Dennis Webb's
Multidisciplinary Guidance & Insights Newsletter #8

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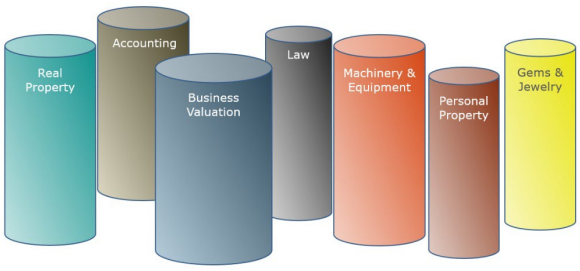
Multidisciplinary Valuation for Professional Development

Multidisciplinary valuation practice can be much easier than we think. But it is generally seen as difficult for valuers everywhere. What's the difference? A straightforward understanding of what it takes to perform credible and reliable valuations, but realizing that having experience in the traditional valuation disciplines isn't enough. The bodies of knowledge were never designed to accommodate other disciplines. Consequently, multidisciplinary practice will have enormous and fatal *blind spots* unless steps are taken to reveal what is unseen, and guide the valuer to *ask the right questions* in the "new" multidisciplinary application. We do that as a matter of course when the valuation assignment involves our primary discipline. We can learn to do it when the assignment involves additional disciplines, but it takes specific support systems for this to work. This talk provides an overview of just how such support systems can and do work.

The objective of acquiring the ability to produce multidisciplinary valuations is to serve valuation needs of the public. They should not have to concern themselves with whether their particular requirement fits neatly into one profession or another. They just need valuations, and it is our job to provide them. Fortunately, this does not have to be difficult at all, as you will see.

Professional Silos



I liken professional disciplines to silos, those tall structures that contain one material or another, but in a way that literally keeps them from mixing. That's how professions are built and maintained—in their own, separate realities. Nothing wrong with that, but it does pose a problem for practice that needs elements that are found in more than one silo. The difficulty arises when we realize that the same demands imposed on practitioners *inside* a silo—training, development, years or decades for mastery—also apply for practices that need elements from more than one. They then require training, development and so on. We do not have the capacity to—and shouldn't need to—build additional silos to accommodate all of the possible multidisciplinary practice areas. But we do have to find ways to achieve competence in all practice areas. Otherwise, in-

country valuation practice will remain deficient, and the public who need valuations will be short-changed. This should not be. I have a solution to propose, but first we need to define multidisciplinary practice.

The Multidisciplinary Dilemma

To understand what is required for multidisciplinary practice, we must first reflect on what is required for professional practice generally. A very condensed summary is the following:

> Valuation practice is about *asking the right questions*,
> which we all do based on our own training and experience
> …but also *knowing what we don't know*

That last part comes from long experience, as any valuer will attest. I don't know everything about the disciplines for which I am qualified, but I almost always can recognize when the proposed assignment has conditions or circumstances for which I don't know enough to proceed. Now I can take steps to rectify the problem, or decline the assignment. But I am confident that I can recognize what is needed. Experience over 25 years will do that.

But if I am considering a valuation that requires knowledge of a field in which I am not qualified nor experienced, I face a different dilemma:

> Multidisciplinary valuation is about asking the right questions
> for which we do not have the necessary training and experience
> …and not knowing what we don't know

This is a big deal. Not knowing creates blind spots, and blind spots can destroy the integrity of the valuation. I don't say this as even a little joke. It happens all the time, and to disastrous effect.

A typical solution is to suggest that an assignment involving, say, both real estate appraisal and business valuation be performed with two appraisers—one expert in each field. That idea poses a little problem, though, that can be illustrated simply: Suppose you need a simultaneous translator. You find an expert German speaker, who knows all of the technical terms in the fields involved. Then you find an expert Arabic speaker, who also knows all of the relevant terms. They are indeed experts. You put them in the same room. And presto! You have a translator. Right? No? What is the problem?

