

Australian Dental Practice Article

By GRAHAM MIDDLETON, BA, MBA, AFAIM

I have frequently been involved in assisting dentists entering partnership or associateship, or resolving partnership or associateship issues. The following are examples of situations, elements of which are widespread. Any association with people of the same names is entirely coincidental.

Dental Associateships from Red Hot to Ice Cold

Robyn and Stephen

Stephen and Robyn thought that their skills were complementary. Without realising it they are grating on each others nerves, and an explosion is imminent.

Linda and Freda

Linda and Freda practice together, but Linda develops deeper patient loyalty and there is disproportionate demand for her services. Little by little, Linda's book is filled and she begins to extend her hours. It isn't true, but Freda feels that Linda is getting an unfair share of patients. Freda boils over and demands that Linda's hours be limited to the same working hours as hers. Their practice associateship agreement drawn up years earlier is ambiguous (*old associateship agreements are nearly always ambiguous*).

Alf and Bill

Alf and Bill got on well for years, but one day Bill suddenly says that he wants to leave the practice and work elsewhere. Alf is stunned. He doesn't understand what triggered Bill's decision and doesn't know what to do.

Bob and Tony

Bob is a big picture person, while Tony is obsessive about detail. When things are going smoothly, they complement each other. When faced with a minor staffing or administrative crisis they grate on each others nerves. How long can their relationship last? Perhaps they will both bite their lip and practice together until one retires. Perhaps one will decide that life is too short and force a break up of the associateship.

Louise and Paul

Louise and Paul could have been born on different planets they seem so different, yet they work in harmony and thrive. It is a mystery to their staff and to their professional colleagues that they survive.

Charles and Luke

Charles and Luke thought they had a great relationship. One day Luke says that he's had enough and doesn't want anything to do with running the practice. Immediately all administrative and management decisions start getting deferred. The practice starts to run down. Charles doesn't know what to do.

Mandy and Michael

Mandy is careful with her money, and Michael frequently lives beyond his means. When Mandy wants to renovate the practice, Michael can't afford it. Michael needs every cent out of the practice, but Mandy wants to reinvest in it. Mandy feels that her practice is imprisoned by Michael's inability to control his own spending. Inevitably they are on a collision course.

Lou and Theo

Lou doesn't set the world on fire, but has a comfortable patient throughput from his surgery and is happy with his profitability. Theo is struggling to keep his surgery fully booked and approaches a health fund with a view to becoming a preferred provider. Lou is strongly opposed fearing that it will be impossible to maintain two dissimilar patient lists and fee schedules in the practice. Ultimately, it may severely damage practice goodwill. Unless they can overcome Theo's marketing problem, the issue threatens to destroy their associateship.

Michelle, Don, Jeff and Lucy

They are in a four dentist associateship, which is at least one, if not two personalities too many. There are interminable management issues. The practice has become top heavy with management and administration with a full time manager as well as a bookkeeper who works almost full time. There are complex rules in place governing allocation of work between the associates, employed dentists and hygienists. The practice is in expensive rented premises with contractual rent review conditions biased in favour of the landlord. However, because of different circumstances, the associates are unable to agree on purchasing their own premises. None of the associates are happy with the practice outcomes, but are continually frustrated by the complexity and mutual financial obligations keeping it together. Each of the associates would be better off running their own practice with, perhaps, one employed dentist and simple management. One of the associates has been trying to sell out, but a succession of potential buyers have come along, smelled trouble and departed. All of the associates are beginning to comprehend that they are caught up in a tangled web which will be very expensive to resolve.

The lesson is that complex arrangements spell long term trouble.

Kim and Terry

Kim and Terry are the perfect business partners. Their communication is so good that they rarely need lengthy discussions. They seem to be able to ask a question with a raised eye and answer each other with an imperceptible nod. It is as though they never have any differences. Staff work harmoniously, patients are met with good humour and their relationship is long and productive.

Regrettably, comparatively few partnerships or associateships are of this quality.

Amanda, Tony and John

Amanda, Tony and John practice in a three associateship practice together with two employed dentists and a hygienist. Underlying their relationship is the problem of premises in a CBD building. The premises overlap into three separate suites. One is owned by Amanda and John in partnership, and the other two leased separately with different renewal terms. The practice should long since have moved to much more suitable premises, but there is never a time in which the real estate issues can be solved without significant financial pay out to at least one of the leasing landlords and there is always the probability that the suite which is owned by Amanda and John will become vacant for an extended period. The associates are forever on the horns of a dilemma between paying for a new expensive fit-out which is desperately needed, or undertaking an expensive move. In reality, they are out of step with each other and with the real estate interests, both internal and external. Tony wants to sell his associateship, but no one will buy him out. As a result, Tony is becoming increasingly unhappy as he feels trapped and powerless.

