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Marc Broekema/Olesya Perepechko/Klaus Rabel

On the Role of Business Valuation Standards from the Perspective of End-users

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Business valuation plays an increasingly important role in financial decision making. However, stakeholders of a valuation report frequently have fierce debates on the outcome of the valuation, the key assumptions and the approaches chosen in the valuation process. This article explores the role of valuation standards on valuation trustworthiness from the perspective of (finance) executives as end-users of valuation work, based on a survey study.

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Daten sind als Asset derzeit ein heißes Thema in der Bewertungs-Community. Und tatsächlich bewegt sich unser Geschäfts- bzw. Bewertungsumfeld aktuell massiv hin zu einem stark datengetriebenen Modell. Die Bewertungsfolgen sind aber in Aggregation nicht per se für alle Unternehmen positiv und im Einzelfall alles andere als einfach zu greifen. Nur tiefe fundamentalanalytische Ansätze können hier dem Bewerter weiterhelfen.

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Das Charakteristische einer simulationsbasierten Bewertung ist die explizite Berücksichtigung von Unternehmensrisiken (Chancen und Gefahren) und die Anwendung der Monte-Carlo-Simulation für die Berechnung risikobedingt möglicher Zukunftsszenarien. Die dadurch entstehende „mehrwertige“ Planung (Bandbreitenplanung) lässt unmittelbar Erwartungswerte von Cashflows oder Erträgen ableiten, bestimmt und erfasst das Insolvenzrisiko und erlaubt die Ableitung von Diskontierungszinssätzen unmittelbar aus der Unsicherheit der Cashflows. Mit einer simulationsbasierten Bewertung werden auch die neuen gesetzlichen Anforderungen an das Risikomanagement erfüllt (§ 1 StaRUG).

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Excel bietet in der Standardeinstellung bereits eine große Zahl an Möglichkeiten, um Zahlen in der gewünschten Weise darzustellen, bspw. als Datum, Prozentwert oder Währungsbetrag. Nicht in allen Fällen ist dies hinreichend und es bedarf konkreter Anpassungen, um das gewünschte Ergebnis zu erreichen.

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On the Role of Business Valuation Standards from the Perspective of End-users

Business valuation plays an increasingly important role in financial decision making. However, stakeholders of a valuation report frequently have fierce debates on the outcome of the valuation, the key assumptions and the approaches chosen in the valuation process. This article explores the role of valuation standards on valuation trustworthiness from the perspective of (finance) executives as end-users of valuation work, based on a survey study.

I. Introduction

The demand for business valuation services has significantly grown since the second half of the 20th century.¹ Today, business valuations are considered to be an important component in the financial system, as they are used for purposes impacting many areas of business such as company listings, mergers and acquisitions, funds and investments, financial reporting, secured lending, regulatory compliance, taxation, litigation, insolvency and insurance. This awareness has caused a significant growth in the number of valuation professionals who are associated to organisations representing their profession. Over time, these professional organisations issued various specific valuation standards with the aim to regulate their activities or to harmonise valuation approaches.

From the perspective of valuation professionals, these standards fulfil multiple functions. Firstly, the standards serve as a guideline defining the requirements that valuation professionals ought to respect. Secondly, compliance with broadly recognised standards can ensure the quality and reliability of the valuation report and outcome and by this means prevent the valuation professional from being held liable following from (alleged or perceived) inappropriately conducted valuations. Whereas the benefits of broadly recognised business valuation standards are obvious to valuers in this context, there has been some research conducted into the importance of business valuation standards², but to our knowledge not from the client's perspective, i.e. 'end-users' such as finance executives ordering a valuation. This is in contrast to the field of financial reporting where much research has been conducted into the importance of accounting standards³ and the shift from the originally and universally rules-based accounting to today's principles-based IFRS.⁴

Against this background, this article focuses from a practitioners' perspective on actual business valuation standards and their relevance and importance for end-users such as CFO's, (group) finance directors, asset managers, investment managers, and bankers as key stakeholders of business valua-

tions. The first section (chapter II.) provides a brief overview of business valuation standards currently in use around the world, their historic development, variety and diversity, and the ongoing process towards harmonisation. The second section (chapter III.) describes the methods applied and the results gained from a survey we conducted in order to better understand the perspectives of key stakeholders of business valuations on the use of internationally recognised standards. Based on anecdotal evidence, we hypothesised that end-users of business valuations have more trust in a business valuation report respectively a valuation outcome when valuation standards are applied both to the valuation work and the preparation of the valuation report by qualified professionals. Secondly, we hypothesised that end-users of business valuations prefer one set of internationally applicable uniform and consistent valuation standards instead of a variety of local valuation standards. In order to verify these assumptions, we first present the results of a survey study referring to the perceived benefits from the application of business valuation standards in general. Subsequently, we analyse the results on perceived disadvantages deriving from material inconsistencies or contradictions between the various business valuation standards currently in use around the world. Finally, we discuss the results on the perceived need for harmonisation of business valuation standards and draw general conclusions from our findings.

II. Business Valuation Standards; an overview

For many professional bodies, ranging from e.g. auditors, lawyers, or bankers to surgeons, standards serve as guidelines for (ethical) behaviour, beliefs, intentions, practices and/or evaluations of their members. This also holds true for the business valuation practice despite its relatively rule-free character since there is no specific legal (formal) basis for the profession compared to, for example, the audit profession.

