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THE OPPORTUNITY OF Ownership

The benefits of partnership are considerable but so are the risks. If a job has ownership potential, it's crucial to look for any cracks in the relationship before setting sail.

By Karen Appold

“We are in the same boat.”

When Pope Clement I uttered those words to the church in Corinth sometime in the first century A.D., there is likely no chance he thought the phrase might one day apply to physician partnerships, but the words are as apt now as then.

Physicians who join together as business partners are in the same boat and must sink or swim together. It therefore becomes critical that a physician who seeks to join a practice with partnership potential does as much as possible upfront to ensure that the relationship is seaworthy.

Jeffrey Long, MD, a board-certified radiation oncologist at Mary Bird Perkins Cancer Center at Terrebonne General Medical Center in Houma, Louisiana, has worked as an employed physician, in an academic setting, and in partnerships. Long appreciates the increased stability and potentially higher income that a partnership affords. He says, “A partnership implies that there is a mutual commitment, that we are together for the long run, and that we will work hard to ensure the group's success,” he says.

“The stakes are high when seeking a partnership,” Long says. “As a partner, you are a lot less likely to change jobs than in another arrangement. Usually, you set yourself up

for a long-term relationship that could last years, decades, or perhaps even until retirement,” he says. “It's a balancing act. You must weigh the risks and benefits.”

Pros of partnership

Technically speaking, a partner is someone who co-owns a practice. A partnership can consist of two or many physicians. A new partner usually buys into the practice, unless the partners start the practice together.

Charles Garvin, MD, is an ophthalmologist with Smith Clinic in Marion, Ohio, a multi-specialty group practice. Physicians join his practice as employees and after one year become eligible to become co-owners or shareholders.

Like Long, Stephen Beeson, MD, the medical director at Studer Group and a board-certified family medicine physician at Sharp Rees-Stealy Medical Group in San Diego, sees advantages to joining a practice with partnership potential. The author of *Practicing Excellence: A Physician's Manual to Exceptional Health* (Fire Starter Group, 2006) and *Engaging Physicians: A Manual to Physician Partnership* (Fire Starter Group, 2009) says, “Co-owners have more influence over how the practice will operate and more authority to run the practice as they envision it.”

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Being a shareholder offers you voting rights, the capacity to have a say in major decisions in the medical group, including the ability to vote for board of director positions, says Beeson. It may also bring improved benefits.

At Sharp Rees-Stealy, also a multi-specialty group, partners within each department vote on making provisional members shareholders after two years of employment. "You must prove your abilities and your willingness to be a team player," Beeson says. "As a shareholder, you'll have a small ownership position. If you don't make shareholder, your contract isn't renewed."

The number of partners that comprise a group can affect each physician's income, according to Jeffrey Logan, a managing partner at McCloy Financial Services in Columbus, Ohio. That is because each partner will have the same portion of ownership, and as more partners are added, the practice pie is split into smaller pieces. However, each physician/owner's compensation is usually based on a combination of practice profits and individual physician productivity.

Partnership defined

In recent years, the term "partner" has evolved to mean anything from physicians who create non-practice but medically-related relationships such as co-owning medical office space or other facilities to doctors who job-share one full-time position. Ricki Bander, PhD, a psychologist and career coach in Los Angeles, knew one such couple who shared a position while starting their family so that one parent could always be home. They functioned as one physician with the potential for one share of partnership. The most common reference, however, is still physicians who jointly own a patient care-centered entity.

The number of such partnership is on the rise, according to Logan. Based on his experiences, he estimates that in the mid-1990s, half of the doctors who completed residency programs established private practices. Today, he puts that figure at 10 percent, a decline he expects to continue. "Nearly everyone today looks at joining an existing concern as opposed to setting up a solo practice," he says.

According to the American Academy of Family Physicians (AAFP), 8 percent of family medicine residency graduates in December 2008 reported joining two-person partnerships. By comparison, 44 percent entered family practice groups, and 22 percent entered multi-specialty groups. Only 16 percent started solo practices.

Eyes wide open

Even if you are joining a practice as an employee, if the job may lead to ownership, it is important to feel completely comfortable with the practice partners. "Put any issues, reservations, or concerns on the table before [partnership]," Long says. "If you don't, much bigger problems could result."

Entering a partnership is similar to getting married—you must choose wisely because the expectation is that the relationship will be long term. When problems surface, deal with them as quickly as possible, move on, and grow from them—and just like matrimony, issues present before sealing the deal are still there after the honeymoon.

