

Associateships: Rules for a Successful Engagement

“What should I do...?”

It is true that more than half of all marriages end in divorce, but even more relationships end before a marriage even takes place—during the engagement, as it were. In the field of professional dentistry, associateships can easily be compared to an engagement. When it comes to business relationships between dentists, perhaps no relationship is more common than the associate-dentist arrangement. Not surprisingly, too, is the fact that associate arrangements have one of the highest failure rate of any business relationship. This leaves most dentists asking, “What should I do to structure a successful associateship?”

Some associateships work very well, while others drag on in disappointment or end in agony. If you are contemplating some type of associateship, we are confident the following “rules of engagement” will help you structure and maintain a successful associate relationship. These ideas will help you understand the right way and the wrong way as well as the risks and the rewards of bringing on an associate or accepting an associate position.

Our company has facilitated more than 560 dental practice transitions over the last sixteen years, many of which involved some type of associate arrangement. Fortunately fewer than a dozen of those arrangements have ended in premature separation. Our experience in the industry has exposed us to a myriad of different methods for structuring an associateship. Many of these methods are very similar, yet some have worked better than others. Regardless of any commonalities, most methods will require customization in order to meet the specific needs of the dentists and address the issues surrounding each unique situation. That being said, the ideas we

will present do not pretend to be the only means of structuring an associateship, nor do they constitute a comprehensive guide to doing so. They are instead simple and essential elements common to successful associate arrangements.

With that in mind, let's take a look at the most important rules of engagement:

Rule #1

The goal of any associate-type arrangement is to create and maintain a mutually rewarding personal and professional relationship between two or more doctors. Unfortunately, too many associate arrangements are intentionally structured to benefit only one of the parties (usually the host, i.e., the doctor who hires an associate). Ego and selfishness will destroy a good relationship faster than anything else we know—including money! The only truly successful associate arrangement is one in which both the host and the associate feel they have been fairly treated. Although it may sound overused, the arrangement must be win-win. **Rule #1: Make the associate arrangement as fair as possible for both of you.** Look at the proposed transaction from the other party's viewpoint and consider their needs. Then match that viewpoint with your own.

To understand what makes an associateship successful, we should take a look at what motivates a doctor to pursue one in the first place. Why do most host doctors want to bring on an associate? If you are interested in bringing an associate dentist into your practice or have already brought one in, chances are you have already answered this question. But are your reasons the right reasons?

Most host doctors choose to bring on an associate for one of the following reasons:

- % They have so many patients that they are having a difficult time keeping up with their schedule or patient needs.
- % They would like to spend less time in the office, yet would like to have another doctor treat patients in their office as a means of assuaging their facility costs.
- % They are contemplating a future transition, whereby the associate will be committed to buying half or all of the practice (at a predetermined date for a predetermined price).
- % They want another pair of devoted hands to help pull the overhead cart and relieve some of the stress associated with managing the practice.

On the other hand, why do most junior or non-host dentists choose to accept or enter into an associate position? As a general rule they are:

- % Just out of school or a residency program and would like to gain some real-world experience as well as increase their clinical speed.
- % Not exactly sure of where they want to be or what they want to do with their new career but are in need of a job to start earning money.
- % Interested in acquiring a practice but would like to be associated with it for a brief period before making the commitment to buy part or all of it.
- % Marking time before they enter into speciality training.
- % Waiting to pursue another job or move somewhere else and using the associate position as a holding pattern.

Rule #2

As you can see, a host and an associate may each be pursuing an associate arrangement but for very different reasons. The challenge, then, is to find two parties with similar motivations for entering into an associateship. In addition, it is important they have complimentary needs, like-kind values and compatible personalities. Failed associate arrangements usually fail because of this one simple reason: the parties have incongruent expectations. In other words, one of the parties is expecting something to happen or for things to happen a certain way, yet somehow those expectations were not met. **Rule #2:** *Define your expectations and motivations in advance, communicate them to the other party, and seek to understand his or her's in return.* Do not wait until you are working together, with the thought that you will “just address those issues when they come up.” (An associateship built on poorly defined expectations or one lacking any formal structure is more aptly referred to as an “ambiguity-ship.”) An ounce of prevention is worth a pound of cure. Similarly it is more difficult to turn back time in an attempt to correct a problem than it is to address the issue in advance. So, what are some of the issues, the expectations that are so important to address?

