

R&D spend doesn't translate to profits: study

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COMPANIES that spend billions of dollars on research and development may be wasting resources because there is no clear link between R&D investments and financial performance, according to a study released yesterday.

The report by Booz Allen Hamilton, a management consultancy, comes as the world's top companies are investing in R&D at an unprecedented rate in an effort to beat low-cost competition, a slowing global economy

and volatility in capital markets.

The study's claim that R&D spending does not necessarily increase profits also undermines repeated calls by governments in Britain and Europe for more corporate investments to close the transatlantic technology gap with the US.

The findings will deepen the debate on the effectiveness of R&D expenditure, especially because they come a fortnight after Britain's Department of Trade and Industry came to nearly opposite conclusions in its annual R&D scoreboard.

The Booz Allen Hamilton study of the 1000 public companies that spent the most on R&D last year found no relation between those investments and financial indicators, including profit and sales growth, net margin and shareholder returns.

The study covered financial data of the companies between 2001 and 2005.

"Conventional wisdom often seems to view R&D as a predictable black box that automatically translates today's innovation investments into tomorrow's profits," the authors say.

"But the process isn't automatic. Many companies' R&D efforts are unfocused.

"Money is wasted 'reinventing wheels' that others have already rolled out."

The number of patents held by companies — regarded by both governments and chief executives as an important driver of performance — had also little bearing on sales and profits because few patented inventions became best-selling products, the study said.

The report identifies nearly 100 "smart spenders", companies that invest less than their rivals

on R&D but surpass them in financial terms.

However, Mike Tubbs, one of the authors of the DTI scoreboard, warned that some of the findings of the Booz Allen Hamilton report may be distorted by the decision to look at companies across all sectors.

"In sectors like utilities and oil and gas, R&D is not a competitive factor and would not be expected to have a meaningful impact on sales growth," he said.

Additional reporting:
Richard Waters in San Francisco