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## THE IMPORTANCE OF MENTAL ACCOUNTING TO SUPPORTING THE PERFORMANCE OF LEARNING ORGANIZATIONS

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## ABSTRACT

The research aimed to introduce the concept of mental accounting and its management, the concept of mental accounting and its components, as well as the concept of a learning organization, its characteristics and accounting methods that support its performance, as well as a statement of the importance and role of mental accounting in supporting the performance of a learning organization, the study reached a set of results, the most important of which were: There is an effect of mental accountability, in both its implicit and explicit parts, on the performance of organizations in the industrial sector. It has been emphasized that the mental accounting components represented by innovation, education, experience, skill, and the technical, scientific, technical and media aspects have an effective role in strengthening the performance of the learning organization by supporting its representative characteristics and in line with the variables of the modern industrial environment.

**Keywords:** *Mental accounting, learning organizations.*

## INTRODUCTION:

The third dimension relates to the frequency at which mental accounts are evaluated (e.g. daily, weekly, annually) and whether defined narrowly or broadly. This may indicate that consumers who "balance" their accounts every week, rather than once a month, mental accounting refers to the fact that people create mental budgets to regulate the use of their resources and create links between specific acts of consumption and specific payments. Research on financial decision-making and consumer behavior shows that these mechanisms can have a significant impact on decisions and behaviors, which deviates from normative economic principles (Hahnel, et.al, 2020: 1). Where a new model of consumer behavior was developed using a combination of cognitive psychology and

microeconomics. The development of the model begins with the mental coding of the combinations of wins and losses using the value function of probability theory. The valuation of the purchases is then modeled using the new concept of "transaction interest". The family budgeting process is also incorporated to complement the description of mental accounting (Thaler, 2008:15). This concept also highlights important reasons why individuals engage in mental accounting, particularly in the field of consumer finance. Namely, money classification helps facilitate the processing of information in ways necessary to assess spending opportunities. In the absence of such a rating, people will need to assess their entire financial portfolio when faced with almost any consumer decision, such as the ability to afford to buy a particular thing (for example, "Can I buy this

thing?") or the appropriate allocation of resources towards Various items (e.g., "How much can I spend?"). This assessment will require integration across current and future wealth as well as incorporation of all projected debts and expenses. By organizing information into groups based on commonalities, classification can facilitate rapid recall and judgment of relevant information, thus reducing the cognitive effort required to evaluate a decision at hand (Zhang & Sussman, 2017:3). Although mental accounting facilitates people's financial decisions, serves as a tool for self-control to avoid excessive spending or consumption, and helps people reach certain goals, the inflexible properties of mental accounting come at a cost and may lead to suboptimal results. However, mental accounting is not always completely inflexible and sometimes flexible, through the process of (re)creating mental accounts and classifying fuzzy expenses. (Huang, et.al, 2020:2), and finally it can be said that mental accounting is not conducted based on an overall assessment of money, but more likely based on the subject. (136Takemura, 2019:)

## RESEARCH METHODOLOGY:

### Research Problem:

The role of mental accounting has emerged more clearly in light of the contemporary changes in organizations and their environment, which require information, expertise and competencies that are compatible with these changes, including the emergence of the concept of the learning organization, which is defined as the organization in which individuals work to constantly increase their capabilities to achieve the results they desire. As mental accounting is considered an essential basis for activating and improving the performance of organizations and reaching outstanding performance that represents their ability to achieve their goals through the use of available resources in an efficient and effective manner. Organizations with outstanding performance become clear when the basic goals of vision are, it has a commitment at all levels to continuous development and improvement, in which new, supported and comprehensive models of collective thinking are supported and encouraged, and are characterized by operating with values and systems that lead to continuous change and improvement.

**The importance of research:**

The importance of this research is embodied by integrating the concept of mental accounting with the concept of educated organizations, and identifying the role of the accountant in this field, because the global market trends require the accountant to have broad ideas and knowledge in the field of multiple disciplines that are related to the nature of the accountant's work. . The importance of the study as a basic motive for the development of organizations and as a knowledge base on the basis of which competitive advantage is achieved, and because mental accounting with its implicit and explicit elements can, through their integration as a cognitive function with the characteristics of the learning organization, achieve efficient and optimal use of resources.

