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Personality Traits and Personal Financial Planning Behavior: Does Mental Accounting Matter?

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Abstract

This study aims to analyze the relationship between the Big Five Personality Traits and Personal Financial Planning (PFP) behavior, with a particular emphasis on the mediating role of Mental Accounting among employees working in the service sector in Indonesia. Research data were collected through a structured questionnaire distributed to 200 service-sector employees selected using purposive sampling. Subsequently, a quantitative approach using Partial Least Squares Structural Equation Modeling (PLS-SEM) was employed to examine the relationships among the proposed variables. The findings reveal that Extroversion, Conscientiousness, and Neuroticism have a positive and significant effect on Personal Financial Planning, whereas Openness has a significant negative effect. In contrast, Agreeableness does not have a significant effect on Personal Financial Planning. Furthermore, the mediation analysis indicates that Mental Accounting significantly mediates the relationship between all dimensions of the Big Five Personality Traits and Personal Financial Planning. These findings suggest that employees' personality traits influence their financial planning behavior not only directly but also indirectly through their mental accounting practices. This study contributes to the behavioral finance literature by highlighting the importance of personality traits and mental accounting in improving individuals' personal financial planning behavior, particularly among service-sector employees in Indonesia.

Keywords: Big Five Personality Traits, Mental Accounting, Personal Financial Planning, Behavioral Finance, PLS-SEM.

INTRODUCTION

Personal Financial Planning (PFP) has become increasingly recognized as an essential component of improving individuals' financial well-being, particularly amid rising living costs, labor market uncertainty, and economic fluctuations. Effective financial planning enables individuals to manage their finances wisely, make sound financial decisions, and prepare for future financial needs and unexpected risks (Boon et al., 2011; Mahapatra et al., 2018; Delafrooz and Paim, 2011).

Numerous studies have identified various factors influencing Personal Financial Planning, including psychological factors and personality traits (Stendardi et al., 2006; Lai and Tan, 2009; Decker, 2018; Larisa et al., 2020; Singh et al., 2019; Yuliani and Adiandari, 2020). Previous research has demonstrated that the Big Five Personality Traits play a significant role in shaping individuals' financial decision-making, credit management, investment behavior, and risk management (Mohidin et al., 2013; Mahapatra and Mishra, 2019; Nga and Yien, 2013; Pak and Mahmood, 2015; Oehler et al., 2018; Gillen and Kim, 2014; Jiang et al., 2024; Greene et al., 2023). Individuals with different personality traits also exhibit distinct

spending and saving behaviors (Shahjehan et al., 2012; Popovici, 2012; Nyhus and Webley, 2001).

In addition to personality traits, the behavioral finance literature emphasizes the importance of cognitive factors in financial decision-making, particularly Mental Accounting, which refers to the cognitive process through which individuals categorize and allocate financial resources according to specific purposes. Mental Accounting influences how individuals manage expenditures, prioritize spending, and make investment decisions (Thaler and Benartzi, 2004; Karlsson et al., 1997; Gourville and Soman, 1998). As a cognitive mechanism, Mental Accounting helps individuals monitor and control their spending (Thaler, 1985; Gourville and Soman, 1998), while personality traits such as Conscientiousness and Extroversion are expected to influence the effectiveness of its implementation in managing budgets, savings, and investments.

Although the relationship between personality traits and financial behavior has been widely investigated, studies examining the mediating role of Mental Accounting in the relationship between the Big Five Personality Traits and Personal Financial Planning remain limited. Previous studies have primarily focused on Mental Accounting in relation to monetary and time costs (Soman, 2001), mental budgeting (Antonides et al., 2011), tax liabilities (Muehlbacher and Kirchler, 2013), and income tax and value-added tax (Olsen et al., 2019). Therefore, this study aims to examine whether Mental Accounting mediates the relationship between the Big Five Personality Traits and Personal Financial Planning among employees in Indonesia's service sector.

This study is important because Personal Financial Planning enables individuals to manage their income and expenditures systematically (Preston et al., 2019; Nathanson et al., 2018; Brounen et al., 2016), whereas inadequate financial planning may reduce financial well-being and increase the risk of financial difficulties (Adomako et al., 2016). In the Indonesian context, characterized by rising inflation, rapid digital economic development, and post-pandemic economic uncertainty, the findings of this study are expected to enrich the behavioral finance literature while providing practical implications for improving personal financial planning, particularly among service-sector employees.

