

Mental Accounting and MSME Sustainability: The Mediating Role of Financial Performance toward SDG 8

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ABSTRACT

Objective: Examining the effect of mental accounting on the sustainability of Micro, Small, and Medium Enterprises (MSMEs) and investigates the mediating role of financial performance. Given the significant contribution of MSMEs to economic growth and employment, understanding factors that support their long-term sustainability is essential for achieving Sustainable Development Goal (SDG) 8 on sustainable economic growth and productive employment. **Method:** Employing a quantitative research design using survey data collected from 226 MSME owners in Kudus Regency, Central Java, Indonesia. Respondents were selected through purposive sampling. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with the assistance of SmartPLS software. **Results:** The findings reveal that mental accounting has a significant positive effect on both financial performance and MSME sustainability. Financial performance also significantly influences business sustainability and serves as a mediating variable in the relationship between mental accounting and MSME sustainability. These results indicate that MSME owners who effectively plan, manage, and evaluate their financial resources are more likely to achieve stronger financial performance and long-term business sustainability. **Novelty:** Studying extends the behavioral accounting literature by examining financial performance as a mediating mechanism linking mental accounting and MSME sustainability. The findings provide practical insights for MSME stakeholders and policymakers regarding the importance of financial decision-making behavior in strengthening business resilience and supporting SDG 8.

INTRODUCTION

Many countries prioritize micro, small, and medium companies (MSMEs) because they are the foundational support system for their national economy (Bartolacci et al., 2020; Endris & Kassegn, 2022; Mahfud, 2025; Marwanto et al., 2023). Micro, Small, and Medium Enterprises (MSMEs) are crucial in promoting economic expansion and creating job prospects domestically (Dasaraju & Tambunan, 2023; Kumari, 2025; Tambunan, 2019). Therefore, MSMEs can reduce the unemployment rate. MSMEs are of utmost importance in the state (Suhaili & Sugiharsono, 2019).

The importance of MSMEs is also reflected in the Sustainable Development Goals (SDGs), particularly SDG 8: Decent Work and Economic Growth, which emphasizes sustained, inclusive, and sustainable economic growth, productive employment, and entrepreneurship development. As one of the primary drivers of local and national economies, MSMEs contribute significantly to job creation, income generation, and poverty reduction. However, achieving sustainable growth requires MSMEs to maintain strong financial performance and business resilience in the face of economic uncertainty. Therefore, understanding the behavioral and financial factors that support MSME sustainability, such as mental accounting and financial performance, is essential for promoting long-term business viability and supporting the achievement of SDG 8.

Business sustainability is a fundamental expectation among all owners of micro, small, and medium enterprises (MSMEs) (Gunawan, 2025; Vásquez et al., 2021; Wielgórka, 2016). Business sustainability disregards bankruptcy and necessitates the owner's awareness of the risks associated with default (Xuezhou et al., 2022). The objective of establishing a company extends beyond mere profit growth to encompass the enduring viability of the business. Business sustainability comprises the company's long-term survival, even for future generations. Hence, corporate sustainability is achieved by harmonizing three fundamental pillars: economic, social, and environmental (Sutisna et al., 2022).

MSMEs face a significant challenge in their ability to endure difficult circumstances, primarily due to recent economic events such as the global financial crisis (Lutfi, 2022). The global financial crisis also affected MSMEs nationally, including MSMEs in Kudus Regency, Central Java, Indonesia. The Indonesian Institute of Sciences survey revealed that Micro, Small, and Medium Enterprises (MSMEs) decreased performance across many parameters, such as sales and operating profit. MSMEs may cease to exist if their financial performance experiences a lengthy decline. Figure 1 depicts a decrease in small and medium firms in 2022 in Kudus Regency, located in Central Java, Indonesia.