**Research objective:**

The main objective of this research is to identify the extent to which mental accounting indicators contribute to the impact on the performance of learning organizations, in order to support collective learning and share ideas among working individuals, and thus improve performance in the learning organization.

**Research hypothesis:**

Based on the problem that this research seeks to answer, the researchers formulated the following hypothesis: ((mental accounting has a positive impact on the performance of learning organizations))

**SECOND TOPIC: MENTAL ACCOUNTING:****What is mental accounting?**

Richard Thaler is considered the first to use the term "Mental Accounting", as he mentioned this term in the article "The Use of Mental Accounting in Consumer Behavior Theory", where he analyzed consumer behavior using mental accounting. (Mascarenas & Yan, 2017: 145)

The consumer also divides his personal financial activities into a set of mental calculations related to income and spending. (Sheng, et.al, 2017: 198)

In that division, it uses a set of implicit criteria to track its personal resources, which is similar to the way companies use traditional accounting systems to track their own resources, but it is possible to search in the standards of traditional accounting systems that regulate the work of companies, in mental accounting, the accounting standards used are deduced by

observing the consumer's financial behavior. (121: 2014, Ramesh et al.)

Mental accounting is also closely related to the consumer's financial behavior (Bi & Liu 2014: 2), and it refers to a set of cognitive processes used by the consumer to organize and track his personal financial activities. (Xiao & O'Neill, 2018:448)

Because consumer decisions must be fairly consistent and logical, consumers are often irrational in making their financial decisions. (Hariyadi & Mardjono, 2016: 166)

Therefore "mental accounting" refers to the way consumers psychologically organize, evaluate and track their financial activities. The core of mental accounting involves the classification of events, that is, whether multiple events are mentally integrated or discrete. (Shi, et.al, 2021:384)

Mental accounting also describes the way people group expenses into categories, allocate funds to these categories, set budgets, and perform elements of cost-benefit analysis. Zhang & Sussman, 2017: 3))

(Huang, et.al) defined it as "the set of cognitive processes that individuals and families use to organize, evaluate, and track financial activities." Mental accounting has mainly been discussed in the field of financial decision making. As

well as grouping or classifying funds into different categories or accounts is the essential element of mental accounting. (Huang, et.al, 2020: 2)

(Ozkan, M, 2020: 86) sees mental accounting as a set of cognitive processes that allow organizing financial activities and facilitating money management.

### **Dimensions of mental accounting:**

There are three interrelated dimensions of mental accounting according to the vision of (Anolam, et.al, 2015):

1. **Transactional utility:** This dimension shows how results are framed and experienced, and how decisions are made and subsequently evaluated. The accounting system provides the inputs to do ex and post cost-benefit analysis. For example, compared to money earned through hard work, the equivalent amount that is made may be seen His winning the lottery as unexpected, less risky and costless.
2. **Classification process:** The second dimension of mental accounting involves allocating activities to specific accounts, where the sources and uses of funds are classified in real and mental accounting systems; Expenditures are grouped into categories and spending is sometimes constrained by implicit, explicit budgets. For example,

consumers tend to categorize both resources and consumption, and group them into accounts such as ordinary income versus windfall gains and necessary consumption. Furthermore, consumers have regular preferences to match certain mental calculations, such as when they prefer to pay for luxury consumption with a "windfall".

3. **Choosing among alternatives:** They are more likely to spend their lottery winnings on luxuries during the same week as the money won a week later.

#### **Importance of Mental Accounting:**

The importance of mental accounting stems from the benefit it provides to consumers in particular and to organizations in general. The importance of mental accounting can be highlighted through a set of points, the most important of which are the following:

1. A strategy used in controlling personal spending, consumption, and investments as a knowledge set of operations in controlling financial business and transactions (Ozkan, M. 2020: 87)
2. Mental accounting theory describes how people set mental budgets for specific categories of expenditure they consume with that budget in mind. (Huang, et.al, 2020: 2)

3. Mental accounting practices help in cost-benefit analysis to ensure that risks are appropriately matched with associated returns. (Anolam, et.al, 2015:1)

4. Explanation of the different motives of the consumer in making irrational financial decisions (Hu, et.al, 2015: 1).

5. It is also used to predict consumer financial decisions in different situations. (Le & Liaw, 2017: 162)

#### **PERFORMANCE OF THE LEARNING ORGANISATION**

##### **The concept of the learning organization:**

A learning organization is defined as an organization in which individuals seek to continually develop their capabilities to achieve the results they want, where new patterns of thinking are nurtured, collective aspirations and aspirations are unleashed, and where individuals learn how to learn with each other. (Senge, 2019: 15).