Be on the lookout for red flags before joining a partnership. Partners should have a teamwork mentality, exhibit a sense of fairness, be willing to go the extra mile, extend themselves for the good of the group, and have a degree of flexibility as the group grows and changes, Long says.

Goals must also align. "If one partner wants to work two days a week and thinks that his partners should work the remaining three days, that might not work. If you open a satellite facility and one partner doesn't want to commute but thinks the other physicians should, that is a problem," Long says. "There is no limit to the number of issues that can come up and create conflict."

"When problems or conflict occur during the waiting period, you'll learn about the character and nature of a group. Observe how the players deal with it. Do they shout at each other or sit quietly behind closed doors, working cooperatively to find the best solution, and valuing everyone as a contributor?" Long says.

Keep in mind that partners will have different strengths, skill sets, ambitions, goals, desires, and talents. Pay close attention to management and leadership styles. "A stick-in-the-mud senior partner could say, 'I'm here the longest, I'm the boss, and we're going to do it my way.' That will impede the effectiveness and dynamics of the group," says Long. "If a person in leadership is rigid, inflexible, and not growth-orientated, you've got a problem."

Many questions mean fewer problems

When you're considering a partnership, you'll ask a lot of the same questions that you would ask if considering an employed position. However, Garvin, the ophthalmologist, says, you should explore certain topics further, such as the organization's governance, what would happen if the other partners aren't pleased with your performance, and what the potential risks are of being a partner or shareholder.

Bander agrees. She says physicians should inquire about how office policies and procedures are determined, how much input you will have on decisions, and what opportunities/responsibilities you will have on committees or boards. What specific roles does each partner carry relative to business operations?

Ask some personal questions, too. What are the life stages of members? Are there specific personal factors, such as an individual's health, that may impact the ability of a partner to continue to carry out her responsibilities? What is the longevity and financial history of the partnership?

You'll also want to explore performance and productivity requirements. What is the salary and profit share/bonus system structure? A fixed salary as an employee usually becomes a combination of salary or draw from the practice and productivity as a shareholder.

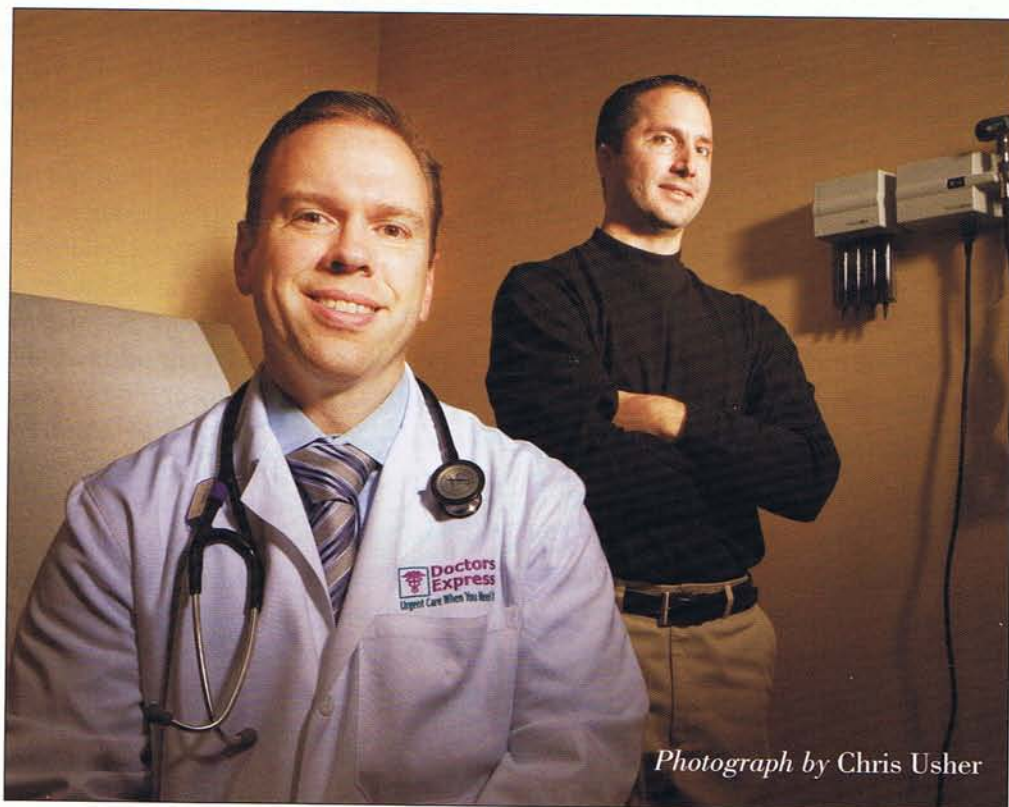
For example, 40 percent of income as a partner might be based on productivity. That way, individuals who work harder or who possess advanced skills that bring in additional dollars are rewarded. According to Logan, every profitable business should have the ability to distribute profits to the shareholders in some manner.

