Frugality and Tangible Asset Values in small firms of Eastern and Northern Uganda

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Abstract

This study aimed at investigating relatedness of frugality and tangible asset values in small firms in eastern and northern Uganda. Frugality in this study is defined as careful use of resources in firms. Frugality is operationalized as spending discipline, resource-reuse and delayed gratification. Tangible asset value is physical resources owned by the firm measured in Uganda shillings (UGX) currency value. Using a cross-sectional research design, data were collected from 242 small business owner/managers. Study results indicated that majority of the respondents were men (64 percent) most respondents were in the age bracket 20-49 and most firm operators' educational level was university degree and O- level, respectively. On average, Tangible asset values were UGX 62 Million. Frugality data were analyzed using a multiple correspondence analysis (MCA) and two frugality dimensions were obtained that explained 82 percent variance in frugality. MCA results also indicated that delayed gratification and spending discipline items significantly contributed to frugality dimensions, unlike resource-reuse items. A one-way ANOVA was conducted to determine if asset value was different for small business owners who had frugality attributes and those without frugality attributes. Data mean ± standard error. Participants were classified into two groups: Don't have (n = 112), and Have attributes (n =92). There was a statistically significant difference between groups [F (1,203) = 8.32, p = .0044]. Since those small firm operators with mindfulness on business resource use have a less average of asset values, unlike firms that have frugality attributes, even when resources reuse is deployed by small firm operators in Uganda, such operators attract more business assets by applying frugality attributes. This study focused on frugality and tangible asset values within northern and eastern Uganda thereby limiting generalization to other regions of Uganda. Small business owner and managers are provided with information emphasizing the

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importance of frugality as a foundation towards building the tangible asset values in firms. The results have important societal implications. Spending and delayed gratification facets of frugality that lead to more assets in small firms in rural setups were identified. This is believed to be the first empirical investigation of relationship between frugality and tangible asset values in eastern and northern Uganda.

Keywords: Frugality, Tangible asset values and Uganda

Introduction

Small firm resource poverty in rural settings, more especially in developing economies is necessary to study, even if there exits more literature on small and medium enterprises (SMEs) especially in developed countries. In United States of America (USA), for instance, a study by Welsh and White (1981) revealed that small firms faced resource poverty challenges. In a report by Small Business Outlook (2014), it was indicated that availability of bank finance to small businesses is an important factor in enabling business growth globally. In addition, it was revealed that almost two thirds of Small and Medium Enterprises (SMEs) in cities used external finance (Davies, 2014). Nevertheless, geographical patterns of bank lending broadly reflect concentration of SMEs in different parts of a given country. For instance, London alone accounts for 39 percent of UK SME bank lending (British Bankers Association, (2014). Similarly, Kampala, the only capital city in Uganda with a 29 percent SME density (UBOS, 2010), is expected to obtain high bank financing compared to upcountry based SMEs such as the eastern and northern regions of Uganda. Uganda is one of the three traditional East African nations that gained her independence from the British colonialists in 1962. The country has several regions that are often categorized as Eastern, Central, Western and Northern (Zikusoka, 2015). Kampala is the capital city of Uganda and highly urbanized rather than other regions.

The Eastern region neighbors Kenya and includes districts such as Soroti, Kumi, Ngora, Katakwi, Bukedea, Serere, Kaberamaido and Amuria. Particularly, Teso area used to be a big food basket in Uganda due to large number of livestock it had in early 1980s before cattle raids (Naulele, 2014). Teso region is cosmopolitan with over 50

Ugandan ethnic groups. Nonetheless, *Arapai* cattle market still accommodates almost 5000 people every Thursday and traditional granaries are still used to store food in times of plenty harvest. The eastern region of Uganda constitutes a wide variety of advantages towards business growth. The region has good road network and connection to the other districts that link to prominent countries like Kenya and South-Sudan. Most women in Teso region are posited to respect husbands, no matter whether the husband is learned or having any other status, under what is referred to as '*Arimarit*' in Teso language and cheating on another person's spouse can easily lead one to death referred to as *Adoteu*. In contrast to many other regions in Uganda that have largely evolved communal land ownership into individual ownership, in most of eastern Uganda, most land is communally owned under what is referred to as '*Atteker*' land. Largely, typical men in Eastern Uganda society often take local brew termed as '*ajoni*' as they discuss economic welfare matters, among other issues. However, the region was affected by rebel insurgencies from northern Uganda in the mid-1990s (Robert, 2004).

