

# How contract research biases allocation of time

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Contract research means that the state or a firm pays an organization to carry out a specific research programme. The results go to the client and are not made available to the public. In funded research, on the other hand, payment is made to the central funds of the organization and is not tied to any specific research. Publication is permitted. The problems associated with funded and contract research are similar in kind, though funded research usually poses less serious problems.

If you are working for a university, a research institute, a government advisory organization or a commercial organization, you may be asked to do some economic research on a contract basis. If you are not very careful indeed, you can find that you end up misallocating your time, and producing very low quality work. Your organization, too, may find that it unbalances its whole economic research programme, and misallocates all its resources, including those used for non-contract work. It is easy to find, at the end, that you have got very little money to compensate.

Universities, research organizations and private firms often take on contract research because they are stuck for money. This may be because they have been hit by budget cuts. They may also have taken on full time staff to do a particular job and have no work for them once that job is finished. If they can get a bit more money to cover overheads, they may be able to keep the organization viable in spite of budget cuts. Contract work can be a good thing in many other ways. For example it means that economists in research organizations and universities are kept in touch with what are seen to be the problems of the real world. It is also argued that firms are far more likely to take up research results produced on a contract than results produced in an academic vacuum, that it improves the relationship of researchers with industry, and that it can improve the direction of research. Academic economists also find that it is often the only way to get into an industry and find out how it really works.

I do not propose to reiterate the advantages of contract and funded research here, nor to present a "balanced" appraisal of the advantages and disadvantages, for, in practice, the balance depends on the action taken to control the disadvantages. Instead, I am going to discuss the problems that I know have arisen in universities and research institutes. I am going to draw particularly heavily on the experience of my former colleagues, both scientists and economists, at the Irish national agricultural research organization, who talked frankly and at length to me. I have also drawn on the experience of economists working in British universities, and in government. They told me of the pressures put on them to misallocate resources, but it should not be thought that they necessarily succumbed. Usually the pressures were effective only as long as they were not recognized. Once the pressures were recognized, it sometimes proved possible to check them by counter pressures.

Obviously, both funded and contract research have a lot in common with normal

commercial consultancy, and you may ask why problems should arise with universities and research organizations but not with consultancy firms. The main reason, I think, is that consultancy firms have a firm objective, to make money, and they know exactly what they will or will not do to achieve that objective. Universities and research organizations have the objective of carrying out a research programme in the public interest, and there is very little that they will not do to get the necessary funding for this. Add to this the fact that research organizations are often hopelessly uncommercial in fixing charges, and you have the basis for a major misallocation of public funds.

## **MISALLOCATION**

If an organization accepts contract or funded research, it nearly always switches resources away from what had previously been considered to be the optimal allocation in the public interest. The only exceptions are:-

- X when a researcher has determined what the highest priority research is, and only then has started looking for money for it.
  
- X when the high priority project can only be carried out at all if it is part of a contract, when, for instance, this is the only way to get confidential information from a firm.
  
- X when the contract means that there is a higher possibility of the results being accepted,

and this significantly affects the probable payoff (though, to compensate, this may mean that only one firm gets the results, and the payoff, so the total payoff may be much smaller than when many firms act on only some of the recommendations).

X when the contract research is entirely in addition to the existing research programme *and* it is not an alternative to some more valuable work.

Even those few organizations that use profits from low-priority contract work to subsidize high priority work are almost inevitably adopting a suboptimal programme. The main form of misallocation is carrying out research with a lower and slower payoff.

Contract research causes a diversion of research effort towards those sectors willing and able to gather funds. This would be a useful way of determining priorities if each sector was equally capable of collecting money, but in industries like the dairy industry where all the product passes through a few processing plants it is easy to collect a levy, while in other, bigger, industries, such as horticulture, it is virtually impossible to collect a levy. Imbalances also occur in sectors like computers, which are dominated by a few large organizations willing to finance their own research. A similar problem arises where everyone would benefit from the research, but nobody admits it, in case he is asked to contribute to it - a classical Pigovian welfare problem.