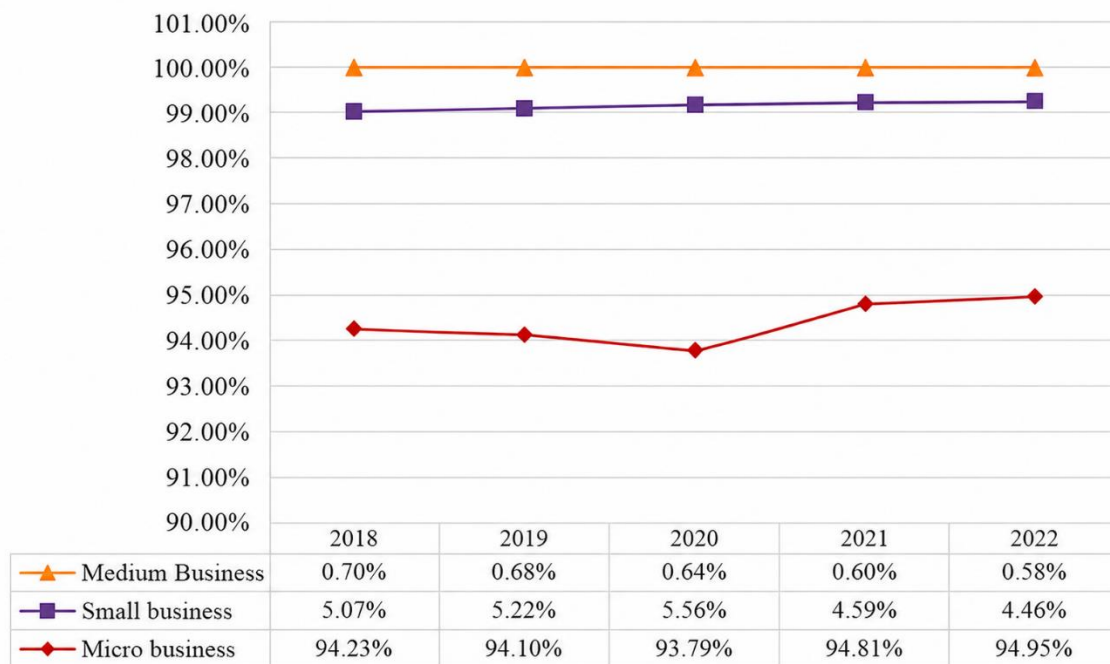


Figure 1. MSME scale portfolio in kudus regency, Central Java, Indonesia

The financial performance of a corporation is crucial. Omar et al., (2022) state that financial performance indicates a company's success. A company's financial performance is favourable when its financial statements show a profit (Baah et al., 2021; Menne et al., 2022). According to Baah et al. (2022), the participation of stakeholders plays a crucial role in determining the enhancement of MSME financial performance. Enhanced financial performance can promote the achievement of long-term business viability (Bartolacci et al., 2020).

Effective financial management is essential for every corporate entity since it is closely intertwined with monetary resources. Nevertheless, MSME players typically contribute to various domains while operating their firms. MSME actors perform multiple roles, including production financial management and product promotion. The autonomous nature of

MSMEs results in their financial management being internally documented. "mental accounting" refers to restricting financial records to a specific mindset or perspective (Sharma et al., 2021). Mental accounting refers to the deliberate categorization of money streams and their intended use that are mentally documented (Mahapatra & Mishra, 2020). The concept of mental accounting is crucial for achieving success in business [13]. Hence, mental accounting will impact the financial outcomes of micro, small, and medium enterprises (MSMEs).

A comprehensive investigation has been conducted on enterprises' fiscal performance and enduring sustainability (Purba et al., 2021; Soytaş et al., 2019). However, they present contrasting discoveries. The study conducted by Purba et al., (2021) suggests a detrimental effect of financial performance on the long-term viability of a company. Based on the findings of previous studies, it is clear that the financial success of enterprises has a beneficial effect on their sustainability (Suriyankietkaew, 2023). A company's prolonged financial performance growth can significantly influence its long-term sustainability and ability to maintain effective operations (Suriyankietkaew, 2019, 2023).

Another area of research related to enhancing financial performance for micro-enterprises is the concept of mental accounting. Mental accounting can influence the thinking of those involved in company activities when managing their finances, thereby enhancing their financial literacy (Dat et al., 2022). Practical mental accounting significantly affects prudence in decision-making. Optimal decision-making in financial management has a direct impact on financial performance.

Hence, the author aims to conduct studies to address discrepancies in research findings and bridge current research gaps. This will be achieved by incorporating financial performance as a mediating element in mental accounting for the sustainability of MSMEs. Hence, this study can potentially enhance the existing knowledge concerning the sustainability of MSME businesses.