The northern region, which is also far from the urbanized central part of Uganda, has unique characteristics. The region is neighboring South Sudan and the Democratic Republic of Congo. The two countries have had relatively unstable political landscapes for some years. The northern region, unlike most of the other parts of Uganda, has also been affected by rebel insurgencies since 1987 (Mckinley, 1996). However since the late 1990s to date, the region has offered great business opportunities as well as received diverse support from numerous stakeholders including government agencies and financial entities with unique reconstruction initiatives (UBOS, 2010). Small businesses in eastern Uganda constitute 15 percent, while northern Uganda comprises 8 percent of total small businesses in Uganda (UBOS, 2010). Majority of small businesses in Uganda are in the capital city, Kampala alone, holding 29 percent of Ugandan business establishments (UBOS, 2010). Although the north and eastern regions are often referred to as commercial hubs of the neighboring countries, few business studies have been conducted, taking into consideration the uniqueness of such regions.

The unique characteristics of the northern region and eastern region amidst Uganda's rural settings could be associated with unique effects towards small firms. A case in point relates to firms' financial resources and asset value accumulation. For instance, several financial firms have established outlets in most regions in Uganda, but most institutions are concentrated in Ugandan urban settings (Kasekende and Opondo, 2003). Though commercial banks provide access to financing for firm assets in most advanced economies (Small Business Outlook, 2014), the picture may be different for the small firms in developing economies. More so, access to financial resources by the small firms may be more skewed to the urban based small firms than to those based in rural settings such as northern and eastern Uganda.

That notwithstanding, small businesses use of alternatives to bank finance is increasing in developed economies, but still such alternatives account for a relatively small proportion of SME finance globally (Small Business Outlook, 2014). Non-bank finance including: owner capital, business angels and crowd funding are highly niche focused and tend to be important for high-growth, innovative businesses (Bank of England, 2014). Moreover, crowd and angel funding are highly scarcely active in economies like Uganda. With prevailing increase in non-bank financial access and few alternatives such as crowd and business angels support, small firms may tackle small firm asset ownership by own savings, which is termed in the pecking order theory (POT) as owners' capital injection (Myers, 1984). However, frugal approaches in asset accumulation could augment tangible asset values of small firms. Leveraging of resources has long been amplified by proponents of the resource based view of the firm (Barney, 1991; Peteraf, 1993; Penrose, 1959).

Use of private wages and retained earnings appears a fitting alternative especially in emerging economies. Indeed, non-bank providers of credit, play an important role in providing resources to small businesses globally (Small Business Outlook, 2014). On the other hand, Fjose and colleagues (2010) highlighted that small firms especially in Sub- Saharan Africa operate in the missing middle of finance in that large firms and medium sized firms more easily access finances for firm assets from commercial banks. Nonetheless, the

African Development Bank in 2012 emphasized on need for frugal approaches to expand firms' financial value especially in Sub-Saharan Africa.

Globally, it has been noted that competitive business environment has elevated some small firms beyond the big ones such that it has become possible for smaller firms to become strong through leveraging resources (Winborg and Landstrom 2001). The smallness of firms was long attributed to cause unique advantages of agility in resources decision agility (Schumpeter, 1934). The element of leveraging resources though one may assume to fit in the issue of agility is, however, scarcely documented on matters regarding small firms, more so, in rural settings. Thus, frugality, which is often described in business studies as thoughtful use of recourses (Lastovicka *et. al*., 1999) and operationalized as positive attitudes of individuals on spending discipline, delaying gratification and resources waste minimisation through reuse, could explain the element of resource leveraging in small firms. This is in line with perspectives of the resource-based (RBV) of the firm as highlighted by Barney (1991). The RBV matters of firm resource use especially capabilities by firm operators focus on leveraging the firm's resources towards firm's competiveness, gives inertia to the current study. Nevertheless, the then Minister of Trade, Hon. Eng. Gagawala in 2009, indicated that financial savings culture in most African countries, Uganda inclusive, is below zero. Gagawala further warned that, *when the savings culture is below zero then it is replaced by the begging culture.* Similarly, the current Minister for Finance in Uganda repeatedly warns that lacking saving culture may hampers patient capital accumulation (Kassaija, 2015).

