What Does It Mean to be a Partner?

The invitation to co-ownership -- also referred to as "partnership" or "shareholder status" -- depending on the type of legal entity through which you practice -- is a decision that must be taken seriously by the existing shareholder(s). Despite what might have happened with you, or what you might have heard happens with other practices, the invitation to partnership is not – and should not be automatic. The invitation is *precious* and should be made only to an individual who is *more than* a great clinician or great "worker." Some dentists are absolutely great workers, but do they really have what it takes to be partners?

The offer of partnership should only ever be made for specific reasons beyond simply "serving one's time" as an employee in the practice.

The importance for you as an owner is in knowing what the criteria are for partnership so that you do not fall victim to the time trap. There is no magic cliff that an employee jumps off into co-ownership at the end of some preordained period serving as an employee or associate. In fact, making an associate a co-owner with you, simply because he/she has served an arbitrary amount of time in the practice may result in not only an unhappy union, but worse – in personal and legal difficulties for the practice, when you later try to extricate yourself from your unhappy union. For those who have been through a practice split up among partners, they will tell you that in some ways it is worse than a divorce from your spouse. At least with your spouse, when the property settlement and custody issues are done, and the emotions settle and you can move on more easily. In a practice divorce, the custody issues (charts, patients, referring sources, etc.) are inextricably intertwined with the economic issues since the referral patterns have ongoing economic impact. Moreover, moving and starting all over again has dramatic economic implications beyond the emotional ones. Just as with your spouse, therefore, you are committed to each other, emotionally and financially, through the practice and it is too late to find out the match is a bad one *after* you sign the co-ownership papers.

So, what does it mean to be a partner, and how do you decide if an associate should be made an offer of co-ownership? Being offered a partnership (co-ownership) interest in the practice should be the reward for a **proven commitment** to the overall health of the practice. That commitment is displayed in the way that an associate:

- *manages* the practice referral relationships;
- *contributes* to the financial performance of the business through his or her own contributions to the income;
- *displays* sensitivity to the costs of running the business; and
- *assumes* responsibility for key areas of interest in the practice (such as personnel, financial management, or the like).

An invitation to partnership is the reward for taking on entrepreneurial interests in the practice, and the risks associated with being a possible owner in the practice – demonstrating the commitment to its success *before* being offered an interest in that success. Being a co-owner means "making rain" for the practice by cultivating new referral sources –therefore creating new business. It also means taking responsibility for the financial and operational management and the health of the practice in good times and in bad.

Partners are responsible for working harder than the average dentist-associate, particularly when the practice has an adverse circumstance. For example, partners agree to bear the cost of buying each other out if there is a change in the practice. This often means taking on the responsibility for holding the practice together while one dentist leaves and another comes on board.

Partners must take on the entrepreneurial risk for contributing their financial, emotional and human capital that furthers the interest of the practice. Therefore, their *personal* finances are often tied up in the practice, along with some "reserve" so that a venture for the corporation can be capitalized or salary can be foregone on a temporary basis to meet the needs of the corporation. Perhaps this is the reason that when a referring dentist calls at 4:00 p.m. on a Friday to send a patient over that it is the partner saying, "Sure, send the patient over." Ideally it is the associate, willing to invest in the decision to stay and see the patient for what it is: an investment in the referral relationship, a financial contribution to the practice, and an investment in the growth of the practice in creating another satisfied patient, that his or her needs were met immediately, knowing that it meant the personal sacrifice of the doctor who stayed.

It is an investment in emotional capital in being able to trust each other. (The senior must trust the junior with the referring dentists and the associate must trust that the non-financial contributions will nonetheless be noticed and rewarded.) Finally, it is the investment in human capital, the talent and expertise, beyond being a good worker that partners invest in making business decisions, which affect their practices.

In most small OMS practices, despite being lucrative entitles, it is the partners who are the ones who are paid last; therefore, they must be prepared to bear the burden of the practice expenses for expansion, investment, and so on. When have you ever heard an associate ask what he or she thought was fair for a bonus or tell a partner that he or she thought that overhead was under control and that he or she could likely do no better? Rather, the concern is how much money the associate can make, how soon, how much will be guaranteed, and how soon can he or she be partner, at the lowest possible price. From the senior perspective, the issue is how much can I afford to pay? If I share my referrals with you, will you treat them right? How soon can I break even on you? Will you work as hard as you say that you will? Will I be at least as well off by having a partner, or will I at least improve my quality of life by having a partner? Moreover, if I have a partner, will he or she view being a partner in the same definitional terms that I do? Interestingly, "trust," and how far each party is willing to go to "trust" the other are at the heart of these concerns. Nevertheless, importantly, even in approaching the transaction, both parties come to the same place from very different positions. The question is if they can come to view the partnership in the same way.