We touched on one of them in the previous paragraph. Determine if your needs are complimentary with the other party's. For example, you might ask about your income needs and expectations as they pertain to scheduling, i.e., how much will each of you be working. A common mismatch we see in this regard has to do with what we call the host dentist's “motivational status.” Is he/she an “increaser” or a “decreaser?” If you can hardly wait to get back to the office on Monday morning, if you still enjoy managing and motivating your staff, or if you are constantly looking for ways to grow and improve your practice, then we consider you an “increaser.” On the other hand, if you have seriously entertained

thoughts of cutting back the time you spend in the practice, if you experience a lot of stress and fatigue, or if you are bored with the practice and just marking time until retirement, you would likely be deemed a “decreaser.” (Note: There is nothing wrong with being a decreaser. It simply means that you are in a different phase of your career and have different goals and needs than an increaser or a “sustainer.”) A decreaser host and an increaser associate are likely to have complimentary needs; each is filling a need for the other. Be aware, however, that in some cases decreaseers may want to spend less time in the office, yet he/she cannot afford to take home less than he/she is presently earning. Often host dentists in this situation think their solution is as simple as hiring an associate to perform all of the “grunt work,” i.e., the lower-end procedures, while they continue to perform all of the high-end procedures, thereby allowing them to earn just as much in fewer hours. We call this “dumping” since the associate feels “dumped on.” He/she is limited as to which procedures he/she can render and the operatory time available to him, and thus he/she is limited in his/her income earning potential. Obviously it does not take long for an associate to become disenchanted and disgruntled with such a situation. Unfortunately, too many hosts feel this situation is perfectly acceptable because, in their mind, “the young guy has to earn his/her keep and pay his/her dues, and if he/she wants to be busier or perform certain treatments, then he/she should work hard to build up his/her own practice.” This line of thinking is flawed in instances where the associate is agreeing to some form of non-competition or non-solicitation clause as terms of their employment.

From our discussion on decreaseers it is easy to see that they make good candidates for associate relationships, but unfortunately not many associate dentists are in the decreaser mode—most are increaseers. So what if the host dentist is also an increaser? If both the host dentist and the associate are in increaser mode, chances are an associate arrangement between them will only work

successfully if the associate is given a clearly defined opportunity to become an equity owner down the road.

Rule #3

Evaluate the financial and patient flow capacity of the practice in advance.
Too often an over eager host dentist will bring an associate into a practice that does not have enough patients to go around or is not in a fiscal position to support two dentist financially. An associateship started under these circumstances will soon strain the relationship of the doctors and will more than likely result in the associate looking for additional work elsewhere. Be sure to count the costs and review the numbers before committing to an associate. (Hire a professional to help you if you are not sure what the numbers are telling you.) Just because the practice feels busy does not mean it is ready for another dentist. An exception to this rule may be a practice in a high growth area, i.e., a practice with high new patient flow. Even then the host dentist must be committed to growth and in a financial position to subsidize an associate during the short term. Otherwise the practice will need a sizable active patient base sufficient enough to keep both doctors busy. If the host doctor is only booking a week or two in advance, there may not enough volume to justify an associate. The only way to make an associateship work in that case is by cutting the host dentist back both in terms of schedule and income and/or finding another part time position for the associate.

Rule #4

You are likely familiar with hit television series “American Idol.” If this popular television program has taught us anything it is that some people are just not cut out to be a superstar. Likewise, some dentists are simply not cut out to work in a close professional

relationship with another dentist. We do not mean this in a derogatory sense, nor do we mean to disparage certain types of doctors. Frankly stated, some doctors are meant to be the “captains of their own ship.” They have a certain way of doing things and prefer not to be encumbered by another doctor. If you think you might be this type of doctor, don’t feel bad, but don’t kid yourself into thinking that an associateship will be right for you. Everyone has a different approach to business and a different way of doing dentistry. Consequently, **Rule #4** is *to evaluate your own work ethic, practice philosophy, leadership style, and personality type. Then compare these characteristics to those of a prospective associate.* And although matching your values with a dentist possessing similar values is very important, we find there are certain “default” values both parties must possess if a successful relationship is to develop between them:

- % Honestly. Are you honest in all of your dealings? Does he or she tell the truth?
- % Integrity. Do you keep your promises? Do you do what you say you will? Does he or she?
- % Consistency. Do you vacillate on issues or do you make a decision and stick to it? Are your actions congruent with your words? Are his or hers?
- % Compassion. Do you have a genuine concern for those you treat and those you work with? Does he or she?
- % Skills & Knowledge. Are you confident in your level of knowledge and skill? Are you confident in his or hers?
- % Conscious. Do you exercise good judgement and make decisions based on what is best for all concerned? Does he or she?
- % Motivation. Are you motivated to always do your best? Do you inspire others to be and do the best they can? What about him or her?
- % Humility. Are you willing to learn new things or is your way the only way? Is he or she teachable?

In some cases, it might be wise to do a working interview with an associate candidate for a day or two to get a true sense of the other party’s values. Involve your staff in this process and seek their feedback. Have them rank the prospective associate on a scale of 1 to 10 in relation to his/her values and how well he/she matches with you and the practice. Then have the staff rank you on a scale of 1 to 10 in relation to your values and your match with the associate as well as whether or not they feel you and the practice are prepared to bring on an associate.

So what if you have evaluated your style and determined that you like to be the captain. Are you then doomed to sailing solo throughout your entire career. Not necessarily, since co-captain arrangements can often be successful and rewarding. However, in these cases the parties need to understand that the arrangement will likely not last over the long term.

Rule #5

There are two or three specific questions commonly asked by both host and associate dentists who are seriously contemplating entering into an associate arrangement. Going into an arrangement with these questions already answered is **Rule #5: Do your homework beforehand.** The first of these questions deals with the associate’s compensation. What is typical and what is fair? Most associates are paid a percentage of their respective gross production. In most markets and most situations, this percentage is about thirty percent (30%). (Note: Specialty practices/specialist associates are often paid a higher percentage.) It is not uncommon, however to see flat wage or salary rates paid as well, or variations of the two, such as a draw against future compensation. In other words, the associate is paid a flat rate or a percentage, whichever is higher. Then, as his/her production increases, any draw that was taken is

paid back. This method is particularly effective in situations where it may take the associate several months to “ramp up.” However, the host doctor should expect to see a consequential decline in income over the short term as he/she subsidizes the associate’s income via the draw. This will last until the associate’s percentage wage is sufficient enough to cover the minimum and pay the draw back, at which point the host should expect to begin earning an override on the associate’s production.

Rule #6

The second commonly asked question pertains to the inclusion and terms of restrictive covenants. This can often be a sensitive subject for both parties. Our experience has taught us that—in most cases—a non-compete agreement from the associate is not necessary during the first six months of his/her employment. We find a non-solicitation agreement much more prudent during this time, while a non-competition agreement makes more sense after six months of employment and when it appears that the arrangement will last longer term. It is rare for many patients to follow an associate to a different job or different location after only six months (or less), as long as the associate is not allowed to solicit patients. An ingenious alternative to the non-solicitation clause, however, is a covenant “option.” This arrangement allows the departing associate to determine the price and terms of a restrictive covenant upon separation. The host dentist is then free to choose either to purchase the covenant or sell it. By purchasing the covenant, the host is paying the associate consideration for his/her adherence to the terms of the covenant. Conversely, by selling the covenant, the associate is paying the host consideration for freedom from any restrictions on his/her practice of dentistry in the area of the host dentist’s practice. Obviously these provisions can be complicated and delicate to negotiate, structure and enforce. As such, the final

rule is **Rule #6: seek professional help and define your associateship agreement in writing.**

Beating the Odds...

If handled correctly, an associateship should be very rewarding—both personally and professionally—to both doctors. Success is the goal of virtually every business venture. And although business is inherently risky (particularly in light of the number of associate arrangements that fail), you can still structure and benefit from a successful associate arrangement by following the rules of engagement we have outlined above. In summary, remember to be fair, define your expectations, crunch the numbers, make the right match, do your homework, and seek advice. Attention to these things will increase your likelihood of beating the odds.