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Topic: Managing Research & Development Projects

ALLOCATION OF FUNDS TO R&D

Every business involves investment & risk. Performing of R&D activities involve the use of both human & financial resources.

R&D involves the following reasons:

1.R&D involves risk & profit: R&D activities involve the use of human & financial resources, they are known as risky & endeavors. R&D activities are introduced to bring about a transformation in resources. The technological innovations can provide profitable return in following ways:

a. The value of processes & production is increased which in return results in savings in cost & sales revenues.
b. Licensing, franchising sales of technology results in income.

Very few R&D projects prove to be successful, however long term & more risky R&D projects ensure large benefits for the organizations.

2.R&D is a cost: R&D is believed to be a cost, that does not result in immediate revenues. In order to fund the R&D activities the organizations use the following methods:

(a)Overhead expense

(b) Investment

When funding R&D as an overhead expense the organisation should ensure that the amount is less. High amount of overhead expense will have an impact on overall financial performance of the organization

3. R&D is an investment: The management may consider R&D as an investment. This assigns a level of risk to R&D. the return on investment is used to calculate the cash flow that R&D activity would generate over a period of time.

According to Mitchell, return on investment is an appropriate method for technological development & engineering programs.

R&D projects that require large expenditure, cannot be accepted as a cost under overhead expenses & are associated with unpredictable return.

Key factors for allocating the resources to R&D

1. Long term needs
2. Short term needs
3. Size of funds
4. Conflicting demand
5. Strategy direction
6. Back logs
7. Competitors

Allocation of R&D projects

1. It is not possible to control R&D on annual budgetary basis like any other business activities.
2. Management of R&D requires a long term technique that allows to acquire knowledge & its development over a period of time.
3. This may frequently give rise to stress to other functions that are involved in planning projects & activities.
4. For performing the business activities, R&D should be linked with business strategy.

5. All the business functions complete with other departments for funds, because it is not always possible to acquire unlimited funds.
6. Marketing department suggests the company to spend extra funds for developing new marketing strategy.
7. IT department demands more funds for acquiring large equipment & for providing training to all the employees
8. Sales department demands for funds in order to increase sales.

Therefore it is difficult to manage all these functions in an organizations.

9.While allocating resources to research & development, many factors need to be determined.

According to Schmitt “It is essential for the corporate level R&D strategy to devote its energy & time on the exploitation of a highly leveraged opportunities which are responsible for improving the overall performance of the business. Based on the opportunities projects have been categorized into following:

1.Short term projects needs special emphasis & is targeted to specific group of customers

2.Long term projects needs to be emphasized & targeted.

3. Speculative & exploratory projects

4.Supportive research projects for existing range of products & services.

INVOLVEMENT IN TECHNOLOGY

- The strategic decisions are essential in R&D efforts which are usually affected based on the perceptions & the value system of the top management.
- The availability of investment funds is limited & such funds need to be optimally allocated among the areas like advertising & investment funds need to be optimally allocated among areas like advertising & investments considerably for long period of time.
- The strategic decisions play a key role in coherent strategy while considering the policy of ignoring the risks associated with technological innovation & also the expertise related to other functions like marketing, manufacturing or finance.

Sources of funds

Internal funds: R&D was financed by the internal sources of funds which depends on a specific division of reporting firm. It also refers to the amount of financial resources that are utilized on R&D which is generated within the direction of reporting statistical divisions.

The internal funds in an organisation comprises of the reserve or retained earnings, sales, rise in capital equity.

External funds: It refers to the amount of financial resources which are spent on R&D that is generated beyond the control of a reporting unit.

Funding of R&D

- To manage R&D & to meet the costs of R&D, there involves an important flows between units, sectors & countries.
- Based on performance R&D is carried out by statistical unit with funds that are from internal sources or external sources

Approaches to measure flows of R&D funds

R&D funding can be evaluated by using two approaches:

1. Performer based reporting is one of the approaches wherein a specific amount of money received by a statistical unit from another statistical unit during a particular period.
2. Funder based reporting wherein a specific amount of money is paid by statistical unit to pay another statistical unit during a period.

Performance based reporting is mainly suggested for R&D data collection. The performer enquires about whether the funds are being used for R&D, amount & sources of funds utilized & the year in which the R&D activity performed. Whereas funder based reporting can be used for acquiring R&D information relating to purpose of funding units of R&D.