The German-Arabic transaction will never happen, as we all know. The knowledge must reside in a single person for the connections to be made allowing actual translation to occur. Something similar happens in valuation. The only practitioner that will be immune to blind spots is one that *is an expert in both fields*. But how are such experts created, and what would it take to transfer their expertise to others? We understand how to do

this with languages; after all, there are a great many people who speak multiple languages, and a fair number are actually expert in more than one.

I suggest that this same idea can be realized in the valuation fields, although there are certainly fewer multiple-field experts. Nonetheless, we have actually been doing this for years. Let's take a look.

Multidisciplinary Applications

We are defining multidisciplinary applications as valuations that require at least some important contributions from a secondary discipline. If just a little, then a business valuation expert can, say, learn enough about the life, function and depreciation of manufacturing equipment to competently value a capital equipment-heavy manufacturing business. A machinery & equipment specialist still might be needed if liquidation or reproduction/replacement cost figures heavily in the valuation, but otherwise the business valuer could expand their capability to include such businesses and stay within their "silo." I call this a Type I application.

It is also possible that the application requires so much from each field that it can no longer be learned by a practitioner without also becoming an expert in the second field. A good example is my field, valuing fractional interests in real estate. It requires almost equal measures of real estate appraisal and business valuation expertise, and does *not* lend itself to capability expansion within one field or the other, as in the above example. It is really a third field that could theoretically occupy its own silo. Needless to say, this can be a huge obstacle to developing valuation capacity for this application. I call this a Type II application.

The intuitive reaction to solving multidisciplinary requirements—engaging an expert in each field—is sometimes the only solution, especially for unusual applications involving the assets of businesses for which assets are rarely transacted separate from the business. This is Type III, which can be solved by focusing on a compatible process rather than shared expertise, but it is still difficult.

Type I Applications

Type 1 is within one discipline, when scope of the problem is limited. Such applications include:

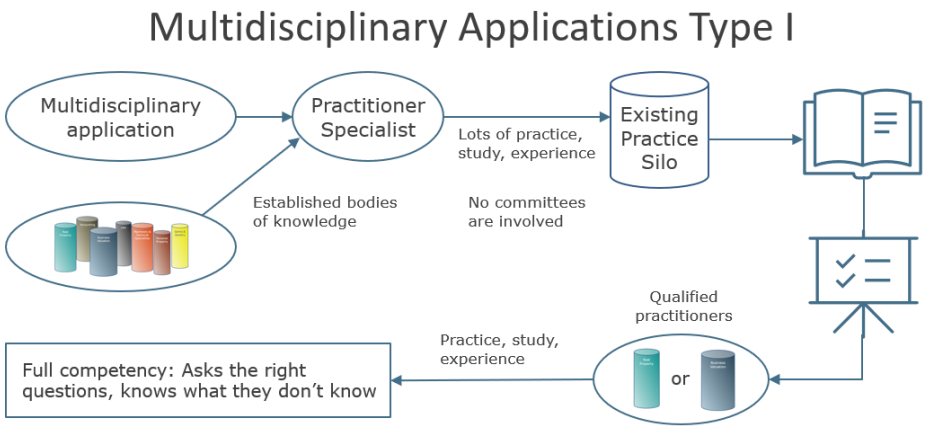
- Special-use properties (real property), such as carwashes, convenience stores, petrol stations, hotels, golf course, restaurants, auto dealerships, billboards, hospitals, and more…

One practitioner adds to existing practice, with expert help from publications and trainings.

- Industry specialties (business valuation), such as construction companies, early stage companies, insurance agencies, healthcare businesses…

  Business valuers often specialize in these industries as specialty niches.

The following flow chart shows how Type I practice is achieved. We have been doing this for a long time, and it's pretty simple. First, a (single) practitioner draws upon established bodies of knowledge and adapts those elements necessary to value the particular property or business. Presumably the practitioner has access to a reasonably steady stream of business in this specialty, since a lot of practice, study and experience is needed to establish a mastery-level practice. Of course, the extent of such practice can vary greatly depending on the specialty.