A very serious reaction to the need for money is that there are some universities and research institutes that refuse to let their staff carry out priority research if they think that the results might offend potential clients. I know this to have happened in one British university and in Ireland and Galbraith quotes an example in Iowa:

"Their special skill was maintaining an equilibrium between the more regressive

prejudices of farmers and legislators and the recurrent tendency to intellectual inconvenience on the part of the faculty. The latter involved not political but agricultural heresy. As late as 1943, economists at Iowa State College were assailed for a published finding that oleomargarine was, nutritionally speaking, a good wartime substitute for butter. The head of the Iowa Farm Bureau, Francis Johnson, announced that "Iowa wanted no Harvard on the Corn Belt". Theodore Schultz, the chairman of the offending department and a later Nobel laureate in economics, removed himself to the more tolerant precincts of the University of Chicago." (Galbraith, J.K., "A life for our times: memoirs" Andre Deutsch, London 1981 p 10)

Sometimes an organization which provides funds threatens to withdraw these funds if certain results are made public, or if certain lines of research are followed up, even when the results are not from the funded programme itself. It has happened that a firm that provides only two or three thousand pounds towards a research programme has managed to change the whole research policy. The research organization may be quite open about bowing to these pressures: one British university has a committee that meets formally to censor all publications in case a potential client is offended. Commercial consultancy firms do not have these pressures, as they do not normally publish their results.

Another form of misallocation occurs when contract research produces results which suggest new lines of research. These results are confidential so the organization cannot follow them up except as contract work with the same client. Similarly, if one firm contracts for some work on a process basic to the industry, it gets a monopoly, as the research organization cannot give these results, or any results following from them, to a competitor. This is fair

enough for a private consultancy firm, but it is not for a university or research organization that has been publicly funded to help the industry as a whole.

## **BIAS IN RESEARCH**

It is not common for economists knowingly to alter their results to suit their client, but even the best intentioned researcher may be unconsciously biased and his desire to see the problem from his client's point of view may affect his objectivity - a problem with commercial consultancy too. Economists see the risks more clearly than scientists and are more careful.

In some research the contract itself can introduce a bias. For example, I have investigated supermarket chains and other retailers on behalf of the National Prices Commission, and I have no doubt that I got a lower response rate than I would have got when working for a university, as well as different replies. The retailers were afraid that the National Prices Commission would attack them publicly for overcharging, and that they might impose some price or profit control.

To some extent, too, the fact that I had done this job for the National Price Commission must affect any future studies of the retailers by me or any other member of my research organization. It was inevitable, perhaps, that my report to the National Prices Commission on marketing margins and efficiency would be reported in the newspapers as evidence that the retailers were inefficient and were overcharging. The retailers could well take me and my organization to be hostile. (To avoid this I gave them my original reports which did not have this implication, as well as detailed private reports, which they found helpful and unbiased,

and so built up a good relationship over the years.)

Another result of doing such studies is to make respondents reluctant to give you any information for any study whatsoever. If a retailer gives confidential information to a university economist, he is justifiably aggrieved if the same economist approaches him a year later on behalf of the National Prices Commission or on behalf of a commercial rival. The economist will inevitably make some use of the confidential information, as background if nothing else. Naturally the retailer will think twice about speaking to any university economists in future.

The Institute of Market Research says in its code of conduct that its members should not disclose who they are working for. This means, I suppose, that a rival firm will not find out what new market they are interested in. It also means that everybody will reply as though they are talking directly to their closest competitor. Frankly, in most of my work I think it would have been both dishonest and counterproductive to conceal the name of my client, as my client has been very well aware.

## **QUALITY OF RESEARCH**

The pressures on the person doing contract research mean that the research often does not meet the normal standards of the organization. Often the research proposals are drawn up without adequate consultation with the person involved, are costed badly and have insufficient support in people or money. Often too he has insufficient time to collect the literature and think his way round the subject before the work starts. He is not in the usual situation of planning what he can do with the resources available, but is trying to tackle a task

with insufficient resources, and he may achieve nothing. Consultants, of course, do this all the time, but, as will be shown in Chapter Six, they are used to it, they have a different approach to their objectives and they do not aim at the same standard of completeness that a university does. The university economist is also less likely than the consultant to be able to cope with poor job specifications, with a research specification that specifies pedestrian, routine work, that rules out examining the really important problems, or that defines the wrong objective. He is less likely to be able to deal with the client who visits at two-monthly intervals, each time demanding a change in strategy, different research methods or different targets: he may just do as he is asked and end up with no real results.

Probably the most valuable piece of equipment in a research organization is a wastepaper basket. Dozens of research projects end up there after the initial planning stage, when it is seen that they lead to dead ends or that they are not worth pursuing because of weak statistical design etc. In contract or funded research the research organization is committed to providing an answer, and it is difficult to tell the client that the project is not worth any more effort, especially if the organization suggested the project. There is strong pressure on the economist to complete the study and to present a report to justify the fee.

There are occasions when the client lets it be known that he wants the results for publicity, advertising or public relations only, and that he will be satisfied with results that are not statistically valid. No reputable organization will become involved in work of this kind. Abuses are also possible where the client only wants to be able to say that certain tests have been carried out, as the recent disclosures on drug testing in the USA have shown. The reputation of the research organization will suffer if it does work, however good, for a client who habitually and knowingly contracts for meaningless work from other people.



