



ASSOCIATES & PARTNERSHIPS

The subject of forming associateships and partnerships is a recurring one for oral and maxillofacial surgeons. Following is a summary of key issues to consider when planning to take on an associate in the practice. While these guidelines provide a broad view of the issues to be addressed in associateship agreements, they are not intended to replace the use of professional consultants, accountants and legal counsel.

REASONS FOR ADDING AN ASSOCIATE OR PARTNER

If you are in search for an associate or a partner to join your practice, chances are, it is for one or more of the following reasons:

Preservation of quality of care - associateship/partnership arrangements provide an opportunity to share the practice philosophy with another OMS

Opportunity for new OMSs to further their technical and practice management experience in an actual clinical setting as well as to stabilize their financial resources

Economies of scale - more OMSs share expenses and overhead, and in terms of managing managed care, assigning certain lower income-generating procedures to less expensive clinical manpower becomes more cost-effective

Prospect for an eventual buy-out arrangement - oral and maxillofacial surgeons contemplating retirement may use partnerships as a stepping stone to the eventual buy-out of their practice

Increase in productivity - increase in patient load capacity, more working days or more hours

Increased clinical coverage during absences / vacations

Less stress / reduced workload

Spread of financial risk - addition of partner(s) may require less capital outlay on the individual practitioner, increases revenue generation and spreads the risk of financial loss among a larger number of owners

CONTRACTUAL VARIATIONS

There are various types of associateship and partnership agreements, each with its own corresponding benefits and liabilities. Before adding an associate (or any employee) consider how the associate's personality and treatment philosophy fits in with your existing practice and established standards of care. Adding a new associate constitutes a substantial investment of time and resources, and careful consideration of how the new doctor fits into the practice and how he/she relates to the current staff and patients is important. The OMS must also look at the entire scenario - is this treated as a short-term manpower solution, or is this viewed as a long-term goal to eventually transfer the practice? Regardless of the arrangement ultimately decided upon, agreements must be documented and signed by the parties involved. These agreements usually fall under the following general categories:

Independent Contractor - A licensed professional works in your practice without the added expenses of employment taxes or providing employee benefits. Malpractice and worker's compensation insurance are the contractor's responsibility. Although this can provide an ideal staffing solution, certain conditions regarding the issue of control over the worker (referred to as "Common Law" tests) must be met when treating an individual as an independent contractor. Failure to meet these conditions could prove costly in the event of an IRS audit. Please consult with an attorney or accountant for IRS regulations and other statutes covering this type of agreement.

Partner - This offers the new practitioner some ownership of the existing practice. Partnerships can be arranged wherein the junior partner not only shares in the income but also the practice expenses. This arrangement is usually used in conjunction with future buy-sell agreements, and the contract should state a timetable for the change in ownership. When creating provisions for restrictive covenants and effective buy-sell agreements, it is important to solicit the services of an experienced financial advisor / legal counsel.

Associate - the new doctor is brought into the practice as a new employee, and he/she falls under the employer-employment relationship. This may eventually turn into a partnership agreement once both parties establish a willingness for continuity of their working relationship. It is important to ensure that the new doctor is provided professional liability insurance.

NOTE: *The last two arrangements affect the OMS employer's practice liability risks.*

COMPENSATION

Following are some common salary arrangements between associates and practice-owners:

- **Straight Salary** - the new associate is paid a fixed wage per year and is treated as another employee. He/she pays the usual employment taxes, and participates in existing employee benefit plans. Care must be given to ensure that the OMS' costs associated with hiring the associate will be offset by the new doctor's income-producing capacity
- **Percentage of Production** - the new doctor's wages are based on a percentage of his/her total production for the clinic. The associate may also be responsible for a percentage of his/her own laboratory expenses or supply costs. When using this type of compensation, make sure that any patient "bad debts" and other discounts are figured into this calculation. This method is particularly appealing in situations where the productivity and efficiency of the new doctor has not been determined, may add more stress and pressure on the new associate and necessitate additional bookkeeping.
- **Base Wage + Incentive** - a blend of the above options in which compensation consists of a base salary plus a percentage of any production in excess of a specified amount. Using careful calculations based on accurate financial information, the hiring OMS should be able to identify his practice's break-even production point at which the new doctor's revenue-generation would provide greater returns than the OMS' hiring costs. Both the hiring OMS and the new associate benefit from the added income the latter yields. This method has been used for all levels of the clinical practice staff to provide a motivation for increase in efficiency and production. This requires the practice owner's willingness to share financial data with the staff, and might also involve additional bookkeeping to track revenue-generation. Following is a quick calculation of an associate's profitability¹

¹ "Is Your Associate Profitable", *Dental Economics*, PennWell Books. April 1995.