METHOD

This study employed a quantitative methodology, wherein primary data was collected through the direct distribution of questionnaires to respondents. The Likert scale is a quantitative instrument that assigns numerical values on a scale of 1 to 5 to indicate varying degrees of agreement or disagreement (1: strongly disagree, 2: disagree, 3: neutral, 4: agree, 5: strongly agree). This study includes all Micro, Small, and Medium Enterprises (MSMEs) in Kudus Regency, Central Java, Indonesia. The sampling method utilizes purposive sampling techniques, considering the distinct characteristics of MSMEs that give priority to production and have been operational for at least three years. The poll had a participation rate of 226 respondents. After collecting the questionnaire data, we analyzed it using the partial least squares structural equation model (SEM PLS) with the help of SMART-PLS software.

The assessment of business sustainability tools is based on five key dimensions: business growth, operating income, product quality, competitiveness, and environmental conditions (Menne et al., 2022). The financial performance instruments utilized in this study are assessed by an accounting methodology that relies on financial ratios, including profitability, liquidity, and activity ratios (Lassala et al., 2017). These ratios have also been employed in previous research. The assessment of mental accounting instruments involves the utilization of three indicators: planning, management, and evaluation, as used in the study (Antonides & de Groot, 2022; Zeng & Herzfeld, 2021).

RESULTS AND DISCUSSION

Results

Profil respondent

The participants in this study are the proprietors of Micro, Small, and Medium Enterprises (MSMEs) located in Kudus Regency, Central Java, Indonesia. The respondents' demographic data includes information on their gender, age, industry type, level of education, age of their MSME firms, and turnover of their MSMEs.

Table 1. Description characteristics of respondents

Characteristics of Respondents	Information	Frequency	Percentage
Gender	Male	109	48.23%
	Female	117	51.77%
Education	Basic School	46	20.35%
	Junior High School	52	23.01%
	Senior High School	100	44,25%
	Bachelor	28	12.39%
Age	<25 years	15	6.64%
	25 - 30 years	16	7.08%
	31 - 35 years	18	7.97%
	36 - 40 years	34	15.04%
	41 - 45 years	41	18.14%
Types of business	>45 years	102	45.13%
	Food industry	51	22.57%
	Fashion	55	24.34%
Business life	Handicrafts	120	53.10%
	1 - 3 years	0	0.00%
	3 - 7 years	44	19.47%
	7 - 10 years	86	38.05%
Turnover per year	>10 years	96	42.48%
	<2 Billion	221	97.79%
	15 - 50 Billion	0	0,00%
	>50 Billion	2	0,88%

The data shown in Table 1 indicates that most respondents are female, explicitly accounting for 51.77%, whereas men make up 48.23%. The education levels of the respondents exhibit significant variation, with the majority (44.25%) having completed high school, while just a minority (12.39%) have obtained an undergraduate degree. Approximately 45.13% of the respondents are aged above 45. The enterprises the respondents in this survey operated were categorized into three distinct sectors: the food industry, fashion, and handicrafts.

According to the statistics provided in Table 2, most company kinds, accounting for 53.10%, are classified as handicrafts. The age of the businesses owned by the respondents exhibits 42.48% of respondents over 10 have a business background. The annual turnover of the respondents who placed the highest in this study amounted to a 2 billion total of 97.79%.

Measurement model

This study requires examining measurement models to evaluate the current condition of the constructs. The measuring model entails assessing the test's validity and reliability. The outcomes of evaluating the measurement model on 226 participants, who were examined using SMART-PLS, see Table 2.

Table 2. Validity and reliability

Construct	Loadings	Composite Reliability	AVE
Business sustainability		0.88	0.596
As an MSME player, I realize that our business is experiencing business growth	0.771		
As an MSME player, I realize that our business income is quite profitable	0.816		
As an MSME player, I realize that the quality of our products is quite good	0.778		
As an MSME player, I realize that our business competitiveness is quite good	0.749		
As an MSME player, I realize that the condition of our business environment is quite encouraging	0.743		
Financial performance		0.884	0.604
As an MSME player, I realize that our business always experiences profits	0.711		
As an MSME player, I realize that our business has debt	0.848		
As an MSME player, I realize that so far, we have been paying our debts (if any)	0.817		
As an MSME actor, I realize that we also have receivables to other parties	0.759		
As an MSME player, I realize that the return of our receivables is quite good	0.749		
Mental accounting		0.861	0.554
As an MSME actor, I prepare a business budget plan	0.722		
As an MSME actor, I research and evaluate business expenditure behaviour	0.824		
As an MSME player, I manage business finances carefully	0.742		
As an MSME actor, I compare spending with budget plans	0.71		
As an MSME player, I evaluate the financial situation of businesses regularly	0.718		

