

The Perception of Value and the Role of Accountants in Today's Business World

by William E. Thomson, THOMSON SCOTCHMER, Toronto, Ontario

Last year, I accompanied the owner of one of my client companies to a meeting with his banker. The company had been experiencing difficulties, had initiated corrective action, but needed additional funding support to bridge the gap pending the improved performance materializing. On being refused assistance based on company resources, the owner offered his guarantee, supported by a pledge of the shares of the company.

The banker then provided an eloquent description of the calculation of value, which, to his view, was equivalent to the amount shown as equity on the balance sheet minus certain adjustments which seemed to vary depending on certain undisclosed circumstances. When I stated that an offer had been made by a third party to acquire the shares at a price of about twenty times book value, he expressed doubt that such a transaction could ever be successfully completed. When I described how value was established for public companies through public exchanges which had little to do with book value, his eyes glazed over.

It constantly surprises me to see otherwise intelligent people seeking advice on corporate value from bankers and accountants, probably the least competent persons to opine. The training required to progress in such employments is directly contrary to the development of appropriate attitudes for promotion and entrepreneurship in business. How can such narrow views of the business scene be of any use in advising on what a company or other venture might be worth?

Value is always in the eye of the beholder. More able commentators than I have concluded similarly for centuries. Traffic in art is one of the best examples of this phenomenon. Picasso to you is drivel, to me sublime. I will pay more to have it than you will.

One's accountant or banker has horizons limited by what he thinks he knows, namely the history of results

achieved. Most people enjoying a life in such occupations are useful number jockeys and can probably develop some impressive sums with the help of a set of multiplication tables. Now that we are in the computer age, they can do it even faster. To the more sophisticated among them, the facility with which the numbers are produced resembles something like playing of a harp with agreeable results produced on demand based on input.

The idea of value is based on the entrepreneurial vision of the future of the enterprise complemented by some assumptions about implementation. This vision is then tested in the ever-reliable market of free market forces by students of these markets, who are almost never bankers and accountants.

Focus your vision on what it could become rather than what it has achieved

Help to the businessman inexperienced in accessing these markets can be sought from brokers or other intermediaries but not from those whose narrow view of business constrains them from providing the help which will yield the highest value to the businessman.

This position is correct whether the subject at hand is the sale of the business, the search for equity or partners, various legal requirements or any other circumstance where the actual value of the enterprise must be assessed. It also extends to the preparation of supporting material including prospectuses and business plans in order that the promotion of the opportunity can be described in full vigor. Obviously some care must be taken when the document is public or subject to the rules of securities commissions.

One of the trends of particular concern in all of this is the change occurring in the accounting profession

with regard to their scope of work. Historically, we have been able to depend on accountants for their independent view. The auditing by an independent third party of a financial statement has grown into an occupation employing many professionals in our society. Growing out of the insight which that provided, many companies requested accountants to help with government filings, most notably income tax returns and a very large business has grown up both in filing and advisory.

Of more dubious nature, many of our largest consulting firms have grown out of or are associated with accounting firms presumably because the auditor already had a unique access to the client and could sell numerically related tasks. The accountants have the hired persons with other education to broaden the offering while continuing to have it based on numbers. Now they offer just about anything they can conceive as long as money can be made from it. Some of the largest accountants are starting to advise clients on investments as a precursor to actually entering the securities business and have decided to further broaden their scope by the employment of members of the legal profession. Where will it end?

How can the accounting profession continue to offer an independent view if they have been so compromised by entering these other fields in their pursuit of other business? Many observers are concerned about this and reject the weak response that integrity is maintained through the establishment of "Chinese Walls". The ethical base on which the profession is established is very shaky indeed.

The message to the businessman is clear. If you want to ensure that value attribution for your venture is appropriate, focus your vision on what it could become rather than what it has achieved. Spend time and take advice from those who can see what you see instead of being consumed by history. ♦