

LUIGI GUATRI – Chairman of OIV (Organismo Italiano di Valutazione) – Vice President Bocconi University

Dear Friends and Colleagues,

I wish to welcome all of you to Bocconi University, also on behalf of our Prime Minister, Mario Monti, whom I am replacing as acting President of this University.

Corporate valuation has been the focus of my academic and professional career since 1979 (33 years). Here, in 1996, we founded “La Valutazione delle Aziende”, the only Italian journal (and one of the few in the world) devoted to business valuations.

Bocconi University has had a valuation School for decades, with many specialists, several of whom are here today with us.

I am not going to talk about impairment testing, as others with a more up-to-date knowledge are going to address it. I just want to tell you that excessive technicalities sometimes pose the risk that, in boardrooms, many directors might not be able to understand the complex formulas associated with the valuation process.

However, let me call your attention on one aspect in particular. The outcomes of business valuations are often taken (or presented) as though they were a certainty, whether they are expressed as “ranges” or as a single amount that suggests accuracy down to the last penny. Nothing could be further from the truth! Such views are pure illusions, far removed from reality. As in all sciences, in business economics (and in the sub-discipline concerned with corporate valuation) error is an “undesirable guest” of estimates, but it always lurks in the shadows. And here too, as in all sciences, measuring error is “absolutely necessary to determine the quality of solutions and results”. Yet, both scholars and practitioners have always shied away from this issue, especially because pointing to errors means, at least on the application level, displeasing someone or going against (sometimes powerful) interests, with the result that research in this area has been discouraged.

However, such research can no longer be postponed and it appears as an innovative approach, with significant theoretical and –perhaps mostly – practical consequences. The analysis and history of errors are in fact one of the most direct and effective ways to understand how they can be avoided in future.

The fact that the methodology for measuring errors in business valuations is a page that is yet to be written can only have substantially negative effects on judgments in courts of law. In this particular area (which has its own peculiarities), an expert cannot rely on shared methodologies, so either he comes up with one on his own (which takes place rarely and, in any case, the

conclusions are debatable) or he is forced to operate at the risk of being superficial and reach flawed conclusions.