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.

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.

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 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.cf ... ?abstract_id=1742115

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