Although several constraints are noted to contribute to small firms' failure in Uganda (Bakunda, 2008; UBOS 2010), some authors have ranked financial inadequacy as the biggest challenge of all. For instance, Namatove and colleagues (2010) highlighted the core reason for small business failure as low financing. However, Saliya (2011) argued that personal finances are an essential element towards business growth. Although, small and medium sized businesses have faced a highly challenging environment for accessing finance CBI. (2013), most likely such challenges could be more amplified within rural communities of emerging economies than in advanced economies in general terms.

Therefore, the research question this paper aimed at answering is whether or not there exists a relationship between frugality and tangible asset values in rural based small businesses in Uganda.

Theoretical Background

There are interesting views on effects of frugality on a firm's prosperity. This study, which was pivoted on the resource based view theory and the pecking order theory sought to contribute on understanding of relatedness of frugality and tangible asset values.

The Resource Based View

The Resource Based View (RBV) focuses on resources leveraging (Peteraf, 1993) and recognition (Penrose, 1959) in firms constitutes a formidable ground in investigating frugality dimensions in small firms. Schumpeter (1934) indicated that small firms were in highly agile positions unlike large firms due to bureaucratic challenges of the big (Schumpeter, 1934). However, agility was only limited to non-financial innovations. Most literature on firms has delved much into firms' goods and services with less focus on firms' resources, especially financial resources.

The Pecking Order Theory

Myers (1984) argued that firms preferred more of internal finances than the debt (bank financing) and stock equity in the finance as seen in pecking order theory (POT). Still what remains questionable in applying the POT perspectives is the small firms' capacity and ability to follow this financing order sequentially. Yet, informality and lack of firms' structure especially those based in rural settings like Teso region may affect exploitation of existing financing products. Nonetheless, in the Sub-Saharan African context, it is emphasized that small firms will only survive if they utilize self-financing, given the scarcity of financial resources (Kaberuka, 2013).

Empirical Literature

The International Monetary Fund (IMF) forecasted that the total Gross Domestic Product (GDP) of emerging markets could overtake that of developed economies in 2014 (Howard, 2014). Majority of GDP contributors have been linked to SMEs. There is widespread popularity of small businesses across both emerging and developed nations, not only in cities but also in rural regions. However, survivability of most SMEs is seriously hindered by financing not only in the urban setups but also damaging in the rural setups. Nonetheless, there is an increase in the number of small businesses that cause global breakthroughs (Zahra, 2005). Entrepreneurship literature shows that business owners are able and willing to make strategic choices as well as take on risks associated with expansion.

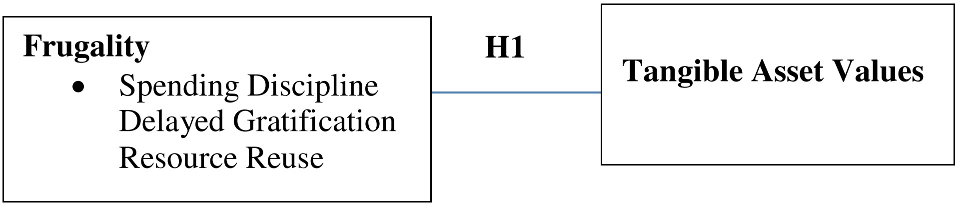
In line with Schumpeter's theory, Autio and Almeida (2000) argued that 'new ventures have the inherent 'learning advantages of newness' because the founder-owner is in control, new knowledge is assimilated quickly and therefore, such firms grow much more rapidly than established firms. Earlier than that, Schumpeter's 1934 line of thought highlighted that a firm's smallness causes agility unlike in big giants that have to go through circles of committees to conclude a given opportunity execution, which, for instance, could be a self-financing opportunity.