## **PUBLICATION**

Sometimes the client specifies that the research results should be confidential for at least two years, or more often forever. Naturally this is often essential, both so that the client will release confidential information and so that he will get the monopoly on the results which will enable him to recover his investment. It does mean, though, that the economist loses both the job satisfaction from publishing and the discipline of submitting his results for refereeing. The result may be poor research.

The contract may give the client the right to refuse publication if he wishes. This can lead to the result that all research that does not support his special interest is suppressed and everything that supports it is published. This is out-and-out faking. If only the results that support a false hypothesis are published, the study will appear to be corroborating it instead of refuting it. It is faking, too, if the client announces that he has obtained a report from a respected research organization and then proceeds to publish carefully selected, edited sections of the report, together with his own conclusions which are incompatible with the economists'. Out of self interest if nothing else, the economist and the organization must reserve the right to check any publication or press release based on the report, and they must not hesitate to publish a retraction if necessary. Results are faked just as certainly if the economist slants his work so that the client is more likely to permit publication, or if the research organization censors it to avoid offending the client, as is far more common. I am told that one British Government department habitually sends back research for "correction" if it does not support the department's policy. Such is the struggle for research funds that

university departments comply.

The British Association of Metropolitan Authorities complained bitterly of political interference in the Transport and Road Research Laboratory, complaining of an increasing trend to suppress results which the government disapproves of, as well as a change of the direction of research.

Self censorship may have equally serious results. In both cases it is not just the contract research that is affected: all research results are liable to be altered or suppressed. All the research of that organization is suspect.

## **FEES**

A lot of the trouble arises from the organization's unbusinesslike attitude to fees. Universities and research institutes usually charge a much lower fee than would be charged by consultants, even in cases where they have more specialist knowledge, and specialist laboratory backup. They do not appreciate that the higher the price they charge, the less pressure there is on them to do contract work, and the more likely it is that the contract research can be limited to those cases where the contract means better research or better uptake.

They often do not realize the hidden costs of the work and they charge for little more than the economist's wages. They do not allow for overheads, for the time spent negotiating the contract and negotiating other contracts that do not materialize. They do not allow for the opportunity cost of employing the economist on another project. They do not allow for the disruption to other research when, for example, the contract work keeps the mainframe computer fully tied up and other economists cannot get on with their jobs.

In practice the fees quoted by research organizations, low as they are, are frequently maximum fees, and researchers feel free to negotiate smaller fees if they wish to do so. They may undertake a one-year project solely because a firm gives them a bit of equipment or a few hundred pounds (and I know of one case where the total payment for a bit of funded research was spent on a cocktail party to thank the sponsor!). By doing this, they make it difficult for the research organization ever to get their quoted fee. Researchers will be told "But you never charge us the full fee: we pay half price." or "How can you charge us ,400 a day - your colleague only charged us ,50." Of course discriminating monopoly might be desirable, but it must be administered centrally if it is to work.

Researchers are sometimes encouraged to ask firms in the industry to give grants for study tours or to attend conferences. They may respond by doing a one-month project in order to get the ,100 needed to attend a conference. The firms that have given a few such grants may feel that they have done their bit for research, and they may withdraw their ,20,000 contribution to the industry's research fund. Research workers also complain that they are placed in a very difficult ethical position if they accept research funds, or even a gift of equipment like a computer, from people whose products they are supposed to be evaluating impartially.

## **CONCLUSION**

The problems discussed above are very serious in practice, especially in a period of falling budgets. There are pressures on individuals and organizations to do the wrong work and to do it badly.

The first line of defence is to have a strong professional body, perhaps a staff association or a trade union, determined to maintain professional standards. If it makes sure that its members understand the pressures, and it supports them when they resist them, the threat can be contained.

The pressure can also be taken off individuals if the organization has a high-fee policy, strictly controlled from the centre, and it does not permit any discounts by anybody.

A strong and rigidly honest administration can help, by making sure that all research workers know of the problems, by rigorously controlling priorities and evaluating contracts and by taking financial pressures to accept contracts off individuals and departments. However, administrators do not, as a rule, see the importance of professional integrity, or see that competence without integrity has no market value.

If you do find yourself in an organization where you are put under pressure to fake results, you should get out as soon as possible. If you do submit, you lose your professional integrity and your reputation. It takes strong moral courage and iron determination to fight. You will be fighting people with completely different ethical standards - as they have proved by faking - so you will not have a common set of ground rules. At the end you may achieve nothing, except to damage your career prospects.

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