The learning organization has been described as a strategy for improving organizational performance and maintaining competitive advantage. In fact, some researchers point to a learning organization as the only sustainable competitive advantage in response to the

increasingly unpredictable and turbulent business environment. A key aspect of a learning organization is that all members of the organization need to practice continuous learning to improve performance. (Weldy & Gillis, 2010:456) It was defined (Hassanin, 2011: 4) that there is a set of considerations related to the philosophy of the learning organization, which are:

- 1- It focuses on the components of the internal environment, whether it relates to human resources, processes, structures, relations, or culture. It constantly adapts these components to be responsive to external changes.
- 2- It focuses on the intellectual and cognitive capabilities of its members in terms of: discovering, developing, benefiting from them, and adopting participatory knowledge and work teams.
- 3- To achieve this, it is necessary to adopt participatory management in formulating the vision, goals, and others, while ensuring that this is embraced by the members of the organization.

#### **Properties of the learning organization:**

The characteristics of the learning organizations that the researchers dealt with varied, just as their concepts and

definitions varied, as studies indicated the need for the learning organization to possess the characteristics represented by different models. The proposed characteristics of the learning organization according to (Senge) can be listed to include (personal excellence, mental models, shared vision, team learning, and systems thinking). As follows: (Yaslioglu, 2014: 729-730, Dawood et al., 2015: 95).

1. **Personal excellence:** ((Senge) states that personal excellence is a process of personal commitment in which the individual is eager to expand and enhance his vision and focus his energies, and to be in a constant state of learning and developing his abilities, and that the individual has a long-term commitment and willingness (for life) to learn and that He aspires to become a special person who has no equal. Individuals who explore and learn the traits of personal excellence (commitment) are one of the basic requirements for learning organizations as a seed for excellence in their organizational structure.
2. **Mental models:** in which the human mind is ready and present to deal with challenges and consider them opportunities for new ideas and innovations and an approach to real and positive change. This means the mental

readiness of the individual to get rid of the mental templates and rigid and ready-made teachings that may prevent the individual from moving towards what is new. The presence of this feature or element allows the learning organization to adopt a pivotal role for individuals in decision-making and the continuous improvement system, and to develop the electronic programming systems used in it.

3. **Team learning:** a situation in which team members think together to achieve common goals. This aspect emphasizes on building the future of the organization on a common vision among individuals and enhances the element of cooperation and team spirit. The most important aspect of building this element is to provide an environment for dialogue in the organization. Here, the learning organization is embodied in transcending the individual view of the learning process, as individuals collaborate collectively to learn.

4. **Shared vision:** The shared vision is a powerful engine and motivator for all individuals. The leader's vision is not shared only with those who are in direct contact with him. The basis for learning organizations is that this vision, which is related to the future of

the organization, is edited and consolidated for all members of the organization. Visions cannot be dictated to individuals because they must start from the individual vision, which may not be consistent with the leader's vision. A shared vision helps personal excellence to develop a personal vision, and a shared vision helps to develop an organizational vision, and includes sharing values, goals, and missions within the organization.

5. **Systems thinking:** It means dealing with the organization as a complex system consisting of partial and sub-systems, and this requires that the individual be able to understand the whole and realize the sub-components as well, understanding of how these components relate to the system as a whole, in other words, the ability to see the larger picture of the organization. Systems thinking is the cornerstone of the characteristics of the learning organizations, and without this feature, you cannot speak to the learning organization. It is what gives the difference between it and other organizations.



### **Performance in the learning organization:**

Performance in general reflects the organization's ability to achieve its goals, especially the long-term ones, which are the goals of profit, survival, growth, and adaptation by using material and human resources with high efficiency and effectiveness, and in light of changing environmental conditions.