Many such practitioners then write books and/or teach seminars for other appraisers/valuers who might be interested in taking on the particular specialty. Those students then need to have a way to practice their new specialty until they acquire enough experience to be experts themselves.

Once expertise is established, the practitioner knows the right questions to ask and also knows what they don't' know in this particular niche. We have been doing this for a long time. This process works.

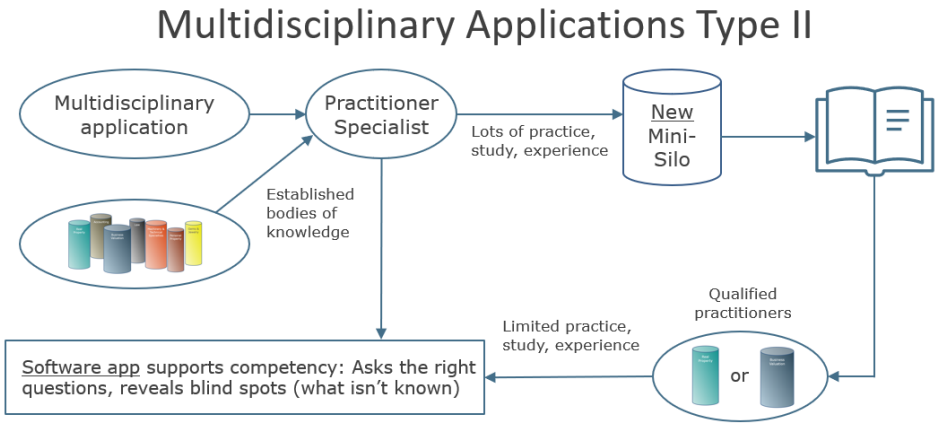
Type II Applications

Type II requires major contributions from more than one discipline, which makes its scope greater than for Type I. The key difference is "major contributions" which are not readily learned without extensive practice in the specific disciplines involved. This does not necessarily mean that professional designation in all affected disciplines is required, but it does mean that the pool of potentially qualified practitioners is necessarily small. These types of applications include:

- Fractional interests in real property, fractional interests in fine art or gems.
- Tokenized interests in any asset, a new trend and a potentially huge number of interests.

Type II does not lend itself to collaboration for the same reasons that two very expert speakers in two different languages cannot combine to make a translator. The requirement to have substantial expertise in a second field makes it difficult to know the right questions to ask, and almost guarantees that the valuation effort will suffer major blind spots. This type of practice has a difficult history in the US for these exact reasons.

The next flow chart shows how Type II practice is achieved. First, a (single) practitioner draws upon established bodies of knowledge and adapts those elements necessary to value the particular property or business. For Type II, this should mean either multiple professional designations, or a very strong working knowledge in the necessary specialties. As for Type I, the practitioner would have to have access to a steady stream of business in this specialty, since a lot of practice, study and experience is needed to establish a mastery-level practice.



Even with experts that have become fully qualified, this type of multidisciplinary practice amounts to a new silo—a defined practice area that has developed its own body of knowledge. Such knowledge is drawn from the existing silos to be sure, but applied to otherwise unacknowledged or unseen facts and circumstances. The "new silo" thus identifies the right questions and illuminates the blind spots that would otherwise be pervasive (and currently are) for these applications.

An expert practitioner would necessarily write books and/or teach seminars for other appraisers/valuers who might be interested in taking on the particular specialty, as for the Type I applications. But if the process stops there, then the students must find a way to acquire enough experience to become experts themselves. This is fine for valuers in very large markets, but what about smaller markets or countries with young and developing valuation professions? Being a specialist and gaining a lot of experience with a niche application is unlikely at best. This is not helpful for the public, whose valuation needs

should be met whether common or unusual. At least that should be our professional goal. We simply need a way for valuers to address uncommon multidisciplinary subjects competently without having to acquire in-depth experience.