RESEARCH METHODOLOGY

This study employed a quantitative approach based on the positivist paradigm to examine the relationships among the Big Five Personality Traits, Mental Accounting, and Personal Financial Planning (PFP). The proposed hypotheses were tested using Partial Least Squares Structural Equation Modeling (PLS-SEM).

The population consisted of employees working in Indonesia's service sector, particularly in education, banking, healthcare, information technology (IT), hospitality, and tourism. Respondents were selected using purposive sampling with the following criteria: employees earning at least IDR 30,000,000 annually and having experience in making financial decisions related to current and future financial needs. A total of 200 respondents participated in this study.

Data were collected using a structured questionnaire adapted from well-established measurement scales in previous studies. Personal Financial Planning (PFP) was measured using the dimensions of money management, investment planning, insurance planning, retirement planning, and estate planning adapted from Lai and Tan (2009) and Moorthy et al. (2012). Mental Accounting was measured using indicators of expenditure categorization, expenditure control by category, and source-of-funds preference adapted from Griesdorn et al. (2014) and Mahapatra and Mishra (2019). Meanwhile, the Big Five Personality Traits were assessed based on the five personality dimensions—Extraversion, Agreeableness, Conscientiousness, Neuroticism, and Openness to Experience—using measurement items developed by Goldberg (1990), Costa and McCrae (1992), and Mutlu and Ozer

(2019). All questionnaire items were measured using a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

RESULTS AND DISCUSSION

A total of 200 employees from Indonesia's service sector participated in this study. The respondents represented five major industries, namely education (22.0%), banking (20.0%), healthcare (19.5%), information technology (19.5%), and hospitality and tourism (19.0%). Most respondents were male (66.0%), aged between 26 and 45 years (59.0%), employed as permanent staff (74.5%), held postgraduate degrees (52.0%), and were married (53.0%). The demographic profile indicates that the respondents possess sufficient employment experience and financial responsibility, making them appropriate subjects for examining personal financial planning behavior.

The measurement model was evaluated by examining convergent validity and internal consistency reliability. The results indicate that all indicator loadings exceeded the recommended threshold of 0.70 (Hair et al., 2022), confirming satisfactory indicator reliability. Furthermore, the Average Variance Extracted (AVE) values ranged from 0.780 to 0.864, exceeding the minimum criterion of 0.50 and confirming that all constructs achieved adequate convergent validity.

The reliability assessment further demonstrates that all constructs achieved Cronbach's Alpha values above 0.90 and Composite Reliability values above 0.95, exceeding the recommended threshold of 0.70 (Hair et al., 2022). These findings indicate that all measurement items consistently measure their respective constructs and that the research instrument possesses excellent reliability.

The explanatory power of the proposed model was evaluated using the coefficient of determination (R^2). The results show that the Big Five Personality Traits explain 98.9% of the variance in Mental Accounting (R^2 = 0.989). In addition, the proposed model explains 97.0% of the variance in Personal Financial Planning (R^2 = 0.970). These findings indicate that the research model has substantial predictive power in explaining employees' personal financial planning behavior.

The hypotheses were tested using the bootstrapping procedure in PLS-SEM. The results reveal that Extroversion has a positive and significant effect on Personal Financial Planning ($\beta = 0.452$, $p < 0.001$), supporting H1. This finding suggests that extroverted individuals tend to demonstrate better financial planning behavior. Their confidence, proactive attitude, and openness to social interaction may facilitate information acquisition and improve financial decision-making. This finding is consistent with Campbell et al. (2023) and Yadav and Narayanan (2021), who reported that personality traits significantly influence financial decision-making.

The analysis further indicates that Agreeableness does not significantly influence Personal Financial Planning ($\beta = 0.094$, $p = 0.158$); therefore, H2 is not supported. This result implies that being cooperative and trusting alone does not necessarily encourage individuals to develop systematic financial planning. Financial planning appears to rely more on self-discipline and financial responsibility than interpersonal characteristics.

The results also demonstrate that Conscientiousness positively and significantly affects Personal Financial Planning ($\beta = 0.315$, $p < 0.001$), supporting H3. Individuals with high conscientiousness are generally organized, disciplined, and goal-oriented, enabling them to prepare more structured financial plans. This finding supports previous studies by Furnham and Petrides (2003), Letkiewicz and Fox (2014), and Alderotti et al. (2023).

Similarly, Neuroticism has a positive and significant effect on Personal Financial Planning ($\beta = 0.218$, $p = 0.001$), supporting H4. Although neurotic individuals are commonly associated with anxiety and

emotional instability, financial concerns may encourage them to become more cautious when planning their finances. This finding is consistent with Gambetti and Giusberti (2012), who suggested that risk-averse individuals tend to adopt more conservative financial strategies.