According to the validity test results, all components within the business sustainability, financial performance variable and mental accounting exhibit a factor greater than 0.708. All components utilized in the study are deemed to be valid. A composite reliability value is considered "acceptable in exploratory research" if it falls within the range of 0.60 to 0.70. A value ranging from 0.70 to 0.90 is regarded as "satisfactory to good." Conversely, a matter of

0.95 or above is concerning since it suggests excessive duplication of items and undermines the accuracy of the measurement. Average Variance Extracted (AVE) values greater than 0.50 indicate that the construct accounts for 50 per cent or more of the Variance among its constituent pieces (Hair et al., 2019). The analysis results indicate that the composite reliability and AVE values surpass the threshold values, suggesting the construct exhibits strong reliability and validity.

Table 3. Fornell-larger

	Business Sustainability	Financial Performance	Mental Accounting
Business Sustainability	0.772		
Financial Performance	0.486	0.777	
Mental Accounting	0.618	0.368	0.744

Furthermore, Table 3 the Fornell-Larcker Criterion suggests utilizing discriminant validity values. This involves comparing each construct's average Variance extracted (AVE) with the quadratic correlation between the same build and all constructs measured reflectively in the structural model. This method involves comparing the square root of the AVE construct with the correlation between the latent constructs. A latent construct should have a greater explanatory power, as measured by Variance, than another latent construct when considering its indicators. Hence, the square root of any AVE construct must possess a magnitude above the association with other latent constructs. Regarding this criterion, it may be inferred that this measurement model satisfies the necessary measures.

Table 4. Goodness of fit (GoF) index

Construct	AVE	R2	Q2
Mental Accounting	0.554		
Business Sustainability	0.596	0.459	0.263
Financial Performance	0.604	0.136	0.076
Average Score	0.585	0.298	
AVE x R2		0.174	
GoF = $\sqrt{(AVE \times R2)}$		0.417	

Table 4 the study employed Goodness of Fit (GoF) analysis to evaluate the degree to which the model satisfied validity, reliability, and due diligence criteria through structural analysis. The GoF method entails the assessment of R2 values, which are categorized into three levels of quality: high (0.75), medium (0.50), and low (0.25). Additionally, Q2 values are evaluated based on high (0.50), medium (0.25), and low (0) criteria (Hair et al., 2019). Furthermore, GoF employs three distinct value criteria: standard (ranging from 0.10 to 0.24), medium (ranging from 0.25 to 0.35), and high (equal to or exceeding 0.36). The GoF value obtained in this study is 0.417, indicating that the model utilized satisfies rigorous criteria and demonstrates high quality. Furthermore, the data employed is suitable for explaining the model. The R2 value of 0.136 or 13.6% indicates that mental accounting variables influence financial performance variables. The R2 value of 0.459, or 45.9%, suggests that mental accounting variables and financial performance significantly impact business sustainability variables. Other variables influence the remaining 54.1%.

Table 5. Path coefficients

Hypothesis	β	T-values	P-values	Result
Financial Performance -> Business Sustainability	0.299	5.099	0.000	Accepted
Mental Accounting -> Business Sustainability	0.508	10.428	0.000	Accepted
Mental Accounting -> Financial Performance	0.368	5.434	0.000	Accepted

Table 5 demonstrates that all hypotheses have been accepted. The direct impact of financial performance on business sustainability ($\beta = 0.299$; $p = 0.000$), mental accounting on business sustainability ($\beta = 0.508$; $p = 0.000$), and mental accounting on business sustainability ($\beta = 0.368$; $p = 0.000$) all exhibit significant and positive outcomes.

Table 6. Indirect effect

Hypothesis	β	T-values	P-values	Result
Mental Accounting -> Financial Performance -> Business Sustainability	0.110	3.401	0.001	Accepted

Furthermore, Table 6 reveals the presence of indirect influences, as evidenced by a coefficient value of $\beta = 0.110$. Indicates that mental accounting indirectly impacts the long-term viability of businesses. The hypothesis testing outcomes are also displayed in the study model depicted in Figure 2.