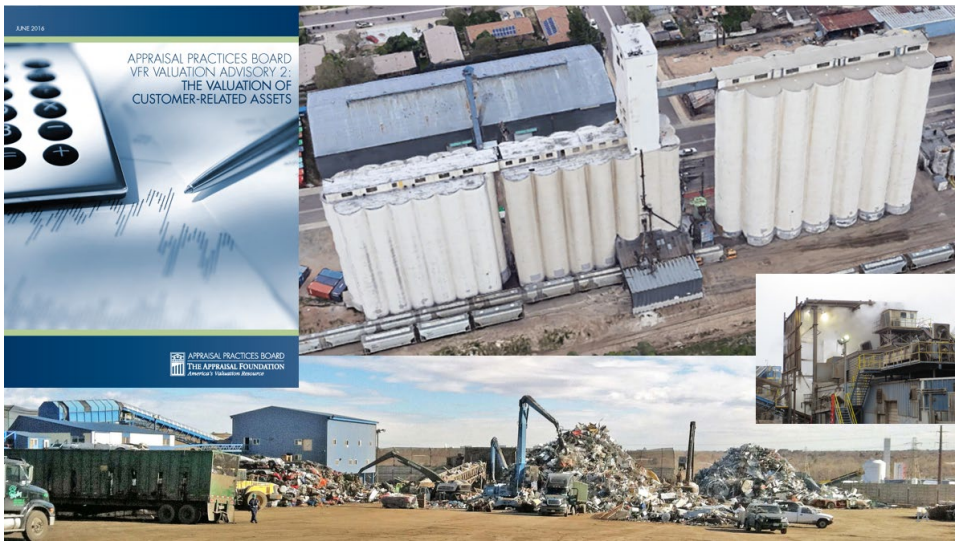
I wouldn't be identifying this as a problem unless I believed a solution could be fashioned, because it's just depressing to think about a professional ideal that—at least for most of the valuers on the planet—would remain impossible. I believe I have done just that. The goal is to have multidisciplinary practitioners *know the right questions to ask* and *know what they don't know*. This normally comes, in the case of Type II applications, through acquiring multiple designations and long practice. But it doesn't have to. As long as the problem can be well-enough defined, it can be solved by creating a comprehensive checklist with the right questions; one that also shines light into those blind spots. As long as the practitioner is well-qualified in a primary discipline (say, real property appraisal or business valuation), then they can use such guidance to be fully competent in the mixed discipline. Heavy experience is just not needed. This is shown in the last part of the flow diagram, where the practitioner is qualified through its use of a software application that provides the necessary guidance. Now, whether the market asks for even one valuation every year, say, a competent and useful valuation can be prepared. As a consequence, the court can be expertly-informed, partners can make necessary buyout deals, or value can be provided for tax authorities or other purposes. It's just not a big deal.

The software application I have in mind for this example is PrimusPVX. A detailed description is beyond the scope of this presentation/article, but it can be found at www.primuspvx.com. The program simply guides the user to consider the right questions, especially those that are normally unseen (blind spots). The only way one finds such questions and blind spots is through study and experience, which has been my practice specialty for more than 25 years. The software allows the user to drill down into any particular topic that they do not understand well, as it also includes the textbook that contains the entire body of knowledge. Since software allows calculations to proceed without effort, the user's attention is focused exactly where it is needed—identifying the facts and circumstances of the case and putting together a meaningful story of value, which is (after all) the point of every valuation report. Clear and complete guidance allows expert professional practice to include Type II applications everywhere.