However, the history of business valuation standards goes back for a long time. In order to provide a uniform approach when appraising various businesses, already in 1959 the *US Internal Revenue Service* issued a scheme to appraise shares in property of closely-held businesses for tax reasons.⁵ During the following decades, several professional associations developed and promulgated standards of professional practice for their members. In Europe, for example, the *Union Européenne des Experts Comptables, Economiques et Financiers* (UEC) published a report on the valuation of businesses and business ownership interests in 1961, which was referred to as the 'UEC method' henceforth.⁶ Due to strong criticism, the UEC released revised recommendations for business valuations con-

1 See Gonella/Talarico, *Research Journal of Finance and Accounting* 2018 p. 102.

2 E.g., Lieberman/Anderson, *The CPA Journal* 2008 p. 22; Gonella/Talarico, *Research Journal of Finance and Accounting* 2018 p. 102-115; Ballwieser, *ZfB* 2020 p. 71-94.

3 E.g., Levitt, *Accounting horizons* 1998 p. 79.

4 E.g., Benston/Bromwich/Wagenhofer, *Abacus* 2006 p. 165-188; Tweedie, *Journal of Applied Research in Accounting and Finance* 2007 p. 3-8.

5 United States Internal Revenue Service, Ruling No 59-60, 1959-1 CB 237-IRC Sec. 2031.

6 For further details see Henselmann, in: Peemöller (ed.), *Praxishandbuch der Unternehmensbewertung*, 7th ed. 2019, p. 110. In 1986, the UEC was transferred into the Federation des Experts Comptables Européennes (FEE) which operates under the name 'Accountancy Europe' since 2016.

Table 1: Overview of current business valuation standards

Valuation Standards	Issued by	Area of Application	Scope	Effective Date of Current Version
AICPA – Statement on Standards for Valuation Services No. 1 (SSVS)	American Institute of Certified Public Accountants (AICPA)	USA	Businesses and Intangible Assets	January 1, 2008
ASA Business Valuation Standards American	American Society of Appraisers (ASA)	USA	Businesses and Intangible Assets	November 2009
CBV – Practice Standards	The Canadian Institute of Chartered Business Valuators (CBV)	Canada	Businesses	June 17, 2009 (Practice Standard No. 110)
DVFA – Best-Practice-Empfehlungen Unternehmensbewertung	DVFA	Germany	Businesses	December 2012
European Business Valuation Standards (EBVS)	The European Group of Valuers' Association (TEGOVA)	Europe	Businesses	March 24, 2020 (1st ed.)
IDW S 1 – Grundsätze zur Durchführung von Unternehmensbewertungen	IDW – Institut der Wirtschaftsprüfer	Germany	Businesses	April 2, 2008
International Private Equity and Venture Capital Valuation Guidelines (IPEV)	British Private Equity & Venture Capital Association	Global	Businesses (private capital investments)	January 1, 2019
International Valuation Standards (IVS)	The International Valuation Standards Council (IVSC)	Global	Businesses, Intangible Assets, Real Estate, Financial Instruments, Non-Financial Liabilities, Other Assets	January 31, 2020 (revised version effective January 31, 2022)
KFS/BW 1 – Fachgutachten Unternehmensbewertung	Kammer der Steuerberater und Wirtschaftsprüfer	Austria	Businesses	June 30, 2014
NACVA/EACVA Professional Standards	NACVA, EACVA	USA, Europe	Businesses and Intangible Assets	June 1, 2017
RICS Valuation Standards (incorporating IVS)	Royal Institution of Chartered Surveyors (RICS)	Global	Businesses, Intangible Assets, Real Estate, Other Assets	January 31, 2020
Uniform Standards of Professional Appraisal Practice (USPAP)	The Appraisal Foundation	USA	Real Estate, Businesses, Intangible Assets, Other Assets	January 1, 2020

Abbreviations:

- CFA = Chartered Financial Analyst
- DVFA = Deutsche Vereinigung für Finanzanalyse und Asset Management
- EACVA = European Association of Certified Valuers and Analysts
- NACVA = National Association of Certified Valuers and Analysts

ducted by certified public accountants referred to as TRC 1 in 1980.⁷ On this basis, local business valuation standards were developed in Germany by the *Institut der Wirtschaftsprüfer* (IDW) and in Austria at a later point in time. In the UK, the history of valuation guidance dates back to the 1970s' recession, which led to the production of the original Red Book by the *Royal Institution of Chartered Surveyors* (RICS) related to asset valuations.⁸ Guidance on business valuations was incorporated in the 4th edition of the Red Book in 1995.

In 1971, the *Canadian Business Valuation Institute* (CBV) was established by leading business valuers in Canada as all businesses needed to be valued for tax reasons. Today, the CBV publishes standards that all members must adhere to. In the US, business valuation standards began to appear in the late 1980s. The *Uniform Standards of Professional Appraisal Practice* (USPAP) go back to 1987 and were issued by the *Appraisal Foundation* to solve problems with real property valuation that contributed to the savings and loan crisis of 1980. Both USPAP 9 and USPAP 10 provide recommendations for how to conduct business valuations. The *American Society of Appraisers* (ASA) developed its own

standards in 1992 in order to define and describe the general requirements for developing the valuation of businesses, business ownership interests, securities and intangible assets. The *Institute of Business Appraisers* (IBA) published business valuation standards in 1993, followed by the Professional Standards issued by the *National Association of Certified Valuation Analysts* (NACVA) in 2002 and the Statement on Standards for Valuation Services No. 1 (SSVS) issued by the *American Institute of Certified Public Accountants* (AICPA) in 2007.⁹

Interestingly, while various business valuation standards emerged in the western world at a domestic level, the *International Valuation Standards Council* (IVSC) issued the first international guidance on business valuation in 1999 and provided a separate section on the valuation of businesses and financial interests in the International Valuation Standards published in 2000 (IVS 2000). Originally founded in Melbourne, Australia in 1981, as *The International Assets Valuation Standards Committee* (TIAVSC) by 20 national valuation professional organisations with the objective to harmonise valuation standards for property valuation worldwide,

⁷ See Henselmann, at note 6, p. 113.

