

THE ART OF VALUATION

REFLECTIONS, STORIES,
AND STRATEGIES
FROM BUSINESS APPRAISAL

Edited by
Sarah von Helfenstein

A Project of The Appraisal Foundation's
Business Valuation Resource Panel

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Dedication

To all the vibrant and remarkable individuals who have made this profession what it is today.

And to the future generations of professionals who will pioneer business valuation in new vistas of valuation theory and practice.

Finally, to The Appraisal Foundation as it staunchly guides and defends all appraisal disciplines. Without its openness to fresh approaches, this book would not have been born.

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Chapter 24.

The Importance of a Trusted Network

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Valuation is complex and nuanced. Having a trusted network helps both the valuer and their clients. Here's why.

What Our Professional Work Entails

The body of knowledge relevant to the valuation professional is very broad and nuanced. There are innumerable types of assets and entities that are valued, for a variety of reasons. The approaches used, the standards of value, and the valuation methodologies applied can vary. Even the most seasoned professional is likely to come across entirely unfamiliar circumstances, requiring new techniques and methodology.

For example, those who live and breathe purchase price allocations may not yet have encountered contingent considerations with a non-linear payoff structure; stock options in an entity with a complex capital structure; a hospital transaction with \$0 purchase consideration; or special purpose assets unique to certain industries such as broadcast licenses, oil and gas fields, certificates of need, or medical devices in development. The valuation of a single asset class, such as a customer relationship or contingent consideration, has so many nuances that The Appraisal Foundation has seen the need to develop specific Practice Aids to assist professionals with their work.

Valuations to facilitate transactions are no less complicated. Nuances are plentiful here. Similarly, the valuation of insurance companies, healthcare organizations, or fractional interests in real estate holding companies requires special knowledge and offers unique challenges.

Why Does This Matter?

No one has the knowledge or experience to meet all these challenges single-handedly.

A valuation deliverable needs to be appropriate for its intended use, and it needs to be performed using methodology and assumptions appropriate for the scope at hand. As such, to ensure we are good stewards of the profession, we need to honestly assess our capabilities and consult with experts within our profession to ensure we are well-informed. These experts may be present within our own organizations or outside of them.

Working in a large firm with hundreds of valuation professionals, valuers are able to inquire about and identify that *one* person within the firm who has “seen it before.” Auditors and tax professionals within the firm are no less important, since understanding the accounting and tax implications of a valuation analysis can guide us toward a more robust work product. The challenge in such firms, however, is that practice groups may unintentionally operate in silos, unaware of the skills and experience their colleagues in other groups or locations may have.

Many valuation professionals work within mid-size and boutique firms. The size of the organization and the number of professionals may limit not only the services these firms choose to provide but also the depth of expertise available to consult for more challenging engagements.

Whether we operate within large or small firms, the good news is that someone among us—the broader “us”—is likely to be an expert in the area of particular interest. Our job is to recognize the need to seek help from someone with greater expertise and build a professional network that facilitates our search.

Three Reasons for Seeking Help

Consider the following three primary reasons to seek help from colleagues.

1. **Lack of experience in a certain matter.** Even with the best intentions, we may perform a valuation without realizing we missed something fundamental due to our lack of experience. To avoid this, at the start of every engagement, it may be helpful to research textbooks, articles, and authoritative guidance in the public domain to identify current trends and discussions surrounding the subject matter. However, identifying and seeking out colleagues with experience in similar prior engagements may be more direct and fruitful.
2. **Not seeing the forest for the trees.** Even with extensive expertise in a matter, it is possible to miss something due to deep involvement in the details of the engagement. It does help to get feedback from colleagues to check for such oversights.

3. **No capacity to perform the work.** Apart from a lack of sufficient experience or expertise in a requisite area, we may have a simple lack of capacity to perform the work on a timely basis. Or, if we are part of a public accounting firm, we may be conflicted out of certain work. Having a solid network of colleagues allows us to seek viable alternatives for our clients in this situation.

Criteria for Building Your Professional Network

When developing your personal network of experts, consider prior colleagues, specialists who have reviewed your work before as part of an audit review, colleagues you meet through local events, and colleagues who are now your friends. Be constantly on the lookout for new contacts, taking the time to ask new and existing contacts what they find to be their sweet spot.

I personally have benefited from the professional support I have received from my prior colleagues (my largest network), many of whom I worked with during my time performing reviews for audits, and from local contacts. They have elevated my ability to be a trusted advisor to my clients.

Criteria for Making Professional Referrals

How might you seek the right alternatives for clients? If there is one rule, consider this to be it: “The right alternative needs to make *you* look good.”

We are putting our own reputation on the line when we refer our clients to someone in our network. Our referrals are a direct reflection of our standards for good client service. Timeliness, professionalism, integrity, and independence are all non-negotiable traits. When identifying a suitable professional for referral, we should ask two questions: 1) Do they know the work? and 2) Will they do it with excellence?

While personal experience and recommendations from people we trust are the best ways to identify resources for our clients, we may need to rely upon other information when we have a limited network. Here are some criteria you might use to sort through such information:

1. The percentage of work in recent years that fits the specific type of engagement being discussed.
2. The number of professionals within the firm experienced in the area of work.
3. The bios of the professionals who will perform the work.
4. Examples of recent engagements and specific issues encountered.
5. Profile of clients for whom the work had been done.
6. Typical turnaround time.
7. Sample redacted report.

8. Process from start to end.
9. Capacity to take on the project (if engaged, how quickly they can start).

In situations where we cannot do the above diligence, it is important to communicate to our client our lack of personal familiarity with the referred professionals and provide several options for our client to independently assess. Offering to help interview potential candidates for or with our client may also be welcomed.

Ex Post Referral

Once your referred professional has completed the work, reach back to the client to find out if their needs were met and the quality of the service received. If you get positive client feedback, you might thank the referred professional. This process will enable you to continue building a trusted relationship with your clients and also with the referred valuation specialist for future needs.

Of course, the elephant in the room tends to be the possibility that the referred professional ends up becoming a competitor for future engagements from the client. I have found that an honest discussion at the front end, with both the client and the referred professional, about how this should be navigated can help.

In the End

In the end, a solid network of trusted fellow professionals is a rare jewel that cannot be replaced. It is an opportunity to create wins for you, your colleagues, and, most importantly, your clients while meeting new challenges and solving client problems effectively.