Poverty of resources usually leads owners to adopt low cost mechanisms. The trend has attracted attention to a whole range of international business activities largely ignored by the mainstream literature on firms (Oviatt and McDougall, 2005). The ability to pursue low cost mechanisms is highly linked to frugal behavior. Although emphasis on scarcity of resources is leading to effective cost dynamics in Asia (Winborg and Landstrom, 2001), few firms based in Africa especially small firms in Uganda have sailed through financing challenges. For instance, to the Chinese, small business owners' resource utilization has resulted in improving overall financing. Such frugality cultural value of persistence has enabled business owners to exercise extreme endurance, particularly at early small business stages. In due regard, business members practically work without pay for years just to ensure that there will be survival and long-term success of the business. In short, they delay gratification with emphasis to protect the "good name" of the business, working diligently and living cautiously (Sheh, 2001), especially in business.

There are contrasting views on resource poverty in small firms whereby resources leveraging proponents continue to downplay research scarcity belief and instead, they highlight cautions with resource use that ushered in the main hypothesis in this study:

H1: there is a likely relatedness of frugality and tangible asset values

Figure1: Frugality and Tangible Asset Values Conceptual framework



Components of frugality as seen in Figure 1 are derived from extant frugality literatuire that includes spending discipline, resource reuse and delayed gtratification (Lastovicka *et. al*., 1999; Tatzel, 2008). Asset value is operationalised as the monetary value of the assets in Uganda shillings.

The Study and Methodology

This study followed the positivist approach. Data were collected from small firm operators using a cross-sectional study design. Data on tangible asset value and frugality in small firms in eastern and northern Uganda were collected using structured questionnaire from a random sample of 250 small firm operators. One-way Analysis of Variance (ANOVA) was applied to establish relatedness of frugality and tangible asset values. They were executed after multiple correspondence analyses had been carried out to unveil core factors that explained variance of frugality. Socio-demographic characteristics were also extracted. The sex categories (male and female), education level and age of the business owners were profiled.

Socio-demographics and Study variable Results

A total of 242 questionnaires were useable out of 250 issued to small business operators in northern and eastern Uganda. Table 1 shows the socio-demographic profile of field data.

Table 1: Socio-Demographic Profile

Socio-Demographic Variables		
Sex	**Freq.**	**Valid Percent**
Female	88	36.7
Male	152	63.3
Total	240	100.0
Educational Level		
Primary level	29	12.1
O-level sec	58	24.3
A-level sec	27	11.3
Post-sec. certificate	31	13.0
University Degree	84	35.1
Post grad	7	2.9
Others	3	1.3
Total	239	100.0
Age Bracket		
18-29	61	27.1
30-39	76	33.8
40-49	54	24.0
50-59	27	12.0
60-69	6	2.7
Above 69	1	.4
Total	225	100.0

From the study, it was observed that most owners of the firms were males (63.3 percent). In terms of education levels, most respondents had a university degree and the next majority of the respondents had Ordinary level (O-level) education. Regarding respondent's age in small firm operation, it was found 30-39 years age and the other relatively younger age groups. However, the older age of 60-69 and above had minute percentage of the respondents (3.1 percent). The following section presents asset values in the small firms.

Table 2 :Estimated Tangible Asset Values

Mean (**UGX**)	62,945,454
Median (**UGX**)	15,000,000
Mode (**UGX**)	10,000,000

The average tangible asset value UGX 62 million, whereas the most frequent asset values were UGX 10 million.