The performance of the learning organization is represented by the availability of its representative characteristics, as (Demers, 2019:4) confirms that the performance of the learning organization falls within the framework of the characteristics of the learning organization, which were identified with seven characteristics (creating learning opportunities, promoting discussion and dialogue, encouraging cooperation and team learning, providing strategic leadership for learning, empowering employees, linking the organization with its environment, creating systems for acquiring and sharing learning) and indicates that strengthening the performance of the learning organization is represented in the availability of these characteristics and the consolidation of their foundations in the organization. (63 Weldy, 2019:) believes that the organizations that show the

characteristics of the learning organization are more likely to facilitate training and learning. And that enhancing the characteristics of the learning organization leads to improvements in organizational performance. (Daryani & Zirak, 2015:245) confirms in the same context that the factors for evaluating and supporting the learning organization's performance are done by enhancing its characteristics.

Most organizations strive to improve their level of performance and raise it as much as possible, through the use of various methods, such as total quality, the ability of the organization and its members to innovate, improve productivity, and other terms including the concept of the learning organization, and with the different approaches of organizations to change and improve performance, However, they take different paths for one goal, which is the self-development of each individual in the organization, to raise a high level of performance.

Many researchers have emphasized the need for organizations to improve performance by acting as learning organizations, creating an environment in which all members are constantly learning and taking action to increase the knowledge of the organization's members and to improve the organizations' performance. Learning organization has

been considered as an important competency for all organizations to develop in order to achieve success. It has also been described as a strategy for improving organizational performance and maintaining competitive advantage.

### **Mental accounting and its impact on the performance of learning organizations**

Mental accounting includes both explicit knowledge and tacit knowledge. To demonstrate the effect of mental accounting in strengthening the performance of the learning organization, the relationship and influence of indicators for each type of mental accounting will be clarified separately: (Qawasmeh, 2013: 41), (Demers, 2009: 5).

#### **1- Explicit mental accounting and its relationship and impact on the performance of learning organizations:**

With regard to explicit mental accounting, which consists of four aspects or indicators, their relationship and the impact of these indicators can be shown on each of the performance characteristics of the learning organization, as follows:

- Technical aspects of accounting: which include identification, recognition, and measurement. Before the accounting process is measured, it must be identified and recognized as a financial event capable of monetary

quantitative measurement. Therefore, the issue of identification and recognition overlaps with many important issues. First, it must determine what the event is. financial recognition, And then comes the process of accounting measurement, which includes giving value to the financial event within the accounting records, and the standard process represents the backbone of mental accounting and its basic function, since the outputs of mental accounting depend on uncertain measurement procedures, and thus achieving absolute accuracy in measurement is considered a relative matter and also helps to Cost benefit analysis to ensure risks are appropriately matched with associated returns.(Anolam, et.al, 2015: 1)

- Scientific aspects: Accounting standards and principles: Mental accounting has methods, policies, rules, foundations, principles and standards based on it in the production of accounting information. Therefore, the degree of awareness, knowledge and familiarity with these vocabulary and concepts is considered to have a significant impact on the quality of use of the outputs of that knowledge, and includes knowledge of (standards

and principles accredited accounting in recognition, measurement and accounting delivery).

- Applied aspects: It is represented by the procedures (accounting cycle). Determining the nature of events, operations and conditions, measuring, tabulating and classifying them according to their common characteristics and economic effects helps a lot in determining and measuring the consequences and changes in the elements included in the financial statements. The registration and tabulation includes the knowledge (that summarizing and tabulating is an important part of the standard process of accounting events, and that there are different ways to classify and tabulate the elements of the financial statements related to the nature of the activity of the accounting unit),
- Media aspects: Internal accounting disclosure (internal reports) If accounting measurement is the main way to create mental accounting, then accounting disclosure is the other way to disseminate it, and it includes knowledge of accounting disclosure concepts and the quality of information disclosed (financial and non-financial) and its most important

determinants (relative importance, cost and benefit, quantity the information).