In the illustrating example, the remaining 60 percent of annual income might be based on a share of profits. These earnings could be in the form of direct or deferred compensation that you decide to take at a later date or in the form of extra benefits.

Find out how your partnership is earned or bought and over what period of time. Logan says a potential partner usually works as an employee for one to three years. The date at which the physician will be invited to join the partnership, assuming the "dating stage" goes well, should be defined in the employment contract and consistent with

previous employees-turned-partners. Similarly, the performance criteria by which partnership will be evaluated should be spelled out clearly.

Some legal questions are in order as well, Bander says. Does one partner have a significant number of malpractice claims? Does the partnership have a history of litigation for wrongful termination or harassment? Are there adequate insurances? According to Bruce Armon, a partner in the healthcare group at Saul Ewing LLP in



Photograph by Chris Usher

Scott Burger, DO and partner Tony Bonacuse found the ideal partnership. "We already had an established level of trust with each other. We didn't question each other's skill sets. I can't think of a better person to have partnered with," Burger says.

Philadelphia, insurances should include professional liability insurance for all shareholders and general insurance for the practice itself.

Financially-related questions are also a must. Logan says that a potential partner should be allowed full access to all financials of a practice. View any restrictions as a red flag. If owners aren't willing to share this information, ask why.

Has the partnership ever been short on cash for routine costs such as payroll or new equipment? As a result, did the owners have to loan the corporation funds or front those costs? How big was the cash shortage? Has the

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partnership ever been leveraged, and if so, why?

You'll want to ask about any debts of the partnership. Liabilities will show up on the practice's financial statements. These might include the cost of goods, services, and equipment, Logan says. There might be leases or loans. If the practice needs to continually borrow money on a line of credit to pay overhead (which indicates that the revenue generated by the practice is not sufficient to cover costs), this should be a red flag. If liabilities continue to increase, ask why the debt is not being paid down over time.

Also inquire about past financial performance, present position, and future projections, patient volumes, reimbursement rates, and break-even analyses. The business plan should define the break-even analysis; can the prac-

tice afford to bring on a new physician? What would a new partner have to do from a volume standpoint to break even? Are the expectations realistic?

As a potential partner, you should know about the partnership's contracts with banks, arrangements with hospitals, and real estate holdings. Ask existing partners if promises made to them have been fulfilled, says Logan. Do any other partnerships exist within the practice, such as those involving real estate holdings or other assets? Many doctors enter a partnership thinking that they now co-own everything, when in fact there might be separate partnerships that own different assets, such as the office building.

Although these questions may seem too forward to ask when considering joining a practice as an employee—akin to asking for a detailed romantic history on a first date, perhaps—to avoid the questions all together risks investing a couple of years of your life growing equity in a practice in which your future could be left to the whims of others.

Finding Your Business Soulmate

"Ultimately, the right time to enter a partnership is when you find the right partner(s)," says Lora Utley, CPA, a manager in the executive recruiting division at TimeLine Recruiting, LLC, in Columbia, Missouri. "If you trust and respect them, their trajectory matches yours, you share the same vision of patient care, and financially the arrangement meets your needs, then the time is right."

Your research begins with your first interaction with your potential partners and will continue throughout the interview and contract negotiation stages. "All of these stages are emotional ones, however, so don't discount your instincts," Utley says.

Thoroughly evaluate a potential partnership. Do not rush the site visit; spend quality time together both in and out of the clinic in order to get to know each other. The interview process is like dating; get to know the parties involved in both the formal (office) and informal (over dinner/lunch) setting, advises Laura Screeney, a certified medical staff recruiter and the director of physician recruitment for Raymond W. Bliss Army Health Center in Fort Huachuca, Arizona.

Involve the entire staff in the interview process. "Meet with the nursing staff, administrator, pharmacists, therapists, etc. You will practice as a team, so you should interview as a team," says Screeney. It's akin to meeting your future spouse's family.

Just like in a marriage, don't let the wedding overshadow why you're getting married. "Contract negotiations are stressful and can be frustrating to all parties," Utley says. "Never lose sight of why you wanted the job in the first place." ■

The road to partner

The duration spent as an employee and the financial details of buying into a practice are as varied as the practices themselves. Two to three years as an employee is common, though it can take as long as five. Many groups require the physician to be board-certified in the appropriate specialty before an offer of partnership is made, and groups often have organizational bylaws that govern the process, according to Laura Screeney, the director of physician recruitment for Raymond W. Bliss Army Health Center in Fort Huachuca, Arizona. If a doctor with a practice that has a partnership track does not end up receiving such an offer, sometimes she is required to leave the practice.