⁸ See French, *Journal of Property Investment & Finance* 2003 p. 495.

⁹ For the history of business valuation standards in the U.S. and their common dependence on IRS Revenue Ruling 59-60 see Lieberman/Anderson, *The CPA Journal* 2008, p. 22.

today the IVSC is a not-for-profit organisation that acts as an independent global standard setter for the valuation profession, similar to what the *International Accounting Standards Board* (IASB) is for IFRS. IVSC's core objectives are to develop high quality International Valuation Standards (IVS) which ensure consistency, transparency and confidence in valuations throughout the world, and to encourage the adoption of IVS, along with valuation professionalism provided by different Valuation Professional Organisations (VPO) throughout the world.¹⁰

Apart from comprehensive business valuation standards, specific requirements for the valuation of intangible assets and goodwill have been developed by IASB and FASB¹¹ in order to meet the demands of specific bases of value, such as fair value, for financial accounting purposes. In the following, we focus on the variety and diversity of comprehensive business valuation standards currently in use around the world excluding valuation requirements provided by financial reporting standards.

Despite of the fact that the IVS are used by professional valuers and their associations in more than 100 countries today,¹² the business valuation standards currently in use around the world are still non-uniform. Based on the results of a comparison of the guidelines for business valuations in 17 different standards¹³, in 2008 *Nicklas* concluded that the standards are extremely heterogeneous in terms of scope, level of regulation and comprehension of an appropriate valuation approach.¹⁴ As will be shown below, we consider these findings still valid today although there is clear evidence of an ongoing process of harmonisation. Table 1 presents a selection of currently used business valuation standards and valuation standards including guidelines for business valuations in alphabetical order.¹⁵ As presented in table 1, the addressed standards cover different scopes and areas of application. Whereas some standards such as EBVS or IDW S 1 exclusively focus on business valuations, other standards also cover the valuation of other assets such as intangible assets or real estate. General valuation standards, such as USPAP, RICS Valuation Standards, and IVS cover a wide range of assets. Interestingly, all these standards were limited to real estate valuation initially. Basically, the area of application of many standards is limited to the area of activity of its issuers, whereas some standards such as IVS or IPVEG aim at global application or application in Europe (EBVS). With regard to the issuers of the selected business valuation standards it can be stated that – apart from tax authorities and financial reporting standard setters – regulation usually stems from the initiative of professional associations following the so-called self-regulation model.¹⁶

Relating to the regulation system, principles-based, rules-based or mixed models are distinguished.¹⁷ The majority of the selected standards seem to lean towards the principles-based model providing guiding principles rather than detailed rules and attaching high importance to professional judgement.¹⁸ Conversely, particularly the German and Austrian standards IDW S 1 und KFS/BW 1 seem to follow the rules-based approach providing strict rules regarding the application of valuation approaches, valuation methods and determination of valuation parameters.

There are also substantial differences with regard to the regulated matters. Many standards such as USPAP, SSVS, IVS or NACVA/EACVA Professional Standards devote great attention to procedural and formal issues such as ethics, competency, types of engagement, report type or report content, whereas other standards such as IDW S 1 or IPEV Valuation Guidelines mainly focus on content issues such as valuation approaches, valuation methods and determination of valuation parameters.

Substantial differences between the standards result from the application of different bases of value. Whereas USPAP does not provide autonomous definitions of types or bases of value¹⁹, many standards distinguish between bases of value representing a value in exchange (such as Fair Market Value or Market Value) and a value to the holder (such as Investment Value or Synergistic Value).²⁰ However, partly the range of applied bases of value differs between the standards as well as definitions. For example, SSVS and ASA Business Valuation Standards also provide a definition for „Intrinsic Value“, considered as the „true“ or „real“ value by an investor. Furthermore, the definitions of the „Objectified Business Value“ provided by the German standard IDW S 1 and the Austrian standard KFS/BW 1 are unique and not reflected in other standards.

Further major differences relate to the selection of the appropriate valuation approaches and methods. The majority of the standards such as EBVS only provide general criteria for the selection qualifying it as a matter of professional judgement of the valuer in each case and are characterised by a plurality of approaches and methods. Conversely, the German and Austrian standards IDW S 1 and KFS/BW 1 stipulate the mandatory application of the income approach. In line with the distinction between principles-based and rules-based standards, huge differences also exist in terms of the level of detail of the standards. Whereas IDW S 1 and KFS/BW 1 contain detailed rules e.g. for the determination of the discount rate when applying the DCF model, other standards only comprise general recommendations for developing an appropriate discount rate or provide a non-exhaustive list of common methods for that.

Given the variety and diversity of the business valuation standards currently in use, the IVSC plays a prominent role in the ongoing process of harmonisation of the standards established by the different organisations.²¹ The joint activities with The

10 See IVSC, History of Development of International Valuation Standards Council, <https://hbfm.link/11050> (retrieval: August 31, 2021). For an analysis of IVS from a German point of view see Ballwieser, ZfBF 2020 p. 71-94.