$$\text{Profitability} = \text{PR} - (\text{PR} \times \text{CR}) - (\text{PR} \times \text{VE}) - \text{FE Expenses}$$

where: PR = New associate's production
 CR = " " salary
 VE = % of variable expenses related to new associate's production
 FE = fixed expenses directly related to associate's production

- **Space-Sharing** - The associate pays the owner "rent" for his/her use of office space. Normally, the associate pays his/her part of the operating expenses, a portion of the practice's fixed costs, as well as supplies, laboratory costs and the use of staff (if applicable). Fees may be adjusted over time or depending on the increase or decrease of the associate's patient volume.
- **Partnership Draw** - as a partner, the OMS may either obtain a salary plus a percentage of the practice's net profits or obtain a periodic withdrawal to be computed against the practice's year-end net income. There are specific issues relating to this type of compensation depending upon the practice's legal business structure e.g. professional service corporation, S corporations, partnership, etc. which an experienced accountant or tax advisor can explain in detail.

TRAINING

At least four weeks before the associate joins the practice, certain steps should be taken to ensure a smooth transition:

1. Have the new associate meet and interact with staff and obtain their feedback on the new doctor before making any hiring decisions. Set some time prior to actual hiring to have the new doctor observe or work with you when dealing with patients (be careful to get the patient's consent before doing this), in order to determine how his treatment and patient philosophy complement yours. This also serves to identify certain areas of focus for future training.
2. Decide on the new doctor's office hours and make the necessary changes to the office scheduling and appointment books to accommodate the changes.
3. Try to target your practice's patient group who you feel would best benefit from seeing the new doctor. Notify these patients of the addition of a new associate to the practice, giving them a brief summary of his/her personal and professional background. If your office utilizes practice brochures, be sure that the materials reflect informatino on the new doctor. Remember that adding associates can also provide an opportunity to tap into other geographical markets for patients.

Once the partnership and associateship agreements are in place, you can then concentrate on training the new doctor on your parameters of care, techniques and philosophy. This can be done through the following methods:

CONDUCTING "SIT-IN" OBSERVATIONS to allow the associate to observe actual consultation and treatment sessions and provide feedback later in the day.

SCHEDULING PERIODIC MEETINGS to discuss on-going clinical, patient, staffing and practice development issues.

PROMOTING EFFECTIVE COMMUNICATION is essential. It is imperative that clinical and treatment policies, and in most instances . patient cases be discussed openly among the doctors. This ensures that your treatment philosophy and years of experience will be passed on to the new associate, as well as alternative treatment options be suggested by the new associate.

DELEGATING allows you to provide hands-on training to the new doctor. This also allows you to free up your hectic schedule and allows you to focus on more intensive, higher-income generating procedures that might otherwise have been lost. This also enables you to observe how your staff work well with the new doctor.

PROFESSIONAL DEVELOPMENT

Be careful in delegating only "simple" or undesirable procedures to your new colleague, without the chance for improving their knowledge. You must personally commit to provide opportunities for the new associate to improve his/her professional skills. This not only fosters camaraderie and enhances his patient interaction skills, but ensures consistency in the quality of care you have cultivated over the years. Eventually, you would have then passed not only your lifetime work, but a legacy of your patient care philosophy.

For additional information, please contact the AAOMS Practice Management Department at (800) 822-6637.

ASSOCIATE OR SPACE-SHARING AGREEMENT
QUICK CHECKLIST

COMPATIBILITY

Treatment protocols
 OMS and OMS Staff

REFERENCE CHECKS**LICENSING, INSURABILITY**

DEA certificate & state license for controlled substances
 License to practice
 Certificate of liability insurance / letter of insurability

FINANCIAL

Legal classification - employee, contractor, partner
 Income / compensation formula - what to include/exclude
 - compensation for Call Coverage
 - benefits / bonuses
 - ongoing Equity contributions
 Subsidies/deferrals/retirement
 - professional education
 - licenses, membership dues
 - deferred compensation in exchange for ownership shares
 Allocation of expenses - what to include/exclude
 - recovery of patient losses/write-offs, credits
 Liability Insurance Policy
 Purchase rights in Death/Disability/Other
 Sublet of space arrangements & expense allocation
 Buy-in/Pay-out formula - practice valuation

GOVERNANCE & DECISION MAKING

Structure / decision-making hierarchy
 Length / duration of contract - possibility of "trial period"
 Minority partnership rights
 Disagreements / contractual arbitration
 Reporting / meetings
 Restrictive covenants & non-compete agreements
 Provision for dissolution - settlement of finances, patient record ownership,
 notification period

TRAINING & PRACTICE

Access to office & hours
 Provision for personal office space
 Training schedule - clinical & office systems
 Personnel /staff supervision, management functions
 Fee schedules
 Call coverage schedule
 Definition / limitation of practice, job responsibilities
 Patient distribution / assignment
 Practice Promotion
 Provision for continuing education

Comparison of Practice Configurations:

<i>Factors</i>	<i>Solo Practice</i>	<i>Single-Specialty Group</i>	<i>Multi-Specialty Practice</i>
Flexible office organization	yes	maybe	maybe
Strong market presence	not usually	yes	usually
Joint (shared) reputation	no	yes	yes
Independent decision-making	yes	no	no
Shared financial risks	no	yes	yes
Ready access to call coverage	no	maybe	no
Flexible work hours	yes	maybe	yes
Strong peer support	no	yes	no
Managed care negotiating power	no	maybe	yes
Built-in referral system	no	no	yes

Additional References:

Building Successful Associateships. American Dental Association. 1996. (800) 621-8099.