The lesson is don't buy into complex associateships where structural flaws inhibit future practice options.

Tom & Steve

Tom likes a practice to run smoothly, whilst Steve ignores administration. Inevitably, Tom takes responsibility for the practice administration by default whilst Steve gets a free ride. Worse still, Steve's chairside nurse reflects his attitude and she is non cooperative with other staff. There comes a time when Tom realises that Steve is never going to change, and that the only way to practice in the style he wishes is to split the associateship and move.

The lesson is that human beings don't change their character traits.

Helen and Matt

Helen and Matt's associateship is akin to that of an irresistible force meeting an immovable object repeatedly. Both have a great patient base. They tolerate each other for a period of mutual convenience and secretly both want to separate. One day, Helen begins to contemplate a move. Matt becomes

non communicative until Helen has irrevocably committed herself to obtaining new premises and financing a fit out. They have differences of opinion concerning separation of joint resources and staff. They may spill a bit of blood on their way to separate lives and solo proprietorships, but in the long term, both are happier.

Roger's Associateship Offer Spurned

Roger runs a significant sized practice with lavish and expensive facilities (far too expensive). He has two employed dentists, Trish and Jake, as well as a couple of hygienists, a practice manager and lots of equipment. Roger is a salesman and he sells a lot of expensive treatment plans, but because of its cost structure, his practice profitability per dollar of fees is well below benchmark standard. Nevertheless, Roger believes that he has a landmark practice, and offers to sell associateships to Trish and Jake at a hefty price. They analyse the figures and quickly realise that they will be shouldering one third each of the common expenses in an inefficient practice. Furthermore, in their eyes, Roger is the practice drawcard, and they wonder what will happen if he moves on or scales down. Roger's offer to sell them associateships is considered and firmly turned down. Jake later resigns to start up his own practice. He is a couple of suburbs away, but the bush telegraph works, and old patients track him down. Roger is furious, but fails to recognise that he has created a near unsaleable practice which doesn't provide a long term career solution to employed dentists.

From a buyer's perspective, the best deals are the simple ones where there is a high probability of retaining patients, modest fixed overhead costs and good upside potential. The situations to be treated carefully are the complex ones where buyers risk shouldering a heavy burden while seeing the practice recede from a pinnacle position it held when marketing was at its peak.

Andy and Shane

Andy and Shane should never have practiced together. Andy's detail mindedness extends to the point of fanaticism. He's the sort of guy that washes and polishes his car twice in a weekend. Shane chooses to be non communicative. Andy sends Shane letters and memos over major and minor practice issues. Shane deliberately ignores them, knowing that this infuriates Andy. Both wait for a point at which to break their associateship. Neither will compromise on key issues, and they must find a third party with sufficient knowledge of practice values and related accounting and practical practice management issues to assist in negotiation. Neither is going to accept a suggestion of the other. Useful suggestions must come from a third party.

Separate legal advice to both of them concerning their associateship agreement drawn up years earlier is that the agreement may no longer be "in force" because it has been informally varied many times in the past by tacit consent.

Exaggerated?

Not at all. Naturally, all of the above names are fictional but variations of the situations are common place. Dental practices are small businesses, and successful small businesses are often run by control freaks, but put two control freaks together and you have the ingredients of a fair sized explosion. Structural issues concerning premises or management and practice complexity also sow the seeds of future disharmony. Sometimes a fuse is short, and sometimes it burns steadily for years. In some lucky cases, while the associates appear quite different on the surface, they are actually aligned in respect of their mutual positions on a hierarchy of needs. Their interests are sufficiently diverse for each to go their separate way outside their practice, and indeed they may practice dissimilar styles of dentistry within, providing that on key issues such as fee scales and the use of staff, they are in agreement.