Multiple Correspondence Analyses

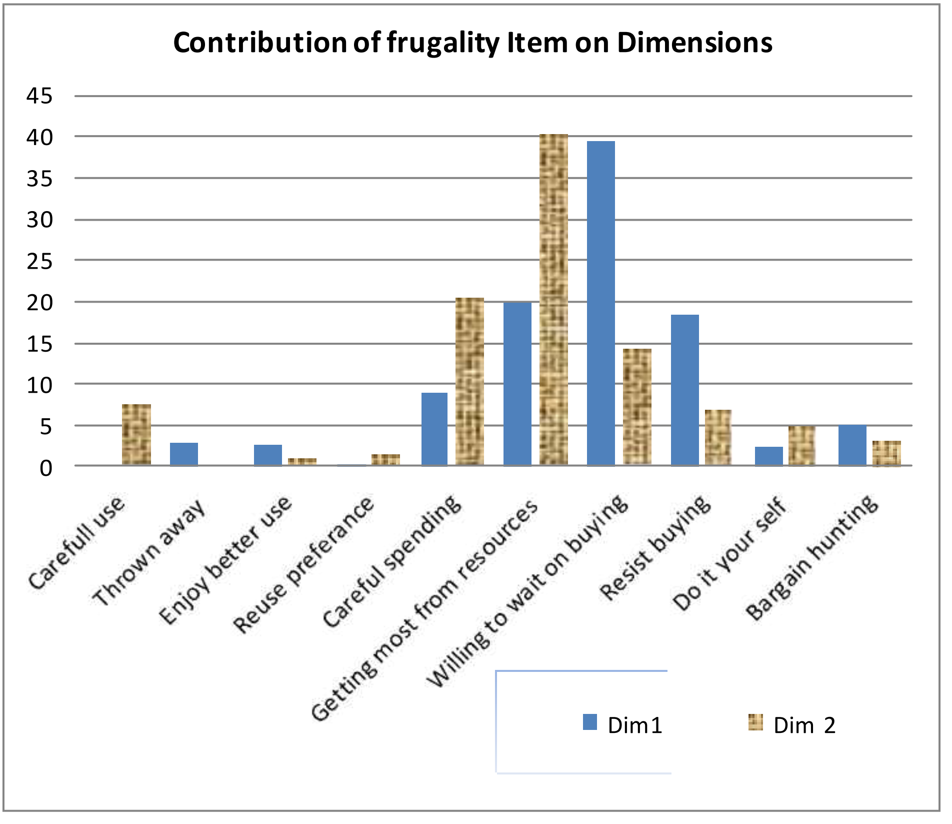
A multiple/Joint correspondence analysis was carried out using number of observations equivalent to 228 respondents. Two dimensions were extracted with a total inertia of 0.0198662.

Table 3: Multiple correspondence analysis on frugality items

Dimension	**Principal inertia**	**Percent**	**Cumulative percent**
Dim1	.0119385	60.09	60.09
Dim2	.0044875	22.59	82.68
Total	**0.0198662**	**100**	

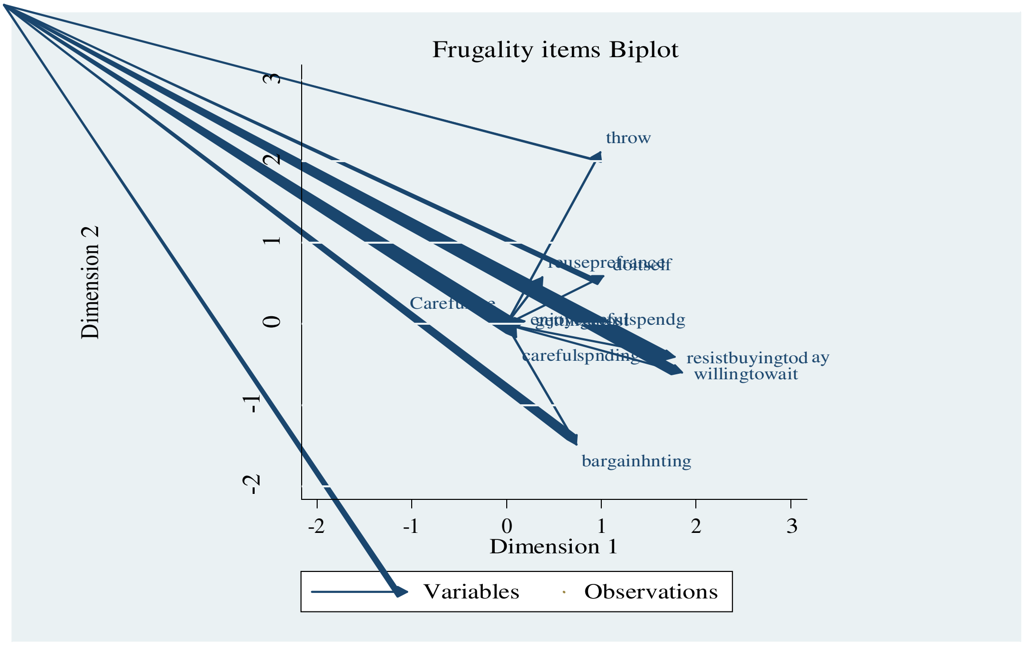
Two factors of frugality were discovered from JCA such that one dimension explained 60.09 percent while the second frugality factor explained 22.59 percent of variance in frugality. Overall, the two factors explain a variance of 82.68 percent in frugality. Figure 2 shows contribution of the 10 frugality items on the two respective dimensions/factors.

