that were mostly experimental or quantitative, this research produces contextual and processual understanding of how mental accounting is actually practiced in organizational decision-making. 2). This research reveals that mental categorization in organizations is not universal but varies according to functional position and institutional interests. Finance managers and HR managers develop different mental accounting frameworks because they face different accountability pressures. 3) This research demonstrates that mental accounting in organizations is dynamic and socially constructed. Mental categories are not static but are negotiated and reproduced through daily interactions among managers.

CONCLUSION

Based on the findings of this ethnographic research on managerial mental accounting practices in allocating training budgets at PT Manufaktur Nusantara, several conclusions can be drawn.

There is a systematic difference in the mental categorization of training budgets between finance managers, who categorize them as discretionary expenses, and HR or line managers, who view them as strategic investments, and this difference creates persistent conflict in the budgeting process while reflecting a violation of the fungibility assumption central to mental accounting theory as introduced by Richard Thaler.

Human Resources and line managers strategically use loss prevention framing to increase the probability of approval for training budget proposals, and this strategy proves more effective, with an approval rate of 81.2 percent compared to gain enhancement framing, which achieves only 44.4 percent, a result that aligns with the loss aversion principle in prospect theory developed by Daniel Kahneman and Amos Tversky.

The sunk cost fallacy also influences decisions related to the continuation of training programs, as managers tend to continue allocating funds to ongoing programs despite unsatisfactory evaluations because they are mentally committed to prior investments, which is consistent with arguments in mental accounting literature.

In addition, personal relationships and informal negotiations play a significant role in the budgeting process, indicating that mental categories are not static but are socially constructed through daily interactions, which reinforces the view that mental accounting in organizations is multidimensional and socially embedded.

Overall, this research contributes to the development of mental accounting theory by showing that in organizational contexts, mental categories are not static, personal, or universal, but instead dynamic, socially constructed, and shaped by functional roles as well as institutional interests of the actors involved.

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