

Frugal companies are consistent, not reactive, study says

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Today's reactive, heavy-handed cost cutting is the antithesis of true frugality, says UC Davis management professor Shannon Anderson.

(PhysOrg.com) -- Frugal companies succeed commercially in part because they consistently control spending and are resourceful with people and products rather than cutting costs reactively, according to a new UC Davis study.

The paper, forthcoming in the journal *Contemporary Accounting Research*, explores frugality as a business culture rather than as a reaction to recession.

“The research was motivated by all of the headlines that came out during the worst parts of the [recession](#) indicating that firms were becoming frugal, as evidenced by layoffs and other cuts,” said Shannon W.

Anderson, a professor at the UC Davis Graduate School of Management and co-author of the study.

“My own experience working with companies on cost management made me very skeptical of the validity of characterizing these actions as evidence of frugality,” Anderson said.

The research confirmed that “today’s reactive, heavy-handed cost cutting is the antithesis of true frugality,” and should not be mistaken for frugality, she said.

The paper, “Corporate Frugality: Theory, Measurement and Practice,” was co-authored by Anne M. Lillis of the University of Melbourne in Victoria, Australia.

“We find that frugal companies control labor costs through greater use of incentive pay; control material costs through supplier sourcing strategies; and focus capital expenditures on efficiency-enhancing investments,” the study reports.

The paper used a mix of field research and surveys in 2008 and 2009 to collect information from corporate executives on frugality as a company characteristic, a topic that has been largely absent from accounting and management literature.

Anderson and Lillis looked at 10 large firms, existing literature on individual companies, and research on consumer frugality to assess corporate frugality. The research was conducted in the United States and in Australia.

The study identified IKEA, Southwest and Walmart as examples of frugal companies whose accomplishments are cited in the media and elsewhere, but does not name the companies or individuals in companies

who were surveyed.

The study notes that top executives have a major influence on a company's practices, and that mergers or changes in management can affect a company's culture.

While the research drew a distinction between frugality and reactive cost-cutting, it does not establish whether frugal [management](#) is superior or whether there are downsides to frugality.

“We've made a strong start in showing that frugality is an enduring feature of corporate culture and that frugal companies manage differently,” Anderson said.

More information: The full paper can be found at:
papers.ssrn.com/sol3/papers.cfm?abstract_id=1742115

Provided by UC Davis

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