Figure 2: Contribution of the frugality items on the two Dimensions



The major contributors of dimension 1 include 'willingness to wait on buying,' resistance to buy in order to save, 'getting most from resources' and 'careful spending.' On the other hand, major contributors of variance of frugality dimension-two are 'getting the most' from the business money resources, 'careful spending' and 'willingness to wait on buying.' It was observed that 'willingness to wait on buying' contributes largely on both dimensions and thus, presenting evidence that business operators in the region utilize the delayed gratification facet of frugality. Spending discipline also featured prominently, However, resource reuse items are scarcely reported to contribute towards both dimensions of frugality. The biplot further shows plots of each item.

Figure 3: Frugality Items Biplot
From Biplot of 228 observations and 10 variables, explained variance by component 1 is 0.2489 and Explained variance by component 2 is 0.1762. Thus, total explained variance is 0.4251.



From the biplot, the cosines or angles of resistance of buying today and willingness to wait are similar. Other items are not adversely affected from the two items. However, the tendency to ‘throw’ resources [yet still useful] differed from other plots. This further amplifies the weak deployment of resource reuse in small firms in the region.

One way ANOVA Frugality and Tangible Asset Values

Table3a: Frugality and Summary of Tangible asset values

	Summary of Tangible asset values		
Frugality	**Mean**	**Std. Dev**	**Freq.**
Don’t have attribute	14315179	13368298	112
Have attribute	21081522	19978356	92
Total	17366667	16971540	204

From Table 3a, it can be seen that small business owners (i.e. 112 owners) who had no frugality attributes had a less mean and standard deviations of asset values than small business owners that had frugality attributes. More than half of the total sample did not have frugality attributes.

Table3b: Analysis of Variance			
Source	**df**	**F**	**Prob>F**
Between groups	1	8.32	0.0044
Within groups	202		
Total	203		

Bartlett's test for equal variances: $chi^2(1)$ = 16.0600 Prob>chi2 = 0.000

Table 3b indicates a statistically significant difference between the two group means. It can be seen that significance level is 0.0044 ($p = .004$), which is below 0.05 and therefore, there is a statistically significant difference in the mean asset values between the two different groups of the independent variable, frugality (i.e., "Have attributes'' and "no attributes").

A one-way ANOVA was conducted to determine if asset value was different for small business owners who had frugality attributes and those who did not have frugality attributes. Data are mean ± standard error. Participants were classified into two groups: Don't have (n = 112) and Have attributes (n =92). There was a statistically significant difference between groups [F (1,203) = 8.32, p = .0044]. Since small firm operators with mindfulness on business resource use have a less average of assets values unlike firms that have frugality attributes, even when resources reuse is deployed by small firm operators in Uganda, such operators attract more business assets by applying frugality attributes.

Discussion of Findings

The socio-demographic characteristics signal the controversy of communality that is emphasized on especially in eastern region. In terms of firm ownership, male dominate ownership over female business owners. Regarding education level, most respondents had university degree, followed by O-level education. It is evident that most firm operators especially owners in the studied regions have basic education. Perhaps the basic education may not involve the resource based and pecking order knowledge as well as embedded variables such as frugality linked resource leveraging. Regarding respondents' age, it was revealed that majority small business operators were in age bracket of 30-49 years but the older age group of 20-69 and above were minute (3.1 percent), meaning few old undertake business operations in the studied regions. Perhaps that could be linked to insurgences (Mckinley, 1996; Robert 2004) that could have led to older people migrate to other relatively peaceful regions.