Dr. Steven Chinn. *Associateships: A Guide for Health Care Providers.* Pennwell Books, Inc. Tulsa, OK, 1995. (918) 835-3161.

Dental Economics. Pennwell Books, Box 3408, Tulsa, OK 74101. (918) 835-3161.

Associate/Partner Evaluation Worksheet

Name of Associate/Partner: _____ Date: _____

Period from: _____ to _____ Next Review Date: _____

	Excl	Good	OK	NI*	NA*	COMMENTS
A. Daily Operations						
1. Relationship with patients						
2. On time to the office						
3. Charting, referral letters, operative report and dictation on time						
4. Billing information, routing slips on time						
5. Telephone call effectiveness						
6. Personal grooming and appearance						
7. Other:						
B. Practice Development						
1. Generates new patients						
2. Retains existing patients						
3. Establishes good referral relationships						
4. Practice Marketing						
5. Suggests improvements in practice						
6. Other:						
C. Practice Style						
1. Work ethic and production						
2. Cost-effectiveness and efficiency						
3. Enthusiasm						
4. Flexibility, performance under pressure						
5. On time for scheduled patients during the day						
5. Other:						
D. Clinical Performance						
1. Knowledge and skill						
2. Diagnostic ability						
3. Proper chart documentation						
4. Patient education and compliance						
5. Continuing education or training						
6. OSHA regulatory compliance						
6. Other:						
E. Interpersonal Skills						
1. With office staff						
2. With medical staff						
3. With other doctors						
4. Other:						
F. MISCELLANEOUS						
1. Assistance in Practice Management						
2. Support of practice goals & philosophy						

* Note: NI = Needs Improvement NA = Not Applicable

Evaluated by: _____ Date: _____

Evaluation received by: _____ Date: _____

SAMPLE CONTRACT PROVISIONS

USE OF FACILITIES - Time

DOCTOR, or his designated duly-licensed associate shall have the non-exclusive right to use (state no. of operatories or treatment rooms) containing the necessary equipment and supplies to perform the standard procedures herein described, an aggregate number of days not exceeding (maximum no. of days) per week.

USE OF FACILITIES

DOCTOR shall have the following rights and privileges, and shall be entitled to avail of the following resources at the location of the PRACTICE:

- a) use of all dental and surgical equipment in the (no. of treatment rooms) designated treatment rooms
- b) all laboratory equipment on the premises
- c) inventory and supplies
- d) general business machines
- e) access to all support and administrative personnel
- f) access to the PRACTICE's computer and support services; provided that DOCTOR's use of the items listed in the foregoing paragraphs shall be limited to matters relating to the practice of oral surgery only at the PRACTICE location and for no other use.

EXPENSE SHARING

In consideration of DOCTOR's use and access to the facilities, equipment, resources and privileges granted herein, DOCTOR agrees to pay to PRACTICE:

- a) _____ % of the operating expenses of the PRACTICE including, but not limited to, expenses for support and administrative staff, supplies, inventory, computer system costs, advertising/marketing and lease of facilities.
- b) DOCTOR shall be responsible for full payment of any and all laboratory charges incurred by DOCTOR or his assistants or agents.

MANAGEMENT

During the term of this Agreement, PRACTICE reserves all rights of management, including, but not limited to, the employment and termination of all other personnel other than DOCTOR, inventory and supply controls and the continuation or termination of any and all computer services and or outside contracted services.

OPTIONS

Buy-In Provisions. The parties hereto agree that on or before (date), Dr. (Dr's Name) shall have an option to buy into the practice of (Owner's Name) and be a _____ % owner of same under the provisions for joint practice provided herein for \$ _____ (partner's capitalization amount), payable \$ _____ (initial downpayment) on the day of exercising this option and the remainder of the balance to be paid within 90 days. If this option is not exercised within the time provided, it shall lapse and be null and void.

Other Options:

1. To buy in and be exclusive holder of the option.
2. To structure the buy-in on a progressive or graduated scale with a corresponding scale in matching collections ratio.
3. To prepay at an earlier date and qualify for a pre-negotiated "discount".
4. To include a *Right of First Refusal in the Partnership Agreement* - a provision for the new associate to purchase the practice at a negotiated sale amount or valuation formula, in case of the owner's death or incapacity or disability.