The results also reveal a significant but negative relationship between Openness and Personal Financial Planning ($\beta = -0.094$, $p = 0.001$). Consequently, H5 is not supported because the observed relationship is opposite to the hypothesized direction. Individuals with high openness may prefer exploring new experiences and financial opportunities rather than adhering to structured financial planning.

The mediating role of Mental Accounting was examined through the specific indirect effects generated using the bootstrapping procedure. The results indicate that all indirect relationships are statistically significant ($p < 0.05$), confirming that Mental Accounting mediates the relationship between each dimension of the Big Five Personality Traits and Personal Financial Planning.

Among the five personality dimensions, Conscientiousness exhibits the strongest indirect effect ($\beta = 0.469$, $p < 0.001$), indicating that conscientious individuals are more likely to organize, allocate, and monitor their financial resources systematically, which subsequently improves their personal financial planning. This finding is consistent with the Mental Accounting Theory (Thaler, 1999), which explains that individuals mentally categorize financial resources to support more effective financial decisions.

The results further show that Extroversion ($\beta = 0.212$), Agreeableness ($\beta = 0.211$), and Neuroticism ($\beta = 0.145$) also exert significant positive indirect effects through Mental Accounting. These findings suggest that personality traits influence financial planning through individuals' cognitive budgeting and financial allocation processes.

In contrast, Openness demonstrates a significant negative indirect effect through Mental Accounting ($\beta = -0.056$, $p = 0.041$), indicating that individuals with higher openness tend to adopt more flexible financial allocation patterns, thereby reducing the effectiveness of structured financial planning.

Overall, the findings confirm that Mental Accounting serves as an important cognitive mechanism linking personality traits to Personal Financial Planning. This study extends the Theory of Planned Behavior and Mental Accounting Theory by demonstrating that personality characteristics influence financial planning behavior through individuals' cognitive financial management processes.

Table 1. Structural Model and Hypothesis Testing Results

Hypothesis	Relationship	β	t-value	p-value	Interpretation
H1	EX → PFP	0.452	6.932	0.000	Significant effect
H2	AG → PFP	0.094	1.414	0.158	Nonsignificant effect
H3	CO → PFP	0.315	3.515	0.000	Significant effect
H4	NE → PFP	0.218	3.222	0.001	Significant effect
H5	OP → PFP	-0.094	3.296	0.001	Significant effect (Not Supported*)
H6a	EX → MA → PFP	0.212	4.060	0.000	Significant effect
H6b	AG → MA → PFP	0.211	4.683	0.000	Significant effect
H6c	CO → MA → PFP	0.469	7.358	0.000	Significant effect
H6d	NE → MA → PFP	0.145	2.966	0.003	Significant effect
H6e	OP → MA → PFP	-0.056	2.054	0.041	Significant effect (Negative Effect)

Note: *H5 is not supported because the empirical relationship is significant but in the opposite direction from the proposed hypothesis.*
Source: *Processed research data using SmartPLS 3*

CONCLUSION

This study examined the influence of the Big Five Personality Traits on Personal Financial Planning (PFP) and investigated the mediating role of Mental Accounting among employees in Indonesia's service sector. The findings reveal that Extroversion, Conscientiousness, and Neuroticism positively and significantly influence Personal Financial Planning, whereas Agreeableness does not have a significant effect. Openness demonstrates a significant but negative relationship with Personal Financial Planning, indicating that the empirical findings differ from the proposed hypothesis. Furthermore, the mediation analysis confirms that Mental Accounting significantly mediates the relationship between all dimensions of the Big Five Personality Traits and Personal Financial Planning. These findings suggest that personality traits influence financial planning behavior not only directly but also indirectly through individuals' cognitive processes in managing and allocating financial resources. This study contributes to the behavioral finance literature by providing empirical evidence that Mental Accounting serves as an important mechanism linking personality characteristics and personal financial planning behavior.

RECOMMENDATION (Optional)

The findings suggest that organizations and policymakers should strengthen employees' financial management capabilities by promoting Mental Accounting practices through financial education and financial planning programs. Since personality traits influence financial planning behavior through cognitive financial processes, training programs should be designed to encourage budgeting, expenditure categorization, and long-term financial planning. Future studies are encouraged to examine other psychological and behavioral factors, such as financial literacy, financial self-efficacy, financial attitude, or risk tolerance, and to extend the research to different occupational sectors and larger samples to improve the generalizability of the findings.

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