## **2- Implicit mental accounting and its relationship and impact on the performance of learning organizations:**

Implicit mental accounting includes four indicators that can contribute to supporting the performance of the learning organization, which is intended to find methods, practices and accounting methods that increase the efficiency and effectiveness of accounting work and contribute to responding to all economic, administrative, social, political and technical variables that affect the organization, and this is what he sees. Which can be through which to strengthen the performance of the organization and enrich its knowledge base, to show the relationship of the creative process and accounting innovation with the performance characteristics of the learning organization, it can be said that accounting innovation may be associated with: (Gorelick, 2015: 128)

- With the characteristic of cooperation and group learning, because (i.e. innovation) is based on teamwork, sharing ideas and supporting the distinguished ones, as well as participating in learning cases

between team members from each other, in addition to that, creativity and accounting innovation helps to provide the most appropriate accounting methods for the environment. The organization, which will undoubtedly contribute and raise the efficiency of work and collective learning, which will help in mutually enhancing the innovative process of accounting.

- Accounting innovation has an impact on the development and sustainability of systems for acquiring and sharing learning. The cognitive role requires creative processes to create, generate and employ mental accounting to become applicable means and methods adopted by the learning organization.
- Supports accounting innovation and guides the characteristic of providing strategic leadership through the innovations and tools of cost systems and management accounting that provide strategic and predictive information appropriate to the risks of future uncertainty and provide and evaluate alternatives and solutions to non-routine problems. . To support the performance of the organization in all its activities, operations, operational and strategic decisions.

- As for the feature of dialogue and inquiry that encourages self-knowledge, which is also used in predicting consumer financial decisions in different situations. (Le & Liaw, 2017: 162)

Accounting innovation supports the characteristic of continuous learning opportunities, by providing accounting methods and innovative methods that are suitable for continuous organizational changes. To support the organizational performance of the learning organization, accounting innovation is a key driver for improving and activating this performance, with the capabilities and information it provides that help in analyzing value and strengthening productive efficiency by identifying the constraints and bottlenecks in that performance.

### **3- Mental accounting and its relationship to accounting skill:**

It is represented by the mixture of knowledge and skills that the accountant possesses, which he harnesses to perform the work at the highest level of efficiency. The impact of accounting skill is evident through:

- The accounting skill is related to each of the characteristics (continuous learning, encouragement of cooperation and collective learning, inquiry and dialogue). Where the

accountant is expected to learn not only his business skills, but also the business skills of others as he is expected to know and learn, so the accountant here supports the characteristic of continuous learning opportunities, so that accountants can participate in the decision-making process and at all administrative levels and communicate their opinions, And discussing the views of others, and thus the accounting skill supports the characteristic of encouraging cooperation and group learning, which supports the dialogue process in the organization, and the accounting skill affects the success of the dialogue and inquiry processes by transferring part of the accounting knowledge to other disciplines to clarify visions in an integrated manner for cases and issues within the learning organization.

- Giving employees opportunities to participate in the organization's decisions and goals, this will allow the organization to benefit from their technical skills and at the same time enhance the consolidation of those goals. Accounting skills contribute to the empowerment feature by developing a common vision about the future of the organization and the distribution of responsibilities, as

accountants are an essential element for success in the organization, and just as work and accounting skill stimulate the learning process and assist management in allocating resources specifically to the activities and operations of the organization, constantly developing the skills and knowledge of accountants will enhance the performance characteristics of the organization, this development takes place through the process of improving the skill of the accountant as the continuous improvement of his skill and knowledge, as well as the ability to interpret, communicate and use computing information, as understanding the social, organizational and technological systems are the skills that activate the development of the workforce (Ninlaphay & Salakjit, 2011:159).

