

The Problem

AS A CENTRIST SOCIETY, WE live in a world of middle-of-the-road solutions, that is based on some ungrounded concept that “splitting the baby” somehow brings about equitable results, a world where many decision makers embrace the premise of “splitting the baby” as an acceptable alternative, if for no other reason than out of sheer frustration.

IN SEARCH OF A TRUTH

Circa 287–200 BC, Archimedes was so sure of his discovery regarding the relationship between weight and water displacement that he ignored his nakedness as he ran down the streets of then Syracuse, overcome by what he regarded as the truth of an issue before him. Similarly, during biblical times, King Solomon faced competing claims from two mothers, each claiming custody of a newborn. Faced with such a dilemma, King Solomon had to make a decision in search of a truth. Unlike the folklore derived from this story, King Solomon never intended to split the baby in half; instead, it was a device to get to the truth of the matter. King Solomon’s application of intellectual rigor to his analysis of

the facts before him has become a symbol of wisdom and analytical thought. He concluded that the real mother would never allow her newborn to be sacrificed and would instead give up her claim in order to save the baby. Perhaps the most interesting parallels between Archimedes' and King Solomon's experiences and the subject matter in this book are the application of an analytical process, together with the exercise of intellectual rigor.

And so, instead of seeking middle-of-the road solutions, when it comes to matters involving the proffering of opinions, such as situations involving the determination of value, decision makers and stakeholders should carefully weigh any opined facts or issues proffered before them.

Seeking middle-of-the-road solutions is tantamount to saying that the good, the bad, and the ugly can somehow be suitably reconciled on the journey toward achieving credible results. To remedy this chaotic state of affairs, opining individuals need to follow a well-defined and articulated analytical process resulting from the application of intellectual rigor in order to get to the truth of a given matter, as did King Solomon and Archimedes.

Decision makers' frustration over the lack of foundation of the matters presented before them is real and should not be underestimated. In some instances, this frustration with a given decision-making process can create an overwhelming sense of uncertainty.

These high levels of uncertainty tend to turn into a perception of higher risks, whether true or imagined, which, when translated into economic decision making, may ultimately result in demands for higher investment returns.

And then one day, circa 2008, we abruptly awakened to the prospects of a worldwide recession and economic pandemonium, events that created an environment that now demands a more insightful view of many economic events surrounding us.

Since then, many have started asking, How could this worldwide economic mayhem have happened so quickly? How could financial and economic indices have changed so quickly and by so much, in scope as well as magnitude, in such a short time?

This seems in complete contradiction to the proposition that the age of technology has provided us with an information world where disclosure and transparency should be readily available on any one issue, on a real-time, ad hoc basis.

Perhaps the warnings were always there, yet were hidden from most of us by the large amount of unreliable information advanced by conflict-ridden individuals, proffering self-serving opinions and points of view, and aided, in

many instances, by the ever-hungry 24-hour media, always searching for content to pitch to their audiences.

These warnings were also present in the widely accepted but flawed propositions proffered by self-serving individuals, held as worthy of belief by many, who never stopped to consider the credibility of these proposed views. Which, by the way, regardless of venue—whether appraisal disciplines, law, politics, finance, economics, health care, engineering, or law enforcement—were equally acted on and accepted as dogma by many, albeit challenged by some, but to no avail, until it was too late.

In addition, I submit to you that as a centrist society, we have gotten used to accepting middle-of-the-road solutions in hopes that the middle-of-the-road approach to decision making can lead the way to a correct outcome.

Such conventional wisdom also seems to say that if you average a high and a low finding, the result points to the correct number, with no further consideration of the underpinning issues and without considering the consequences of flawed analyses.

Perhaps if an objective means to assess the credibility of these views had been in common use, the economic pandemonium could have been averted or, at least, managed better. Still today, most individuals, when presented with two or more opposing views on a subject matter, tend to choose a middle ground, an average, if you will, rather than pausing to soberly determine the degree of credibility attaching to each of the presented views.

Sometimes, averages or middle-of-the-road propositions may work, yet in instances where the response to an issue or a problem entails an “opined” result, especially one requiring qualitative, as well as quantitative, analysis, choosing a middle-of-the-road position may unknowingly lead to the least desirable outcome. Add to this mix today’s litigious social environment, and you can quickly understand how stakeholders and decision makers, as users of the work products of opposing opining individuals, often find themselves highly frustrated. Perhaps this high level of frustration ultimately leads decision makers to resort to these averaging responses, simply due to lack of a means to assess the credibility of the foundation on which proffered opinions are presented.