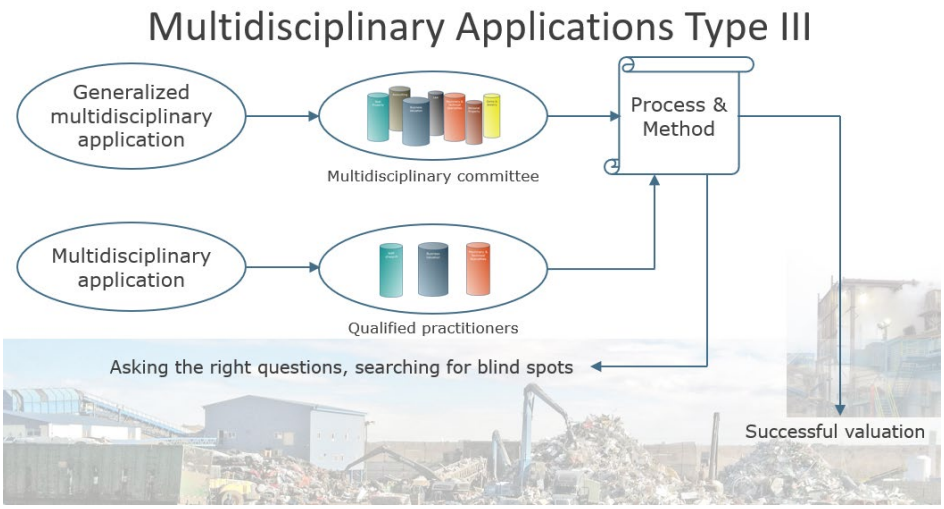
While we now have this one example, I suggest that the same idea can be applied to all of the more complex multidisciplinary practice areas as long as at least some valuers can become experts through training and experience, and then convey the right questions and knowledge of blind spots so that capacity to take care of additional applications can be established everywhere. It is quite possible that some of these applications will be found among the Type III applications, which currently require multiple valuers and remain some of the most difficult valuation topics.

Type III Applications

This type of multidisciplinary application is simply difficult, both because there is great variation in the objectives of the valuation, and because (at least for the time being) appraisers in multiple disciplines are needed. There is no easy way around it. Type III applications mostly involve large industrial or commercial facilities operated as a going concern: Scrap metal processing / mixed-use truck stop / boat harbor / airports / sporting arenas, and many others. The objective is to allocate value between assets—typically real estate and other business assets. The typical characteristic of such 'special use' facilities is that their assets rarely, if ever, transfer separately from the business entity that operates them as an assemblage. Value must be extracted from the overall business operation. Collaboration between disciplines is very much necessary, but blind spots are guaranteed. These are challenging for everyone involved.



Since the application is so broad, multidisciplinary guidance comes in the form of process, not as a prescribed set of the right questions to ask. There is too much involved. A flow diagram similar to Types I and II will show the important Typo III distinctions.



This is the one multidisciplinary instance where the guiding process needs to be developed by valuers who have relevant expertise from different silos. The previous illustration showed the result of just such an effort, published by The Appraisal Foundation as "Appraisal Practices Board VFR Valuation Advisory 2: The Valuation of Customer-Related Assets" (TAF, June 2016). While the publication is intended for financial reporting, it does include guidance for using the Multi-Period Excess Earnings Method (MPEEM), which is the core methodology for such applications.

The "process & method" part of the flow diagram can be an adaptation of MPEEM, which is a method within the income approach to value. The income approach is particularly relevant here, since the involvement of more than one valuation discipline means they need a common 'language' if they are to work together, and the income approach is the *only* valuation language that is reasonably similar across all disciplines. The valuation can contain other, discipline-specific sub-methods, of course, but the core methodology needs to be reasonably understood by all involved.

I have collaborated with other valuers on a number of these types of assignments, but so far, the process has been complicated, and does not yet lend itself to a set of the right questions that could be applied in all cases. But the process does work, and I have (so far) made case study presentations to mixed audiences of valuers. Much more is needed, though.

Professional Development Goals

The purpose of this presentation was to provide an overview of multidisciplinary valuation topics and suggest how such capacity might be implemented in smaller and younger valuation markets. I hope that we can make more progress, especially with Type III applications, that will expand the capacity and expertise of valuers worldwide.

Even though there is much work to be done, we can draw some conclusions from what I have outlined so far that will help valuers take on multidisciplinary assignments (and

make their valuation work much more interesting) while increasing the breadth of valuation services that can be offered in all countries and valuation markets.