Resolving a Conflict – Separating the Hostile Tribes

I recall many years ago listening to a case study of an Australian Military Officer on United Nations duty in one of the worlds trouble spots. The Officer was one of a small number of UN personnel posted as observers along a boundary line between two traditionally hostile races. He received a message that a conflict was about to break out at a village which was in his area of responsibility, and was located on the demarcation line. He quickly gathered together his radio operator, camp cook and driver and headed to the spot. In the centre of the village, two large groups were drawn up behind their respective leaders. Many insults were being exchanged. Boys were holding rocks in their hands ready to throw, and their respective leaders were facing each other a few paces apart. In the background, armed men had positioned themselves in laneways and doorways. Naturally, neither leader could say or do anything that would be interpreted as backing down to the other. It only required one false move, and a clash would be ignited. Stone throwing would quickly lead to shots being fired, with a probability of war breaking out along the delicate cease fire line. The Officer deployed his few personnel across the centre, and then began to talk to the two leaders. Neither of them was prepared to back off. The only advantage the officer had was that he was a third party in a blue UN helmet. The tribal leaders were prepared to speak to him, but were not prepared to convey any message that might be interpreted as one backing down to the other. The Officer and his few soldiers resigned themselves to a long day in the sun and he gently spoke to each of the leaders, praising them and thanking them for listening, telling stories and occasionally getting a word of acknowledgement, a grunt or a look, but taking care at all times to address both equally. The day wore on and the sun became hotter, and slowly the kids with the rocks edged back into the shade. The respective crowds began to relax. At the back and on the edge of the crowds, women began to whisper to their men. Things didn't happen quickly, but as time went on it became apparent that there would be no fight in that village on that day. Neither leader had lost face and bit by bit, each was able to relax and agree to a mutual request that they both step back slightly, then a

little more. The crowds began to melt away, a few at first and then more, until there was a general acceptance that the incident was over.

The lesson is that in some circumstances, only an outsider can take on a role in the middle, whether that role is mediation or conciliation. Where neither group's leader could back down to the other, both were able to listen to the third party and act in step with that person providing that it was preceded with care and judgement.

Recognising Reality

Whether dentists have an associateship or a partnership, it sometimes occurs that a relationship has outlived its use by date, but the parties simply haven't realised it. Sometimes there is an advantage in a younger person buying out the older to enable them to rearrange the practice in their mode of dentistry. At other times, parties need to separate to individual practices. Often the perceived issues differ dramatically from the actual issues. A conflict which appears to be about money, fee setting or renovating the practice may really be one of power versus recognition. Nearly always there has been deterioration in communication.

Change Management

Change is a constant in the world which is speeded up. Some of us cope with change better than others. Usually, but not always, it is the younger person who sees the need for change and the older person who resists, but beware of stereotypes. There are many exceptions that surprise.

Money Is Usually Not the Cause!

Invariably, money issues become part of a practice separation, but are rarely the cause. Whilst in any profession there are a few who could be classified as greedy, many more see the money factor in a practice as being part of an accounting measure of practice performance. They would like to run an efficient practice and profit may be the measure rather than the end purpose. Inevitably at Synstrat, we spend a great deal of time with dentists dealing with money measures, but have long concluded that the possession of wealth is a long way from the pinnacle of most dentist's personal hierarchy of needs. Where value systems clash and there are issues as to the strategic direction of a practice, money matters will be raised. However, the true self actualisers are not concerned about keeping up with the Jones'. They couldn't care less who the Jones' are or whether they've even met them, let alone whether they have a bigger house or a better motor vehicle.

Sole Proprietor Practices

It is true that the majority of the best performed practices have only one dentist as an owner, often with one employed dentist (and occasionally two). It is also the case that the most run down practices tend to be sole dentists proprietorships also. Clearly for some dentists there is an advantage in the

company of a professional colleague and this is invaluable in helping keep them in touch with their profession.

Situations Occur by Accident

We are often consulted by dentists or dental specialists caught up in a situation which has evolved almost by accident. Sometimes a series of small decisions taken on the run have led to a significant change in the practice arrangements over time. Often one party comes to believe that the other side has manipulated some of the situations for their own advantage; or at least perceived advantage. Sometimes the issues are serious, but often an outsider would regard them as trivial. Unfortunately, at a certain point, a relationship passes a point of no return. It is only a matter of time before either an explosion occurs or one of the associates indicates that they want to move on.

The Lessons

1. It is a mistake to put the practice valuation issue foremost when entering an associateship. The amount paid is important, but personality and structural issues are paramount. Expert advice is essential, but regardless as to advice, it is vital that before signing up to buy into a dental associateship, that the dentist is sure that there is a very good understanding with the other associate(s) concerning practice protocols and business plans.
2. If you are in an associateship with serious problems, you need experienced advice. You certainly need this before you involve a lawyer, and a lawyer should only be involved if all other solutions have been considered. Introducing a lawyer can inflame a situation and delay resolution.
3. **Two Contracts?**
When buying one of the associateships in an existing multi associate practice, remember that there are two contracts - the second being with the existing associates (often this is informal). Don't simply accept a previous associate agreement if it is not to your satisfaction. It is vital that any proposed changes be negotiated with the other associates before signing to buy in. It is near impossible to negotiate significant changes after an agreement has been signed.
4. Unfortunately many practice valuers don't address the strategic issues and a great many accountants have little or no experience in respect of advising dental associateships. It is necessary that your source of advice be capable of analysing all facets of the associateship as well as the value of the practice.
5. If you are unsure, defer your decision or look for a suitable sole proprietor practice to buy.

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