

Selecting the Right Business Appraiser

(provided by Laurie L. Miller, CBA, BVAL)

Most professionals, such as attorneys, doctors, dentists, and accountants, have clearly-defined career paths that must be followed to enter their profession. Typically, a specified college program must be completed followed by some examination for licensing or other certification. Unfortunately, the business valuation profession does not have a clearly defined path. No college major exists for business valuation, nor are there any government-licensing requirements to prove minimum competency. Because of this lack of a specific career path and licensing requirements, many individuals with different backgrounds claim expertise and do business appraisals, often with poor results.

Professional Background

Business appraisers typically come from one of the following groups: 1) certified public accountants; 2) business brokers; 3) college professors; 4) stockbrokers and/or stock analysts; 5) commercial real-estate appraisers; and 6) industry experts. Without special training and business valuation credentials, most individuals from these groups are not competent to do business appraisals. Very few individuals actually performing business valuations have earned a professional designation from a recognized professional organization certifying business appraisers.

1) For years, many assumed **certified public accountants (CPA's) were competent in valuing businesses. In 1997, the American Institute of Certified Public Accountants (AICPA) established a special credential for business valuation called Accredited in Business Valuation (ABV) to demonstrate competence in business appraisal. In 1991, another organization called the National Association of Certified Valuation Analysts (NACVA), exclusively for CPA's, was also formed to give CPA's some training and a credential in business valuation called Certified Valuation Analyst (CVA). However, only approximately "one percent" of CPA's across the nation currently hold either of these two credentials in business valuation. This seems to indicate that the vast majority of CPA's nationwide have little or no training or expertise in business valuation.**

Additionally, CPA's are very familiar with financial statements, but many are uncomfortable making forecasts, a necessary step in business valuation. Another problem for CPA's is potential conflicts of interest. For instance, preparing tax returns for a business and then in an appraisal adjusting the level of officers' compensation for being excessive.

2) Business brokers sell businesses, but most have no training in business valuation. Often business brokers use generic rules of thumb to list and sell businesses. However, rules of thumb can be dangerous, as they do not take into consideration the specifics of a particular business. Also, many business brokers lack the financial expertise necessary to properly analyze a company's financial statements.

3) College professors typically have expertise in financial theory and may be able to analyze financial statements, but they often try to apply sophisticated financial techniques designed for very-large companies to small privately-held companies. They also often lack the "real world" experience necessary to properly value most privately-held companies. Additionally, they have difficulty explaining what they have done in language a jury can understand.

4) Stockbrokers and stock analysts usually have the ability to analyze financial statements and

understand public markets. However, they typically have no experience dealing with privately-held companies.

5) Commercial real-estate appraisers are very familiar with appraisal methodology, but many are less familiar with the accounting concepts of financial reporting. Also, they often have difficulty understanding the need for much-higher-discount rates in valuing a business than for valuing a commercial real-estate property.

6) Industry experts typically are not familiar with legal standards of value, proper and improper premises, valuation approaches and methods. They rely on anecdotal evidence, rules of thumb, or worse, "their professional opinion". Today, with the incredible amount of information available from the Internet, trade associations, Wall Street, and other sources, competent business appraisers can quickly get up to speed on almost any industry. However, industry experts, while having industry knowledge, probably will not have business valuation expertise.

Professional Organizations & Corresponding Professional Designations

In order to meet the need of demonstrating competence in business valuation, several professional organizations have evolved that certify business appraisers. The four organizations in the United States that certify business appraisers are: 1) The Institute of Business Appraisers, Inc.; 2) the American Society of Appraisers; 3) the National Association of Certified Valuation Analysts; and 4) the American Institute of Certified Public Accountants. A brief description of each organization, the professional designations offered by each, and the requirements for each designation, are presented below.

1) The Institute of Business Appraisers (IBA) was formed in 1978 and is the oldest professional society devoted solely to the appraisal of closely-held businesses. IBA generally focuses on the valuation of small to medium-sized businesses. IBA currently has approximately 3,000 members. One of the benefits IBA offers to its members, free of charge, is its database of more than 19,000 market transactions of privately-held businesses.

- In order to receive The Institute of Business Appraisers designation of **Certified Business Appraiser (CBA)**, a candidate must have a college degree, pass a comprehensive written examination, and have two appraisal reports reviewed and approved by IBA's Qualifications Review Committee. There are approximately 365 CBA's nationwide.
- In order to receive IBA's designation of **Business Valuator Accredited in Litigation (BVAL)**, a candidate must have a business appraisal designation from IBA, AICPA, ASA, or NACVA, attend a seven-day litigation-support and expert-testimony workshop, pass a written examination, and submit two letters of reference from attorneys or complete 16 hours of education in the area of law the appraiser will testify in. There are approximately 50 BVAL's nationwide.

2) The American Society of Appraisers (ASA) was formed in 1936 primarily for members who practice real-estate appraisal and personal-property appraisal. In 1981, the ASA also formed a business valuation specialty. The American Society of Appraisers generally focuses on the valuation of larger businesses. There are approximately 2,100 American Society of Appraisers business valuation members.

- In order to receive ASA's designation of **Accredited Senior Appraiser (ASA)** in business valuation, a candidate must have a college degree, five years of full-time equivalent business appraisal experience, pass a written examination, and have two appraisal reports reviewed and approved by the Board of Examiners. There are approximately 800 Accredited Senior Appraiser's in business valuation.

3) The American Institute of Certified Public Accounts (AICPA) was formed in 1887 and has approximately 330,000 members. In 1997, the AICPA started a business valuation specialty accreditation.

- AICPA members who are certified public accountants receive the **Accredited in Business Valuation (ABV)** designation after passing a written examination and providing evidence of substantial involvement in at least ten business valuation engagements. There are approximately 1,300 ABV's.

4) The National Association of Certified Valuation Analysts (NACVA) was formed in 1991 and has approximately 5,000 members.

- In order to receive NACVA's designation of **Certified Valuation Analyst (CVA)**, a candidate must be a certified public accountant (CPA), take a five-day course, and pass a written examination. There are approximately 4,000 CVA's.

In summary, the Certified Business Appraiser (CBA) and the Accredited Senior Appraiser (ASA) in business valuation designations are the two most highly regarded in the business appraisal profession due to the rigorous peer review report requirements.

Court Cases

Often a business appraisal is done because of some type of litigation. Historically, it was fairly easy to qualify an individual with a business background as an "expert witness". In 1993, this began to change. Now, trial judges are deemed to be "gatekeepers". Meaning that the trial judge has the ability to exclude experts if they do not meet appropriate standards. Two major cases often cited in this area are Daubert v. Merrell Dow Pharmaceuticals, Inc., 113 S. Ct. 2786 (1993) and Kumho Tire Co., Ltd. v. Carmichael, 119 S. Ct. 1167 (1999). As most attorneys know, it is now more important than ever to ensure that an expert witness has the credentials and experience to survive a challenge. Otherwise, their testimony might be excluded in court, or perhaps, admitted but given little or no weight.

Conclusion

Before you select a business appraiser, carefully review his or her credentials and experience. Generally, those who have obtained the more difficult credentials such as the Certified Business Appraiser (CBA) from The Institute of Business Appraisers or the Accredited Senior Appraiser (ASA) in business valuation from the American Society of Appraisers will do high-quality work and be well regarded in court.

Biographical Sketch of the Author

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