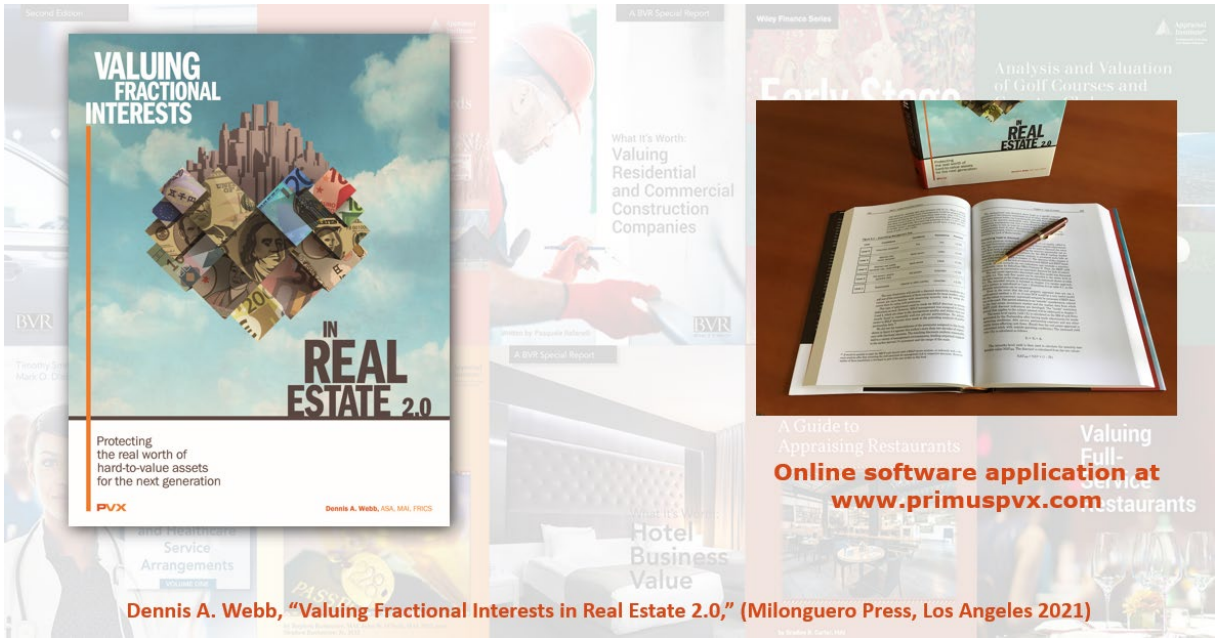
First, increasing valuer numbers should take place in the existing silos. Expecting valuers to adopt multidisciplinary specialties will not work except in major metros.

Second, support and guidance is needed because specialties in between silos are often quite hard to master. This can take the form of valuation textbooks, which we already have for many specialty applications. But the more complex applications that need a lot from several disciplines can benefit from software applications that provide the 'right questions to ask' for fact patterns specific to the practice. A complete list can assure no blind spots. Algorithms can also be created to supply needed modeling and transfer functions; I have already done this for fractional interest valuation (BV + RP). Multidisciplinary software augments the judgment abilities of the human appraiser, giving valuers new superpowers.

Conclusions

- Professional silos are normally a benefit, but can be a hinderance for multidisciplinary work
- Each has its own body of knowledge, training programs, "language"
- Goals are asking the right questions and knowing what we don't know
- Applications fall into one of three Types
- Type I includes specialties that can be adopted within a single 'silo' with guidance
- Type II is similar to Type I, but scope is more extensive
- Type III is complex and demands collaboration; guidance is around process

There are a number of already-established bodies of knowledge that address multidisciplinary valuation subjects, as I have noted. One of the most recent and most effective concerns fractional interests in real estate (Type II). It contains both a complete body of knowledge *and* technology that makes such valuations both quick and easy. It is my hope that we will see such guidance expand to other multidisciplinary areas, enabling widespread and credible practice.



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