ROYAL ACADEMY OF ENGINEERING

Ownership and financial structures

Summary

Company ownership and financial structures are important influencers of company R&D spend since they determine overall business strategy and the role of R&D in the company.

Shareholders can sometimes act as a barrier to R&D investment if they are focused on short-term returns or have a low risk appetite.

This is a complex issue without a simple solution. Government, industry and the investment community should work together to explore how to further incentivise strategic investment and ownership of technology-based companies that is focused on long-term company growth, including through R&D investment, rather than short-term returns.

R&D investment decisions are highly complex. They must take into account a broad range of factors including performance of the firm and profit margins, market trends, technological opportunities and threats, and other business priorities, such as marketing and production.

See also ***Introduction.***

The investment envelope tends to be decided by company boards, and can be influenced by:

- Risk appetite of board and shareholders.
- Expectations of shareholder returns.
- Board understanding and expectation around the role of R&D in the company.

These characteristics vary widely across engineering companies and are further influenced by whether the company is **privately** or **publicly** owned. These differences can significantly shape decisions on R&D investment.

- **Private** engineering companies, including comparatively large ones, are often owned by company founders or their families, or by a small group of engaged investors, without publicly traded shares.
- **Publicly** owned engineering companies have publicly listed shares and can have a broad range of shareholders, including UK and foreign pension funds, insurance companies, other financial institutions and private individuals.

> "There is an urgent need to address short-termism exhibited by the UK investment system."
>
> **Professor Neville Jackson FREng, Chief Technology and Innovation Officer, Ricardo**

The challenge

The influence of ownership on R&D spend is complex, but several senior technologists highlighted that this can be a significant barrier to R&D investment.

Privately owned companies interviewed were often strongly committed to R&D investment:

- R&D or engineering is seen as core to their identity.
- They often have a long-term vision for company growth that is driven primarily by R&D.
- R&D investment can be readily increased to respond to technological opportunities or threats as they arise.

While some **public companies** can have a similar approach to R&D, this is not always the case. Maintaining or increasing R&D investment in some public companies can be more challenging:

- Pressure to report regular positive investment returns and dividends can be incompatible with the longer nature of returns on R&D investment.
- Institutional investors, such as pension funds, can have a low appetite for risk, disincentivising novel approaches and highly innovative work.
- Relatively low profit margins in sectors such as construction, utilities and some forms of manufacturing can limit R&D investment by low-risk shareholders. This can be overcome by collaboration between these companies, reducing risks for each individual company and incentivising strategic, long-term R&D projects.

"As a family-owned business, our Chairman Lord Bamford is always open to increasing R&D investment in response to a breakthrough idea that could bring long-term growth to the company."

Tim Burnhope FREng, Chief Innovation and Growth Officer, JCB Group

To increase business R&D investment:

- Facilitate R&D collaboration between companies with low margins to reduce the risk to each individual company.
- Investment and company ownership structures are complex issues with wide-reaching implications. Engineering companies, government, industry and the investment community should explore potential routes to:
  - Incentivise investment models focused more on long-term company growth and less on short-term dividends.
  - Support companies in sectors with low-risk investors but with the potential to increase innovation, such as utilities, construction or manufacturing, to attract mid-high risk investment.

This explainer is part of a series based on interviews with individuals responsible for making decisions on R&D across a wide range of engineering companies.

See ***Introduction*** explainer to find out more.