To understand the profound and transcendental impact of these issues, which go well beyond any appraisal or valuation process, one should also consider that in business and economic decision-making endeavors, frustration is a reflection of uncertainty.

Uncertainty, in turn, is an outcome of perceived risks.

If you subscribe to the generally accepted view that capital is risk averse, it follows that capital formation is not likely to occur when frustrations and perceived risks, whether real or not, exist unresolved in the minds of decision makers and stakeholders.

Economic uncertainty, fueled by perceived risks, can ultimately lead to economic stagnation or, at the very least, contribute to an inability to grow an economy in a healthy and prosperous fashion.

On a personal level, while in pursuit of a decision about a problem before you, you may find yourself surrounded by a sea of information and ever-growing requirements that continue to gather around you, and you can't help but wonder, how are you going to keep your head above the water's edge?



THE ASSURANCE EXPERT

Is there any reason to be optimistic? Yes!

"Why?" you may rightly ask.

One of the fixes, I submit, is the birth of the "assurance expert."

This new breed of expert helps stakeholders understand risk—risk as defined in their own endeavors. For example, risk to an investor would relate to risk reward and risk aversion; to a health-care practitioner, risk would relate to the probability of an adverse outcome; and to an engineer, risk may relate to the likelihood of a catastrophic failure. In the determination of value, an assurance expert may be a valuation analyst performing a qualitative review of another analyst's work product, with the intended objective of assessing the credibility and suitability of such a work product, in light of the purpose and engagement objectives supporting the value to be opined.

This new breed of expert will be well schooled in his or her own disciplines and adept at assessing credibility in his or her own work product, as well as in the work of other experts.

The assurance expert will be in fact an "expert's expert," whose work product and findings will help stakeholders navigate through their respective decision-making processes. Transparency, accountability, informed judgment, adequate disclosures—all of these elements will be arrows in the quiver of the assurance expert.

He or she will be jointly appointed by claimants and respondents, plaintiffs and defendants, and some day by the tribunals and/or the decision makers themselves.

The assurance expert will become a reality in our social infrastructure, if for no other reason than because of the dictum that calls for capital to be driven to sectors where transparency is available. In addition to the simple and brutal consequence that the economic survival of our society will demand it.

Capital is driven to economic sectors where the presence of transparency and accountability fosters a stable and predictable environment, where individuals and business concerns can transact and prosper.

This simple thesis points to the proposition that poor decision making increases the cost of capital and makes a society less efficient in the use of its resources.

Many of these issues could be resolved if credibility assessments could be made, so that decision-making processes that are presently embroiled in frustrating considerations of facts and circumstances and replete with uncertainty could be swiftly and efficiently resolved.

At such a point, one can begin to appreciate the importance of decision making based on credible assessments, because it would help to

- Ease efficient decision-making processes.
- Lower risk, by helping to eliminate doubts and perceived risks.
- Attract and stimulate capital formation.
- Create growth opportunities for economic participants.

Now, let's see how all of this comes together by way of a simple illustration.

Suppose that you are about to realize your lifetime goal of owning a chain of sporting goods stores. As you are getting ready for your grand opening, two sales representatives come to visit you, each claiming to be correct, to sell you a newly invented widget.

Each sales representative offers you his or her self-serving "opinion" of the retail-selling price of this newly invented widget.

Sales Rep A claims a retail selling price of \$10 per widget.

Sales Rep B claims a retail selling price of \$30 per widget.

You, as the store owner, stand perplexed, perhaps even frustrated, facing such widely different opinions, and after a period of reflection, you select a selling price of \$20 per widget.

Conventional wisdom led you to choose a middle-of-the-road solution, especially when faced with no other set of facts to consider, probably due to the lack of data on this newly invented widget. This type of decision-making process

happens every day, in judicial settings, corporate suites, colleges, universities, government, and so on.

So, what could be wrong with this form of conventional decision-making wisdom?

You, as the store owner, could have demanded to know the basis for each sales rep's retail selling price assumptions and the methodologies that were used to determine the results and then proceeded to determine the relevance of the opined amounts given, in order to assess which set of assumptions exhibited the highest level of credibility, before making your decision.

As the store owner, you are interested in maximizing the capital invested in the chain of stores, and you should be searching for the optimal answer:

What is the widget retail selling price at which you could sell the greatest number of widgets at the highest-yielding margin?