11 FASB. E.g., see the requirements for Fair Value Measurements according to IFRS 13 or SFAS 157.

12 See IVSC Annual Report 2019-2020, <https://hbfm.link/11051> (retrieval: August 31, 2021).

13 The analysed standards include the valuation guidelines of the financial reporting standards issued by the FASB and the IASB and the IRS Revenue Ruling 59-60.

14 See Nicklas, Vergleich nationaler und internationaler Standards der Unternehmensbewertung, 2008, p. 204.

15 Valuation guidelines provided by financial reporting standards (such as issued by the FASB or the IASB) or tax authorities are not included in the table.

16 For the distinction between a bureaucratic model, a delegate model and a self-regulation model, see Di Pietra/McLeay/Riccaboni, *Rivista dei Dottori Commercialisti* 2001 p. 920-923. According to Gonella/Talarico, *Research Journal of Finance and Accounting* 2018 p. 106, the self-regulation model also applies to the IVSC as independent institution.

17 E.g., Alexander, *Accounting & Business Research* 1999 p. 240-241.

18 For the principles-based approach of IVS see Gonella/Talarico, *Research Journal of Finance and Accounting* 2018 p. 107.

19 See USPAP Frequently Asked Questions No. 176.

20 For the distinction between value in exchange and value to the holder see Fishman/Pratt/Morrison, *Standards of Value*, 2nd ed. 2013, p. 20-21.

21 For further details see Gonella/Talarico, *Research Journal of Finance and Accounting* 2018 p. 110-113.

Appraisal Foundation regarding the harmonisation of USPAP and IVS led to the publication of „A Bridge from USPAP to IVS. A guide to producing IVS-compliant appraisals“ by The Appraisal Foundation in 2016.²² In 2020, also the CBV Institute published a Bridge Guide from its standards to IVS. The RICS Valuation Standards already incorporate the IVS and require members not only to follow them, but also to proactively support their continued development and adoption by others around the world.²³ According to the IPEV Valuation Guidelines, the IPEV Board has entered into an understanding with the IVSC with the objective of promoting consistency between the IPEV Valuation Guidelines and the IVS and to enable the IPEV Valuation Guidelines to be positioned as providing sector specific application guidance of the principles in IVS.²⁴ It is unclear how the process of harmonisation of business valuation standards will proceed over the next years.

Based on the foregoing, we conclude that different business valuation standards are in place across the world, and that they all have a different scope ranging from small to large deviations. To what extent end-users of valuation work assign value to the existence of valuation standards in general and to a set of homogeneous and uniform applicable valuation standards in particular, was the subject of our survey study.

III. Survey Methods and Results

1. Background

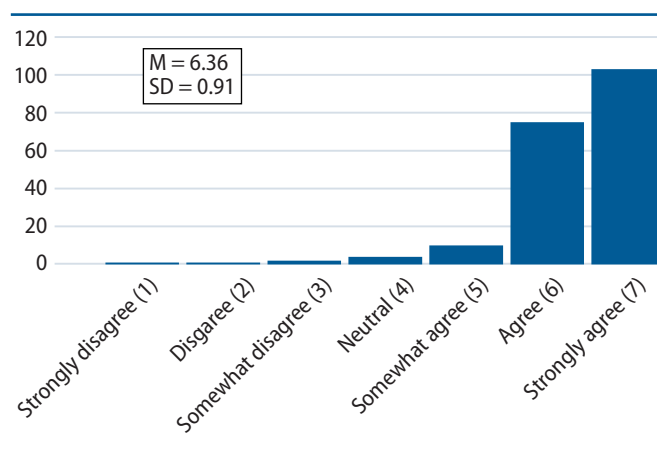
In order to get a representative global perspective on the relevance and usefulness of internationally recognized valuation standards as perceived by different stakeholders of business valuations, we conducted a survey among a global sample of (senior) finance executives, such as CFO's and (group) finance directors, asset managers, investment managers, and bankers. Participants of the survey were approached through different means, such as directly by E-Mail, through LinkedIn posts, and through the IVSC newsletter.

Participants were presented with a range of different statements and were asked to what extent they agreed or disagreed with a particular statement on a 7-point scale (1 = strongly disagree, 7 = strongly agree). For some questions, participants were given the opportunity to motivate their answer in a textbox presented below the statement. The full survey as presented to the participants and the data can be found in the supplementary material.²⁵

2. Participants

The final sample consists of 196 participants from 32 different countries across all continents. The five countries (as listed by the participants) that are most represented are Hong Kong (16.5% of the participants), Spain (11.5%), Singapore (9.5%), Germany (8.5%), and Russia (7.0%).²⁶ For 50 participants (25.5%), English was their native language. Non-native English speakers answered on a 7 point scale (7 being the highest score) to what extent they understood the questions and the average score was 6.48 (SD = 0.66), suggesting the participants expe-

Figure 1: Results statement „When I have business valuation activities carried out by a third party (e.g., a valuation professional services firm or an inhouse valuation department), I believe that the work conducted has to comply with certain business valuation standards.“



rienced no difficulties in completing the survey. The majority of the participants were male (74%) and three participants (1.5%) opted for „other/rather not say“. The average age of the participants was 45.2 years, with a standard deviation (SD) of 11.1.

Of the total sample, 25.5% listed 'CFO or similar' as their current profession. Senior executives (not being CFO) who make decisions based on valuation reports made up 20.4% of the sample and senior non-executives who make decisions based on valuation reports made up 12.2%. Further, 9.2% listed (group) finance director or similar as their profession and 32.7% chose 'other', which included among others investment bankers and consultants.

