Chapter XV

The Valuation of Knowledge in Public-Private Partnerships

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This chapter is about a special form of virtual organization: the Public-Private Partnership (PPP), created for the purpose of generating new knowledge. PPPs typically consist of three types of partners: academia (universities and affiliated institutions), industry (individual companies) and government (departments or agencies). The PPP delivers knowledge to its participants. At the same time, the participants provide input to the PPP (e.g., knowledge, user demands or policy goals), each in their own way. PPPs show considerable variation in the number of participants, budgets, life span and the areas of research they cover. Furthermore, they can differ in scale (multinational, national or regional) or in the type of partner that takes the initiative or lead. In some cases, a separate, intermediate organization will initiate, facilitate and stimulate the cooperation.

A major issue in any PPP is the value of the knowledge that is (or will be) generated. To be more precise, the real issue is the valuation of knowledge: What beliefs and assumptions do the partners have about this value? What models or calculations do they use to find out what the knowledge is really worth to them? What makes them decide to invest money and time?

This chapter will provide insight into the valuation process and the typical differences between the three types of partners in this respect. The insight will help to explain why some PPPs fail or malfunction, and it offers a set of basic conditions that must be met to run a PPP successfully. Finally, and perhaps most important, it may help to identify and overcome the cultural barriers between the partners and the misunderstandings that result from them. This is useful for anyone who finds himself involved in a PPP, and especially for those who set up and manage it, or plan to do so.
THE BASICS OF VALUATION

Why Knowledge Has No Shared Value in a PPP

Literature on PPPs (Geisler, 1995; and others) often focuses on the research and development performed, and on the more technical issues how to define, organize, and manage R&D programs and innovation projects. Often an underlying and hidden assumption is that the three partners look at knowledge in a similar way, and that knowledge has an intrinsic value of its own. This is not the case. In fact, ‘knowledge’ has very different meanings for each partner. Ignoring these differences leads to misunderstanding and failure.

From our experience with PPPs in the USA and Western Europe, we have derived a model that clarifies the meaning the three types of partners in a PPP attach to knowledge, and what types of cultural barriers exist between them.

The starting point is the observation that the value of knowledge is a function of the local environment of each partner and the types of reward that knowledge gives them. This environment (called the arena) is the virtual place where partners normally operate, and wherein lie their raison d’être. Within each arena, a commonly accepted currency serves to make the value of the players in the arena and their respective assets comparable. Consequently, partners in a PPP will continuously try to express the value of any knowledge into the currency of the local arena.

Another element in our model is that the cycles in which knowledge is generated and applied are not synchronous. Typically, a company requiring new knowledge to capitalize on an opportunity needs the knowledge faster than the traditional knowledge cycle that universities can provide. This has consequences for the valuation of the knowledge. The longer it takes to provide the knowledge, the higher the risk that it will be obsolete by the time it becomes available, thus strongly reducing its potential value for industry.

Arenas and Currencies

The three partners in a PPP are government, academia and industry. They differ fundamentally in the roles they play and in the ways they value knowledge. One can express these differences in arenas in which each of the organizations must prove and trade their value, and in currencies used to measure that value.

- The government trades in the political arena and its currency is political power.
- The arena for industry is the market, and the bottom line is the currency in which its success is measured.
- For academia that currency is peer recognition and the arena in which it is earned is the international science community.

The differences that follow from these arenas and currencies are manifest in different senses of security, dependencies, feedback mechanisms and rules that each of the three partners in a PPP uses to survive. Recognizing these differences is a key factor for a PPP’s success, to understand the roles knowledge plays and the ways it is valued. Let us elaborate on the specific characteristics of these currencies and arenas.
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