



Value and Valuation: The Vital Signs of Your Practice

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The article by Mr. Reiboldt is timely, informative and nicely portrays the details and nuances of clinical practice valuation -- an undertaking becoming more familiar to clinicians, but still sadly lacking in many practices. A valuation provides a framework for answering the question: How is my practice doing? The changing milieu of healthcare delivery over the past years has spawned a significant number of mergers and acquisitions, as well as new partnerships and alliances. Many of these new undertakings have occurred for bonafide reasons -- reasons well beyond the scope or purpose of this writing. Of note, however, is the fact that underlying the plethora of new relationships has been a concern and focus on the finances of clinical practice. Indeed, the conversations, strategies and business discussions concerning the practice of medicine have probably never been more focused on the economics of "the business" and have never attracted the attention of so many people in the investment banking community, as well as the not-for-profit world.

This financial focus has awakened many clinicians to the importance of monitoring and paying attention to the business sides of their practice, and in that regard, practice valuations become an important and useful tool. This tool has applications in many stages of a practice and should probably be applied periodically even if one is not contemplating a sale, merger or addition of a new partner. However, it is critical to

appreciate the subjective components of a valuation. As has been pointed out, the true assets in a professional service practice are the people and professionals inside the practice -- even in heavily managed care environments. Contracts for "covered lives" come and go. But talented, productive and skilled professionals are the assets worth having to keep contracts and seek additional business. We have previously written about this facet of professional practice (The X Factor -- Think About It, *J Invas Cardiol*, 1997;9:291-293), and it is a point sadly missed by many who have recently acquired so many practices under the mantra of commodity categories such as "primary care physician" or "specialist". Additionally, there are other intangible assets pertinent to a clinical practice, which are difficult to quantify. I am particularly referring to the business culture, skills, values and philosophies of those within the practice - issues for which money may be a poor monitoring tool. These issues raise what I call the "greater value" of the practice. This is not to minimize the importance of cash flow projections, debt ratios and contracts for HMO business, etc. However, I would highlight the important privileged work of a clinical practice and its value to society and to those whom the practice serves. The best clinical practices have a clear, patient-focused structure and a clear sense of their mission. They inevitably put patient's interest foremost and adhere to the highest standards of truthfulness, integrity and trustworthiness in an attempt to maintain their independent position as a patient advocate with attention to confidentiality and the sensitivity of patient's concerns -- all of which is no easy task in today's materialistic and heavily managed environment.

In placing a value on a clinical practice, I have concern if the battle cry is "show me the money" -- again, not that I am naive or think that finances are not important. However, there are inevitable issues that are about a "greater value" than money. Our personal sense of

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wealth depends on how we see ourselves to be valued by those we serve and by those who depend upon us. Unfortunately, many of the recent practice acquisitions and mergers have resulted in a chasm of discontent and ruined relationships, and have ruthlessly extracted the passion and lifeblood from the practice in the name of efficiency and market dynamics. I would like to make a case for the most valuable practices being those which are sensitive to their moral foundations, willing to adhere to their professionalism and sense of ethics, and willing to design their services for the benefit and well-being of those whom they serve. Surrounding yourself with colleagues and advisors who understand the true "value" of practices is critical and difficult sometimes in a market-crazed environment, but as the prophet Hoseah said, "People without understanding will come to ruin."