The average years of experience in financial management positions was 15.9 (SD = 10.5) and the average years of experience in their current position was 12.3 years (SD = 8.9), just like the average years of experience working with business valuation reports. Moreover, 53.6% of the participants indicated they had been enrolled in a specialized business valuation course. Finally, 80.6% indicated IFRS as the standards governing the financial reporting and accounting in their work, and 19.4% indicated that in their work it is (local) GAAP.²⁷

3. Results

In what follows, the results of several of the key statements that were presented to the participants are shown and discussed in two sections referring to the benefits of the application of business valuation standards in general, the impact of the diversity of business valuation standards and the need for harmonisation of business valuation standards.

a) Application of Business Valuation Standards

We started our survey by questioning to what extent participants believe when they have had carried out business valuation activities by a third party (e.g., a valuation professional services firm or an inhouse valuation department), the work conducted has to comply with certain business valuation stan-

22 <https://hbfm.link/11052> (retrieval: August 31, 2021).

23 See RICS Valuation – Global Standards (effective 31 January 2020) p. 2.

24 See Appendix 2 of the IPEV Valuation Guidelines (effective 1 January 2019).

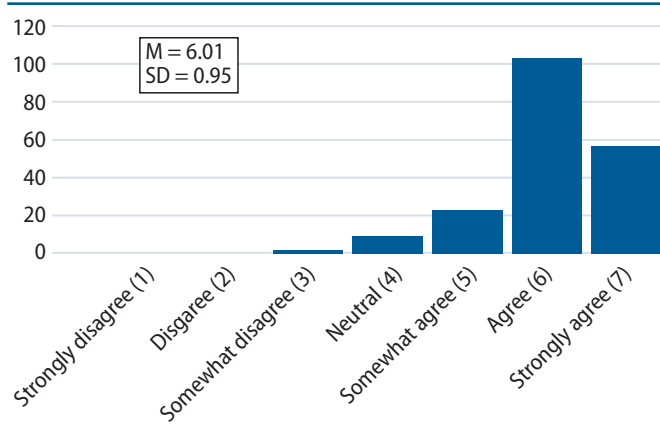
25 For the supplementary material, please send an E-Mail to: m.j.r.broekema@law.leidenuniv.nl. The authors thank Dr. N. Strohmaier from Leiden University for his contribution to the statistical work of the survey.

26 For a complete overview of the participants' nationalities, please see chapter V. Appendix.

27 Generally Accepted Accounting Principles.

dards. As can be derived from figure 1, the vast majority of the participants believe complying to standards is required. Given the existence of various business valuation standards across the world, we also asked participants to what extent they believe these standards are supportive to (a part of) their work in general. See figure 2.

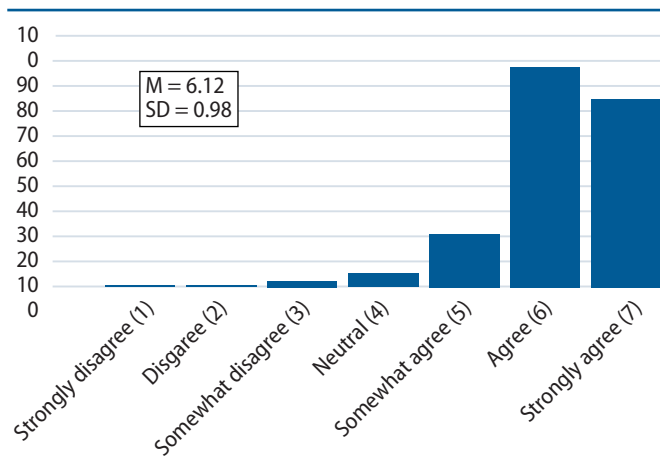
Figure 2: Results statement „Given the existence of various business valuation standards across the world, I believe these standards to be supportive of (part of) my work in general.“



Following the results of figures 1 and 2, there seems to be a wide consensus among stakeholders that business valuations ought to comply with certain business valuation standards, and also that the vast majority of the participants believe that standards are supportive in their work in general (average 6.01 with a standard deviation of 0.95).

Likewise, when asking participants to what extent they believe the quality/consistency of valuation reports/engagements in general will change for the better when applying business valuation standards, almost none of the participants disagreed, as follows from figure 3.

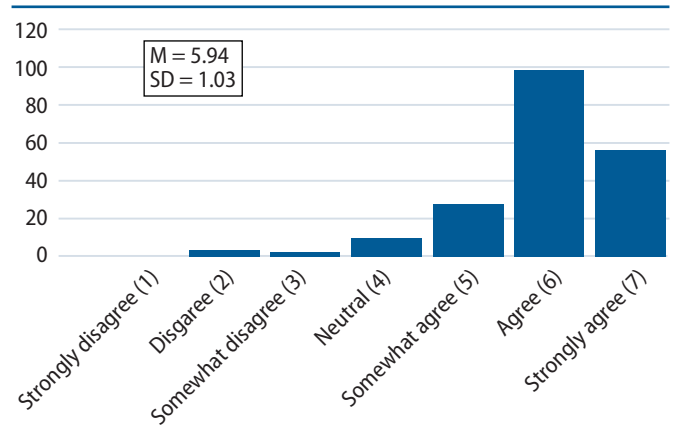
Figure 3: Results statement „In general, the quality/consistency of valuation reports/engagements will change for the better when applying business valuation standards.“