#### **4-Mental accounting and its relationship to accounting experience:**

It is represented by the knowledge generated by the accountant as a result of practice and the variety of activities that he performs and is repeated several times, and (Cardinaels, 2018:600) believes that the nature of knowledge is affected by the nature of the work task depending on the good performance of managers with high

mental accounting in both cost reports and work tasks that are performed Performing the oversight role, through it, as the control process requires a composite evaluation that measures the level of cost and its waste within these reports that are submitted based on the cost system, the level of cost accounting ability will be directed to the performance of managers for their jobs, whether in terms of planning, control or performance evaluation, that the element of practical experience leads to professionalism, considering that experience creates more opportunities to provide advanced, high-level knowledge, as these experiences support the performance of the organization according to the following:

- Mental accounting affects the property of establishing systems for monitoring and exchanging learning by building an empowered knowledge base that contributes to the organization's continuation of learning. The most important characteristic of this rule is the existence of an element of organization and interdependence, which is provided by the basic accounting experience.
- Mental accounting affects the strategy used to control personal spending, consumption and investments as a set of knowledge operations in

controlling financial business and transactions. Ozkan, M., & Ozkan, O. 2020: 87))

- Accounting experience has the effect of encouraging cooperation and collective learning, and considering that any system consists of parts linked to each other by mutual relations, so the experiences of accountants working in the organization turn into experience and organizational knowledge that focus on the benefit of the organization as a whole through developing awareness for all workers and assisting all administrative levels in how to The use of accounting practices to reduce costs and continuous improvement of performance, as mental accounting will strengthen the foundations of group learning as a result of sharing ideas among workers.

### **5 - Mental accounting and its relationship to continuous learning:**

It means the academic qualification that the accountant possesses, in addition to the continuous training and successive educational courses that the organization supervises in order to develop its performance in order to face all the variables that it may face. In addition to in-depth knowledge in the field of specialization, global market trends require the accountant to have a wide range of

knowledge in the fields of multiple disciplines, where the graduate in the field of accounting should have knowledge of the field of finance, information technology, economics and marketing, and many other things, if they are to work effectively in multidisciplinary work teams, and in order for the accountant to solve various irregular problems in unfamiliar situations, he should have an understanding of the political forces that constitute the desired situation, and an understanding of the economic, social, cultural and psychological forces that affect the establishments, and the accountant must be aware of the historical and contemporary events that affect the accounting profession. (Lashine, 2013: 6)

## **CONCLUSIONS AND RECOMMENDATIONS:**

### **Conclusions:**

- 1- Mental accounting represents a modern scientific field, and it is a mixture of stored information, which can be utilized with the capabilities, skills and experience of accountants to create value for the organization to reach the performance of the learning organizations.
- 2- The study confirmed that mental accounting is an administrative tool that represents the most important

asset of intellectual capital in organizations, as it is a source of competitive advantage through its application in knowledge management as a method for future plans.

- 3- Mental accounting, with its various components, is one of the basic foundations in planning, implementation, and follow-up for the management of organizations. Thus, it is originally an accountant, and the management accountant is considered to be its maker.
- 4- The performance of the learning organization is a reflection of the individual and team performance, and we have indicated the need for the availability of the seven characteristics as keys to support the performance of the learning organizations and to manage this type of performance.
- 5- That there is a set of management accounting methods that can be chosen in order to support the performance of the learning organization and to keep pace with its requirements, and the accounting profession always seeks to respond to these changes quickly in order to enable the organization to identify and apply changes directly, which makes the organization more productive compared to other organizations.

- 6- The new knowledge, including accounting, of the organization must be applied for the purpose of improving the performance of the activities of the learning organization.

**Recommendations:**

- 1- The need to provide continuous training and education for accountants with a view to renewing their knowledge, skills and experience due to the rapid developments in the current century and the dynamic nature of modern organizations, which dictates this matter to the management of organizations.
- 2- The necessity of applying mental accounting (building a knowledge base) in organizations due to its positive impact in creating value and supporting the performance of organizations.
- 3- Starting to establish research units to provide workers, including accountants, with all that is useful and new information and knowledge, and urging them to exchange them to encourage teamwork.
- 4- The necessity of attracting and appointing knowledgeable and qualified managers who are able to perform their roles efficiently and

effectively in a way that supports the work of organizations.

- 5- The need for departments in business organizations (especially for organizations in the industrial sector) to give their human capital great importance by providing mechanisms for the process of training workers and raising their level of knowledge through their participation in conferences, courses, etc., and focusing on young cadres because they are the future of the organization.
- 6- The need to direct more studies and research towards examining the role of mental accounting in its various components and its impact on the performance of business organizations, including the educated ones.

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