Regarding the argument, that '*If* I was made a partner, then I would...,' this is a "chicken and the egg" problem. In the real world, the commitment and proof that one will be a good partner should *always* precede the offer of partnership. It should never be the other way around. While this is an issue of trust, both parties need to trust that the other party will do the right thing. This makes it important to know that the associate can rise to the occasion. You cannot know that until he or she has proven himself or herself. If a doctor is sincerely interested in becoming a partner, then she must act like a partner. He/she must work to be a partner, including displaying the real entrepreneurial interest in and commitment to what is now your practice, in the hopes that in doing so, it will eventually be your mutual practice.

The invitation for partnership is only made to those that are willing to go the "extra mile." This means after hours work to market the practice or other endeavors that promote the practice in an intangible way; even being part of the society in which you live raises your visibility. Therefore, assuming that you are a contributing member of society, participating in daily events raises the visibility of the practice.

The role of being a **partner** requires an associate to move from a "job" mentality (what does the contract say) to a "career pathway" (how do we do better together). This is a mental shift. It can also be a mental leap the associate is not ready for if he or she is deeply in debt or cannot see the big picture. It is the expectation that a person who is invited to become a shareholder is making a long-term career commitment to the practice. While associates sometimes move and change positions, the incident of partners leaving, when the economic stakes are so much higher, are much smaller. Most partners stay in the practices that they are owners in, so the emphasis is on making the right choice in a new partner in the first instance. Partnership status implies a substantial commitment to the corporation. The buy/sell arrangements, restrictive covenants and other clauses formalized in employment agreements reflect this understanding of long-term commitment. If these commitments are later abrogated, there are often significant professional and economic penalties. The invitation for partnership offers a tremendous opportunity to the individual dentist and, therefore, a commensurate commitment and loyalty is expected.

Sample Criteria For Evaluating New Partners:

- **Board Certification:** The candidate must be Board Certified.

- **Time Served:** The candidate must be a dentist who has been employed by the practice for at least some minimum time period long enough for the practice to recoup the investment in the associate period and to prove his or her partnership potential.

- **Trust:** Probably the hardest to quantify, you must be able to trust the judgment of your partner to be. This just takes time.

- **Referral Sources and Revenue:** It is the job of any partner to be a "rain-maker" for the practice. This means that the proposed candidate for partnership demonstrates his/her ability to build referral sources, solidify referral sources that exist and translate this into increased revenue for the practice.

- **Productivity:** The candidate for partnership must have a personal productivity that is similar to other partners in the group.

- **Profitability:** As revenue minus expenses equals profitability, the candidate for partnership must demonstrate a sensitivity to efficient utilization of resources within the practice that will translate to profitability.

- **Management Ability:** The associate must be someone who can manage in your absence and has some demonstrated interest in the practice.

- **Contractual Obligations:** The proposed associate for partnership must be in good standing with regard to his/her current contractual obligations as an employee. This might include minimum productivity requirements, demonstrated entrepreneurial interest in the practice, commitment of time, a vote of the Shareholder(s), etc.

Offers of co-ownership are more than an acknowledgement of excellent clinical performance and contribution of work beyond being a great "worker." These offers are precious and should be made for doing more than an employee does. They should be made to reward the entrepreneurial interest in the practice. Being a co-owner means being responsible for the financial, operational and management health of the practice (whether things are going well or going badly).

Clearly there is a demand for new associates that appears in some markets to exceed their supply. This absolutely gives the negotiating power to the associate to demand co-ownership "early" and "cheaply." Before you simply acquiesce, or if you are not in such a market, consider carefully what it means to you to be a partner and to have a partner. Then, by all means, share those thoughts with your associate <u>before</u> he or she is up for this decision. Give the prospective partner time to develop into the partner you want to have him or her be. By all means, verbalize your thoughts. "An Unstated Expectation Can Never Be Met".

Tell your associate what he/she needs to do to be your partner. If he/she still cannot do it, you can both walk away, but at least no mistakes were made and no next steps were taken that involves lawyers and needless aggravation.

A version of this article was submitted for publication in Practice Management Notes (Spring 2005 issue). It was reviewed and updated in 2006. Permission is hereby granted for the reprinting and use of this article provided that such distribution is free, and provided that the source and ownership of this material is acknowledged to be The Health Care Group, Inc.®. This article can be found online at www.healthcaregroup.com.