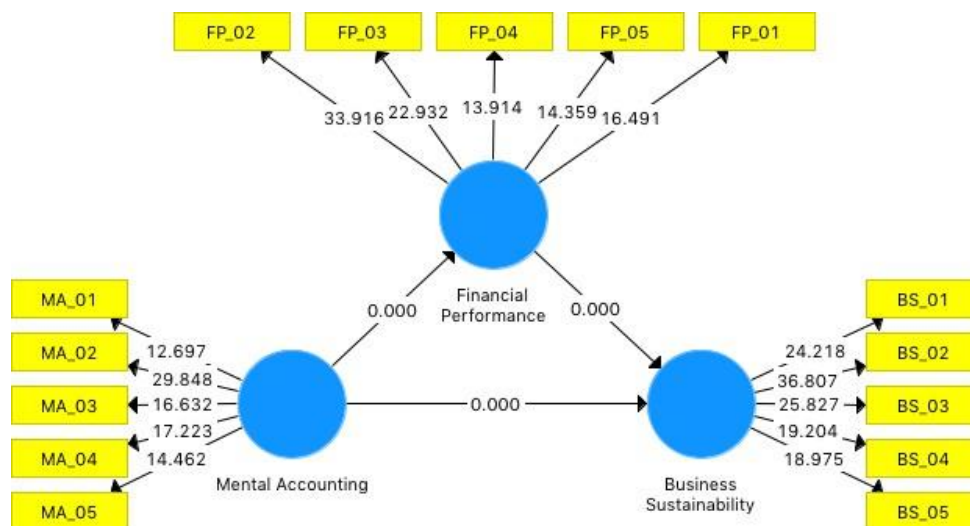


Figure 2. Results of path coefficients

Discussion

The primary aim of this study is to examine the impact of mental accounting and financial performance on the long-term viability of micro, small, and medium enterprises (MSMEs). All hypotheses are accepted depending on the findings of data processing conducted to address the proposed concepts. This demonstrates that independent variables and dependent variables exert a substantial impact. The study's findings regarding the first hypothesis indicate that mental accounting benefits the sustainability of MSMEs. The results of this study demonstrate that mental accounting plays a crucial role in achieving business

sustainability for micro, small, and medium enterprises (MSMEs). The significance of mental accounting in decision-making is vital for MSME actors to effectively manage their finances (Hsee & Kunreuther, 2000). Those who make prudent financial decisions can handle their money proficiently. To achieve the sustainability of Micro, Small, and Medium Enterprises (MSMEs).

Efficient cognitive classification results in optimal decision-making; the sustained sustainability of micro, small, and medium companies (MSMEs) can be achieved by reasonable decision-making. The results of this study support the theory of goal setting, which suggests that having a clear and precise target motivates an individual's behaviour. MSME actors are inclined to employ efficient mental accounting when they possess a well-developed strategy, as this enhances the strength of their actions and promotes the desired long-term viability of the organization.

The second hypothesis test reveals a positive influence of mental accounting on financial performance. The study's findings indicate that mental accounting significantly improves the financial performance of MSMEs. Mental accounting is the fundamental basis for decision-making in micro, small, and medium enterprises (MSMEs). MSME players who use caution in decision-making employ strategic planning and intentional attempts to improve the company's financial performance.

The results of this study illustrates that mental accounting positively affects the financial performance of micro, small, and medium enterprises (MSMEs). Efficient cognitive categorization results in optimal decision-making, while expanding Micro, Small, and Medium Enterprises (MSMEs) depends on making suitable choices. The results of this study support the theory of goal setting, which suggests that having a particular target motivates an individual's behaviour. As the strategy strengthens, the related behaviour to achieve it also becomes more resistant to change, pushing MSME actors to engage in practical mental accounting by improving their knowledge and understanding, resulting in enhanced financial performance.

The results of the third hypothesis test indicate a favourable impact of financial performance on the sustainability of MSMEs. The findings of this study suggest that the primary determinant of achieving sustainability in micro, small, and medium enterprises (MSMEs) is their economic performance. MSMEs' consistent positive financial performance demonstrates a steady growth in firm earnings over time. The company's augmented profit can ensure the continuity of its business operations. Conversely, when micro, small, and medium enterprises (MSMEs) consistently face declining profitability and even losses, their closure is inevitable.

The findings of this study align with the research conducted Wiagustini et al., (2023) and Poursoleyman et al., (2022), which demonstrate that the financial performance of MSMEs has a beneficial impact on their sustainability. The findings of this study provide evidence for the goal-setting hypothesis, which posits that ambitious goals lead to more significant performance outcomes than less challenging goals. Recognizing that his firm has the potential to be passed down through generations is a significant accomplishment. Attaining ambitious objectives necessitates a solid financial performance. Studies on the second hypothesis indicate that financial performance mediates the relationship between mental accounting and micro, small, and medium enterprises (MSMEs) sustainability. These findings suggest that adopting positive mental accounting can enhance the financial outcomes of micro, small, and medium enterprises (MSMEs). MSME actors with solid

financial performance can ensure the long-term sustainability of their businesses for future generations within their families.