Hire an accountant and attorney with experience in medical practices to help you evaluate a potential partnership. Logan advises against using the same firm as the practice you're considering.

Make sure the partnership agreement states when and how the valuation process, i.e., determining the practice's value will be done, Logan says. Often, at the beginning of each year, the practice's worth will be determined based on figures from the end of the previous year. This should be done by a qualified professional. Or, the partners may have agreed to a formula (which includes revenue, expenses, accounts receivable, etc.) that drives the value regardless of when an event occurs. Another scenario might be for the agreement to call for an appraisal to be done by a qualified business appraiser

CPA to determine the business' value.

When a triggering event occurs, determining valuation should be the first step. Then, decide how buyout will be paid, Logan says. In the event of a premature death, it is common for partners to purchase life insurance on each others' lives so there will be enough cash available to pay the buyout. In the event of a disability, disability buy-out insurance policies will pay a lump-sum benefit for purposes of a buyout. These act much like life insurance policies. In the event of a retirement, most businesses (including physician partnerships) don't have enough cash on hand to buy out someone's interest. Typically, they will have an installment buyout that pays the retiring physician over a five-, seven- or 10-year period. The last option is for the practice to borrow money from a bank to buy out someone. However, due to the economic downturn, credit markets have made it difficult to borrow money for a variety of business purposes.

Go with who you know

Sometimes working with a familiar face is the way to go. Scott Burger, DO, the co-founder and the chief medical officer of Doctors Express and Doctors Express Franchising in Towson, Maryland, found the ideal partner for his business venture in Tony Bonacuse. The two became friends as college freshmen and later roommates. Burger pursued a medical career while Bonacuse majored in finance.

"We already had an established level of trust with each other and we knew we communicated well with each other," Burger says. "We didn't question each other's skill sets. I can't think of a better person to have partnered with."

Their partnership developed over casual conversation and a mutual interest in developing an urgent care franchise. Eventually, the duo partnered with one of Bonacuse's friends/business partners to develop Doctors Express.

"There are a lot of pros to working with people you know," Burger says. "A comfort level is already established and you can have more candid conversations. You know their training and strong points. You also have the opportunity to use their contacts."

The more frequently potential partners have successfully worked through differences in the past, the more likely they will succeed in the future, Bander says. The clearer the role delineation, the better. For example, one partner may be better at marketing the practice while another is better at negotiating contracts. Respecting each other's

strengths and interests is important.

Working with a friend or family member can be the most rewarding scenario or it can be your biggest nightmare, Screeney says.

"Make absolutely sure it is going to work; there is a lot to lose," Screeney says. "A bad partnership can break up a marriage or family."

Working with family members can be the most complex of all, according to Sylvia Lafair, PhD, a physician career counselor and the president of Creative Energy Options, Inc., in White Haven, Pennsylvania. She is also the author of *Don't Bring It to Work: Breaking the Family Patterns That Limit Success* (John Wiley & Sons, Inc., 2009). "Carefully consider joining with family members. Old patterns from childhood will surface and you won't be able to escape them. It takes tremendous courage and a willingness to process deep emotional issues that are bound to come up."

To avoid [detailed] questions all together risks investing a couple of years of your life growing equity in a practice in which your future could be left to the whims of others.

Avoid an ugly divorce

According to Armon, it's important to consider an end to your relationship before entering into an agreement. Examine what you will gain and will likely have to give up when you're no longer a partner. Every practice determines this differently—it could be based on productivity, practice value at the end of the last fiscal year, or on some other formula that has worked for the group historically.

Ideally, a partnership agreement should delineate what will happen if certain scenarios occur so everyone knows in advance what will transpire. "It's hard to predict all of the negative things that could happen, but it's ideal to identify as many potential realistic contingencies as possible," Armon says.

Regarding due process, some agreements might suggest that if there is any dispute that it go to binding arbitration, mediation, or an appropriate court. Having this stated in the agreement works to the benefit of both parties. If a separation occurs, everyone knows who the arbiter will be.

"It is a lose-lose situation to leave a practice—the physician loses, the practice loses, and the patient loses continuity of care," radiologist Long says. "To the greatest extent possible, ask all of the questions that need to be asked." The result will most likely be a rewarding career with the many perks of partnership. ■

Karen Appold is a medical writer and editor based in Pennsylvania.