By simply taking an average, you may be limiting your ability to obtain a higher profit margin and, if incorrect, you equally run the risk of overestimating the selling price and thus limiting your ability to sell more widgets at the highest possible selling margins.

In a courtroom setting, this could be a jury choosing a middle ground after considering the testimony of two experts, resulting in an equally flawed solution, as in the case of the store owner, or perhaps rewarding a proponent who is otherwise lacking in credibility, while punishing the credible proponent.

The judicial system, overloaded with claims, many from less-than-reliable sources, tries to stay afloat by codifying requirements in the judicial rules to require gate-keeping roles of the judges in our courts.

Yet despite the judicial system's honest efforts at keeping junk science from distorting the matters before it, the results, I submit, are less than desirable in many instances and frequently are derived via a process that lacks a well-reasoned approach. The outcome then leads to a state of affairs where intellectual rigor has often been replaced by a manipulation of facts and circumstances, at times aided by a skillful understanding of how form can ultimately win over substance, regardless of purpose.

The unfairness, maybe even the insanity, of this set of circumstances and outcomes is due to the use of a simple averaging of opinions.

In these instances, decision makers are clearly, albeit unknowingly, acknowledging that each side of an argument is equally correct. This implies a closeness of the presented facts and circumstances that is then proposed to be bridged by application of the averaging wisdom, when in fact no such closeness or similarity may actually exist.

This may be tantamount to saying that the good, the bad, and the ugly can somehow be suitably reconciled on the journey toward achieving credible results.

When opinions matter, the selection of an average may lead to the least desirable of all outcomes, resulting in inequity, rather than fairness—an outcome yielding an incorrect course of action, versus the most efficient and productive one.

By now, you can appreciate the importance of credibility as a crucial factor in any decision-making process and how lack of an objective tool to assess credibility has led to poor decision making, thus increasing the cost of capital and resulting in a less efficient use of resources.

The problem-solving processes discussed in the chapters that follow are a lot less complicated than you might think and are indeed easy to apply—once you reach the proper level of awareness. These problem-solving techniques consist of the application of a qualitative methodology to assess the credibility of results presented by an opining individual and are intended to help stakeholders and decision makers understand risk—risk as defined in their own endeavors.

These problem-solving techniques can also assist opining individuals and decision makers in identifying and assessing the presence or the lack of transparency, accountability, and, ultimately, credibility of matters before them.



CREDIBILITY IS NOT SYNONYMOUS WITH TRUTH

A major issue addressed in the following chapters deals with the proposition for a definition of *credibility* and introduces an analytical framework for understanding and assessing credibility, as a self-standing and unique process to be achieved by any opining individuals.

The terms *credible* and *credibility*, along with their variations, are used in descriptive ways in many settings, laws, regulations, sets of criteria, and so on, yet an operational definition of *credibility*, with its own conceptual framework, has not gained general acceptability.

I submit that credibility points the way to a truth; however, *credibility* and *truth* are not the same thing and therefore should not be used interchangeably.

In today's world, any given truth must be sorted out, ideally, from a set of credible opinions, facts, and analyses offered for consideration. A simple case in point: One could easily refer to many instances in our everyday lives where certain beliefs are held by groups of individuals, who may feel those beliefs are

credible, yet they are not considered to constitute a truth to the rest of society. Credibility is part of the path to a truth. The intent here is not to cast credibility in a relative fashion that can be shaped in any way or form to achieve a particular or perceived need.



WHERE DO WE GO FROM HERE?

The treatises presented in the following chapters are intended for anyone, from the layperson to the opining expert. As such, the author's views are addressed to practitioners and individuals who must necessarily in their everyday endeavors present arguments supporting opinions to others before them.

From that perspective, the author proposes practical ways to apply the conceptual framework that is presented, together with illustrations of the concepts and suggestions on how to develop a well-defined and open analytical process that can lead to credible outcomes.

These concepts can be universally applied across many fields of endeavor, from executive decision making and professions to appraisal disciplines and many others, in order to solve everyday situations and problems.

As individuals who are the ultimate “triers” of fact in search of a truth, decision makers and stakeholders rely on opining individuals who offer credible opinions and arguments for their consideration and ultimate decision making.

In this framework, credibility becomes part of the journey to a truth.

In the next chapter, we will examine the elements, attributes, and surrounding factors that have an impact on credibility; we will propose an operational definition of credibility and will present tools that can be used to assess it in a variety of settings, from the appraisal disciplines to executive decision making.

And so, our journey begins.