As can be understood from figure 3, one of the reasons why the participants believed that business valuations should comply with certain standards is because it improves the quality/consistency of the valuation report (average 6.12 with a standard deviation of 0.98). Moreover, it appeared that not

only quality and consistency of the valuation report in general improves when having standards in place, also the quality and consistency of the applied methodology (average 6.10 with a standard deviation of 0.98) and the applied assumptions (average 5.86 with a standard deviation of 1.09) in the valuation report improve according to the participants. Interestingly, the general understanding of business valuation will change for the better when business valuation standards are applied (average 5.99 with a standard deviation of 1.01), and valuations of different asset classes are more straight forward to compare (average 5.81 with a standard deviation of 1.24). And when presenting participants, the statement „Complying with business valuation standards enhances the trust in business valuation reports, and as a consequence reduces the potential for any disputes relating hereto.“, it appears that valuation standards can mitigate the risk for valuation disputes (figure 4).

Figure 4: Results statement „Complying with business valuation standards enhances the trust in business valuation reports, and as a consequence reduces the potential for any disputes relating hereto.“



b) Diversity of Business Valuation Standards and the need for harmonisation of standards

Based on the stakeholders’ perceptions regarding the usefulness of business valuation standards, we also asked them to share their views with respect to the diversity of business valuation standards and the need for harmonisation of business valuation standards.

When specifically asking participants whether they believe there are material inconsistencies and/or contradictions between the various business valuation standards currently in use across the world, 72% responded in the affirmative (figure 5). When asking participants where these inconsistencies and/or contradictions particularly pertain to, participants referred to several aspects as can be derived from figure 6.

Interestingly, inconsistencies and/or contradictions are not only associated with valuation approaches and methods, also technical issues such as estimating the discount rate are associated to the notion that there are various business valuation standards circulating in the valuation landscape. We believe this finding is in line with other research that demonstrated that estimation methods of almost all inputs in the DCF model vary widely, causing a severe threat for valuation practice as small differences in inputs can result in large variations in valuations. Whereas this research attributed the estimation

Figure 5: Results question „Do you believe there are material inconsistencies and/or contradictions between the various business valuation standards currently in use across the world?“

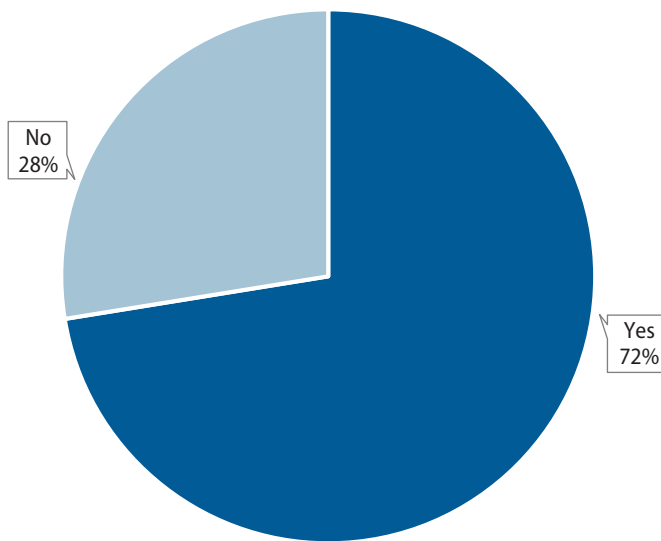
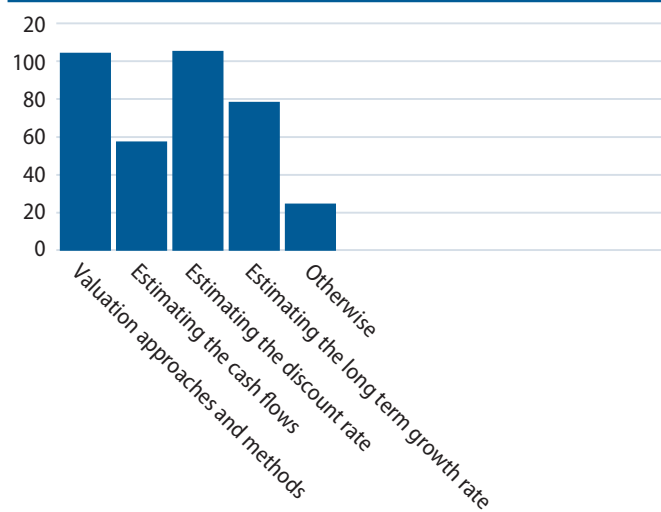


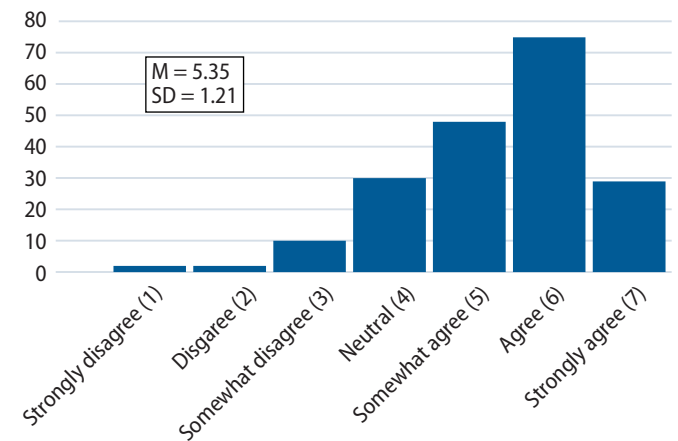
Figure 6: Results statement „These inconsistencies and/or contradictions pertain particularly to: (a) Valuation approaches and methods, (b) Estimating the Cashflows, (c) Estimating the discount rate, (d) Estimating the long term growth rate, (e) Other-wise“



problems primarily to the fact that valuation theory provides little guidance on how to estimate inputs²⁸, having multiple valuation standards in place seems not beneficial either when estimating valuation inputs.