These findings provide evidence in favour of the goal-setting theory. Setting clear and definite goals leads to more favourable outcomes than vague or inadequate planning. Consistent with this research, the primary objective of MSMEs is to achieve sustainability or long-term company continuity for multiple generations of families. Business sustainability can be achieved by consistent and strong financial performance over consecutive years. Establishing ambitious objectives for MSMEs to ensure long-term sustainability motivates them to adhere to sound accounting practices.

The findings of this study also contribute to the achievement of Sustainable Development Goal (SDG) 8, which promotes sustained economic growth, productive employment, and the development of resilient enterprises. The positive influence of mental accounting on financial performance and MSME sustainability indicates that sound financial decision-making can strengthen business resilience and support long-term growth. Furthermore, the mediating role of financial performance highlights the importance of effective financial management in ensuring business continuity and competitiveness. As MSMEs represent a major source of employment and economic activity, improving financial behavior and performance can contribute to sustainable economic development, poverty reduction, and the long-term achievement of SDG 8.

CONCLUSION

Fundamental Finding: This study demonstrates that mental accounting and financial performance significantly contribute to the sustainability of Micro, Small, and Medium Enterprises (MSMEs) in Kudus Regency, Central Java, Indonesia. The findings reveal that MSME owners who effectively plan, manage, and evaluate their financial resources tend to achieve better financial performance and stronger business sustainability. Furthermore, financial performance positively mediates the relationship between mental accounting and MSME sustainability, indicating that sound financial decision-making enhances the long-term viability of MSMEs. These findings support Goal-Setting Theory, suggesting that clear financial planning and disciplined financial behavior encourage MSME owners to achieve sustainable business growth. **Implication:** The findings provide practical implications for MSME owners, policymakers, and business development institutions. Improving mental accounting practices can strengthen financial management capabilities, enhance financial performance, and support long-term business sustainability. The results also contribute to Sustainable Development Goal (SDG) 8 by highlighting the importance of MSME resilience, productive economic activities, and sustainable business growth in supporting local and national economic development. Policymakers may utilize these findings to design financial literacy and business management programs that improve MSME sustainability. **Limitation:** This study is limited to MSMEs located in Kudus Regency, Central Java, Indonesia, which may restrict the generalizability of the findings to other regions. In addition, the study focuses on mental accounting as the primary antecedent of business sustainability and employs a cross-sectional research design. Other behavioral, organizational, and environmental factors that may influence MSME sustainability were not included in the model. **Future Research:** Future studies are encouraged to expand the research scope by involving MSMEs from different regions and business sectors. Researchers may also incorporate additional variables, such as financial literacy, entrepreneurial orientation, digital capabilities, and innovation, to obtain a more comprehensive understanding of MSME

sustainability. Longitudinal studies are further recommended to examine the long-term effects of mental accounting and financial performance on business sustainability.

AUTHOR CONTRIBUTIONS

Sri Mulyani: Conceptualization, Methodology, Investigation, Data Curation, Formal Analysis, Writing – Original Draft, and Writing – Review & Editing. **Rahmawati Rahmawati:** Conceptualization, Methodology, Validation, and Writing – Review & Editing. **Djuminah:** Supervision, Validation, Resources, and Writing – Review & Editing. **Evi Gantjowati:** Formal Analysis, Validation, and Writing – Review & Editing. **Endang Dwi Amperawati:** Investigation, Data Curation, Resources, and Writing – Review & Editing. All authors have read, reviewed, and approved the final version of the manuscript.

CONFLICT OF INTEREST STATEMENT

The authors state that no financial or personal conflicts of interest exist that may have affected the content or findings of this research.

STATEMENT ON THE USE OF AI OR DIGITAL TOOLS IN WRITING

The authors declare that no artificial intelligence (AI) tools or other digital writing assistants were used in the preparation, analysis, or writing of this manuscript. All stages of the research process, including data analysis, interpretation, and manuscript writing, were conducted solely by the authors. The authors take full responsibility for the originality, accuracy, and integrity of the content presented in this article.

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