Regarding the major contributors of frugality dimension, it was observed that 'willingness to wait on buying' contributes largely on both dimensions of frugality thereby presenting evidence that business operators in the studied regions utilize the delayed gratification facet of frugality. This corroborates Hoerger and colleagues' (2011) US based findings of delayed gratification as significant linkage to economic resources accumulation and general adult wellbeing.

The current study also found out that spending discipline also featured jointly with delayed gratification facets, a pattern, which indicates a steady path of small business owners in the studied regions. The combination of delayed gratification and spending discipline has been associated to formidable resources leveraging amongst adults especially in business enterprises (Anderson and Lalllis, 2010, Hoerger *et. al*., 2011). Although the resource reuse items are scarcely reported to contribute towards both dimensions of frugality in the current study, the resource reuse is often highlighted as a core component of frugality (Lastovicka *et. al*., 1999; Tatzel, 2008). Perhaps the resource reuse value in small entities in the region could be under estimated. But the study on business firm frugality (Anderson and Lallis 2010) upholds significance of resource leveraging. The wide range of small business failures in Uganda (Bakunda *et. al*., 2013; UBOS 2010) could be explained by lacking enrichment of resource reuse in small firms.

The ANOVA results in this study revealed that small firm operators who had frugality attributes influenced on their tangible asset values more than operators that had no frugality attributes. These findings auger well with adult related studies that have indicated significant correlation with socio-economic prosperity of individuals who take on frugal tenets such as self-restraint and self-control (Hoerger *et. al.*, 2011).

Given external financial resource constraints noted in Uganda (Rugasira, 2013; Namatovu *et. al.*, 2010; Fjose *et. al.*, 2010), self-control and therefore, good spending discipline together with delayed gratification should be embraced further as well as the resource reuse. Existing significant relatedness of frugality and asset values perhaps is a result of remedying the often mentioned small firm resource poverty (White and Welsh, 1981; Fjose *et. al.*, 2010) not only faced by firms Sub-Saharan African region, but also may be highly pronounced in Sub-Saharan Africa owing to institutional voids (Webb *et. al.*, 2015) and insurgencies (Robert, 2004; Mckinley, 1996).

Conclusions and Implications

Rigorous utilization of frugality attributes will not only solve the temporary small firm liquidity problems but will accelerate firms' prosperity through collateral (tangible asset) growth.

In terms of the resource based view application in rural settings, new perspectives emerge. It was revealed that delayed gratification as well as spending discipline, unlike resource reuse, is core facets under small entities in Sub-Saharan settings. This firm operator's resource ownership beyond the mere firm resource ownership perspectives augments the resources based view wide array resource leveraging, especially taking the small firm spectrum.

In addition to the pecking order theory, which traditionally highlighted owner equity, debt and external equity as major categorization of the sources of financing is also augmented, the business owners capacity to be mindful of business resources (assets) amassing through frugality behavior is the gravity of collateral creation a core source of capitalization as well as a basis on which debt and additional equity can be acquired in small firms. This is especially fundamental given that it is reported that there is a significant relatedness of frugality and asset values in small firms.

Within the two regions showing the majority owners of businesses as men, with the cultural conditions like *arimarit* -'the emphasis of women to respect men irrespective of the man's status' a danger is likely to occur. Business joint decisions may be affected given that men who are less cautious of frugal use of resource have to be given due cultural pivoted respect and esteem. This could be 'a time bomb' when the small business funds are misused by the husband but the woman under '*arimarit*' spectrum cannot query the husband.

Limitation and Future Studies

This study focused on frugality and tangible asset values in two out of the five regions in Uganda thereby limiting generalization to other regions of Uganda. Therefore, more regional studies in Uganda are needed to expand understanding of frugality and tangible assets in Uganda.

In addition, in-depth studies need to be carried out especially on the effect of communal asset ownership *(Ateker)* in regard to small business success to increase knowledge on small firm assets in areas.

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