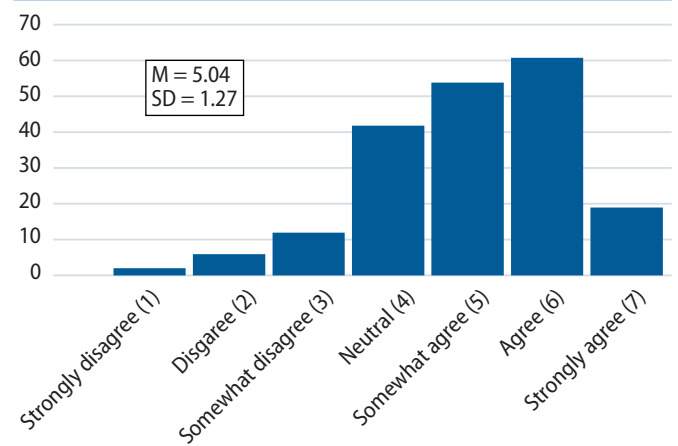
Additionally, we asked participants to their views on the importance of the harmonisation of business valuation standards and possible (material) disadvantages resulting from a lack of uniform and consistent business valuations standards in the valuation landscape. The results of the latter are depicted in figure 7, showing that a vast majority of the participants indeed do acknowledge that having a lack of uniformity and consistency in standards is disadvantageous for the valuation landscape.

Figure 7: Results statement „There are material disadvantages resulting from a lack of uniform and consistent business valuations standards in the valuation landscape.“



Moreover, not only a lack of uniform and consistent business valuations standards in the valuation landscape is perceived to be disadvantageous, but when asking participants whether contradictions between various standards result in material disadvantages, this is perceived as realistic as can be derived from figure 8.

Figure 8: Results statement „There are material disadvantages resulting from contradictions between various business valuations standards that are currently applicable in the valuation landscape.“



In line with previous findings, it is not surprising that when asking participants whether they believe that when business valuation activities are carried out by a third party, the work should comply with uniform and harmonized business valuation standards that are applicable across the world, they amply confirm this (figure 9).

More importantly, participants believe that business valuation standards should ideally be issued by one independent standard setter who issues standards that are applicable and accepted across the world, as follows from figure 10.

As can be concluded from the presented findings thus far, there appears to be strong support for the notion that (1) valuations should comply with standards, (2) there currently are material inconsistencies and/or contradictions between the various business valuation standards, (3) these material inconsis-

28 See Bancel/Mittoo, Journal of Applied Corporate Finance 2014 p. 106-117.

Figure 9: Results statement „When I have business valuation activities carried out by a third party, the work should comply with uniform and harmonized business valuation standards that are applicable across the world.“

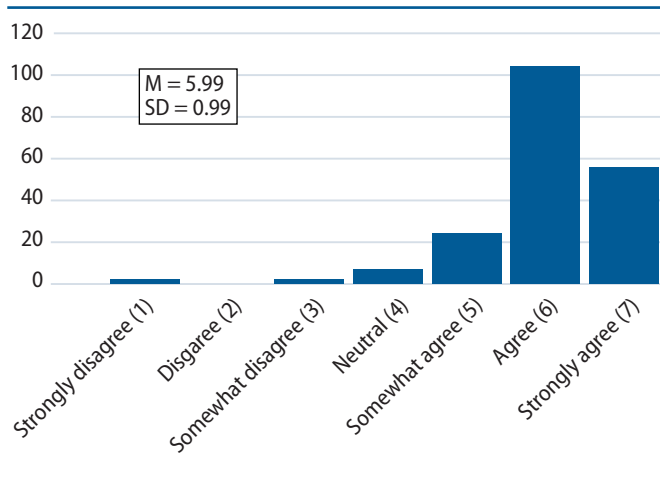
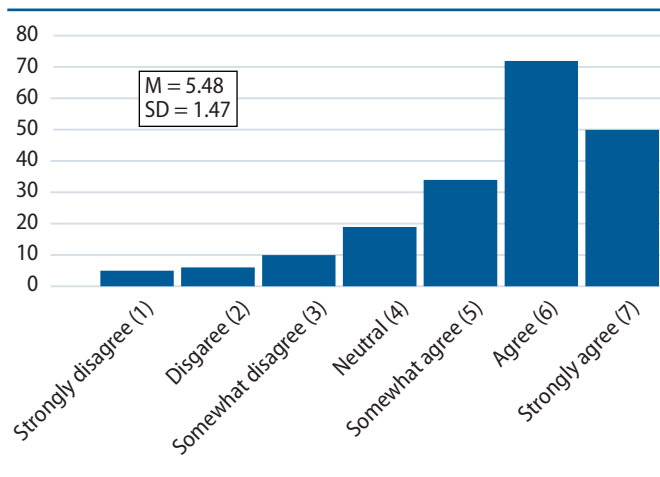


Figure 10: Results statement „Business valuation standards should ideally be issued by one independent standard setter who issues standards that are applicable and accepted across the world.“



tencies and/or contradictions are disadvantageous, (4) that standards should therefore be uniform and harmonized across the world, and (5) business valuation standards should ideally be issued by one independent standard setter who issues standards that are applicable and accepted across the world.

c) Statements from participants

Participants were also given the opportunity to motivate their answers to the different statements. A common theme across the answers is that the participants believe that unified international standards will create a more transparent and trustworthy valuation deliverable that can be efficiently compared with other valuation reports, as is illustrated by some quotes below:

„Having international standards allows unifying the criteria to be applied, which ensures a level of quality since we make sure that the methodologies are correct, and facilitates the understanding and transparency of the procedures.“

„For me this is so obvious, else we can't compare business valuations with each other and it is hard to judge what the valuation of

a business is.“

„Having uniformed methodologies across the world is key. Not only for benchmark purposes, but also for credibility/reliance/consistency reasons.“

Interestingly, some participants address the importance of having harmonised valuation standards in cross-border situations, an aspect we consider to become increasingly more important in a global economy:

„Especially for cross-border transactions, the harmonized business valuation standards are essential to accommodate requirements from different stakeholders.“

„Use of unified global valuation standards could be beneficial for cross border valuations.“

„Especially in cross-border transactions it is critical to ensure that valuations are carried out in a way known to all involved parties. Standards would certainly help.“

Some participants pointed out that harmonising valuation standards as much as possible is desirable, but might be challenging given the inherent differences across jurisdictions.

„The principles behind valuation methodology should be harmonized. However given the unique jurisdiction across different countries, some variation is expected.“

„I'm not sure it's feasible to reach one global standard. However, for the European context it would be helpful to have uniform valuation standards. This will also improve comparability of valuations and could be helpful if the valuation standard is recognized by courts. Moreover, valuation standards can make the process of valuation scope easier.“

We would agree standard setting across different jurisdictions can be challenging however note there are succesful examples such as IFRS adopted in Europe and across the world. Finally, when we asked participants what are, in their view, the key benefits/advantages of International Valuation Standards, they responded on a scale from 1 (very unimportant) to 7 (very important):

- Trust: M = 6.04
- Quality: M = 6.02
- Cost reduction: M = 4.74
- Comparability: M = 6.08
- Reduction of litigation/disputes: M = 5.61

The above findings paint a similar picture as seen thus far. That is, the added value of harmonised international valuation standards is primarily perceived to be found in enhanced trust, quality, and comparability. Additionally, a reduction in valuation disputes is considered to be an important benefit, whereas the participants were relatively neutral with regard to the benefit of cost reductions.

IV. Conclusions

In this article, we discussed the role of business valuation standards and the various business valuation standards that are in place in the valuation landscape. We hypothesised that in general end-users of business valuations have more trust in the valuation report respectively the valuation outcome when this work is surrounded by valuation standards. Secondly, we hypothesised that end-users of business valuations prefer one set of internationally applicable uniform and consistent valuation standards instead of a variety of local valuation standards. By conducting a survey amongst an international group of end-users, we tested our hypotheses. In general, we found that valuation standards are perceived to be beneficial for

valuation practice following from the end-user's perspective. However, there also appears to be consensus among end-users that business valuation standards should be uniform and harmonized across the world and should ideally be issued by one independent standard setter. End-users also seem to perceive a need for harmonisation not only with regard to valuation approaches and methods, but also with regard to avoiding inconsistencies and/or contradictions in relation to specific valuation parameters such as the discount rate when applying a DCF model. Considering the fact that valuations are vulnerable in their outcome due to possible estimation errors of valuation inputs²⁹ and the presence of cognitive biases amongst business valuers when conducting valuations³⁰, we did a first attempt to address the importance of one set of internationally applicable uniform and consistent valuation standards. From multiple perspectives, not only clients seem to appreciate this uniformity, it might be beneficial for valuation practice as well.

V. Appendix

Table 2: Full overview of the nationalities of the participants

Country	N	%	Cumulative%
Hong Kong	33	16.5	16.5
Spain	23	11.5	28.0
Singapore	19	9.5	37.5
Germany	17	8.5	46.0
Russia	14	7.0	53.0
Switzerland	12	6.0	59.0
Cyprus	10	5.0	64.0
Austria	10	5.0	69.0
USA	8	4.0	73.0
Canada	7	3.5	76.5
Unknown	6	3.0	79.5
Italy	5	2.5	82.0
Czech Republic	5	2.5	84.5
France	4	2.0	86.5
The Netherlands	4	2.0	88.5
China	4	2.0	90.5
UAE	2	1.0	91.5
Georgia	2	1.0	92.5
Ukraine	2	1.0	93.5
Brazil	1	0.5	94.0
Romania	1	0.5	94.5
Nigeria	1	0.5	95.0
Greece	1	0.5	95.5
India	1	0.5	96.0
South Africa	1	0.5	96.5
Luxembourg	1	0.5	97.0
Slovenia	1	0.5	97.5
Finland	1	0.5	98.0
Australia	1	0.5	98.5
Malaysia	1	0.5	99.0
United Kingdom	1	0.5	99.5
Egypt	1	0.5	100
Total	200	100	100

29 Bancel/Mittoo, Journal of Applied Corporate Finance 2014 p. 106-117.

30 Broekema/Strohmaier/Adriaanse/Rest, Journal of Behavioral Finance 2021 p. 1-20.

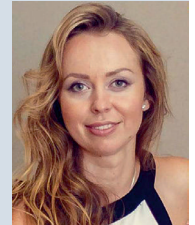
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