



A NEW PHYSICIAN: FUTURE FRIEND OR FOE?



When hiring a new doctor, plan ahead to avoid headaches down the road.

BY DEBRA PHAIRAS

The decision to add a new physician to your practice is a big one, and not something you want to get wrong. After all, you are looking to create an open, trusting, fully transparent, long-term, *partner-friend* relationship with the new person. With the right mindset going into the hiring process, you can make the right choice and ensure that everyone is happy with the terms of employment from the outset.

The biggest mistake to avoid is to say, “Let’s see how it goes with you as an employee, and we will figure out the shareholder or partnership terms in a few years.” This is a recipe for disaster.

You do not want to create a *foe*, or possible competitor, if the new employee physician decides to leave and set up a practice around the corner because the terms were not clearly spelled out, or if feelings of distrust arise due to lack of clarity regarding the road to becoming a partner.

AT A GLANCE

- ▶ In interviews, discuss the practice’s philosophies (eg. cash or credit for purchases; conservative or progressive) and try to discern whether the candidate has the same values and mindset.
- ▶ Before you offer a candidate the job, decide on the methodology and approximate cost of a buy-in to the practice.
- ▶ Mentor the new employee physician, and demonstrate how to build referral sources and patient confidence to book procedures and surgeries.

HELP EMPLOYEE PHYSICIAN CANDIDATES MAKE A GOOD DECISION ABOUT THE OPPORTUNITY BY ALSO DISCUSSING LIFESTYLE ISSUES SUCH AS REAL ESTATE, SCHOOLS, RECREATION, CULTURE, ENTERTAINMENT, SPORTS, AND YOUR BUSINESS AND MEDICAL PHILOSOPHIES.

The recommendations that follow are based on my years of experience helping practice owners both to bring in employee physicians and to repair damage to existing relationships. (This includes doctors who sued each other over verbal promises made during the employment period.)

10 TIPS FOR FINDING THE RIGHT EMPLOYMENT STRUCTURE

1 Make a list and discuss the following: compensation and how and when salary is paid; benefits; hours and days of the week; surgery or procedure times; work locations; the new person's ability to dictate schedules, exam room space, and physician office space; memberships in national, state, and local organizations; cellphone plans and expectations; transportation and entertainment perks; working conditions; and practice-building expectations.

2 Write an employment offer or contract that spells out the terms discussed in Tip No. 1.

3 When you interview, look for a candidate with a confident attitude, willingness to work hard, and marketing and management capabilities. Discuss the practice's philosophies (eg, cash or credit for purchases; conservative or progressive) and try to discern if the candidate has the same values and mindset.

4 In both the interview and the employment contract, state that the employee physician will report to the senior physician or physician owners any marketing activities the employee has conducted each quarter to help build the practice. Examples may include visiting referring ophthalmologists' offices; taking referring doctors to lunch; publishing articles; and speaking at grand rounds and community locations such as retirement or senior living facilities or on radio, TV, or newspaper programs.

5 Decide who will be responsible for any tail insurance should the associate leave the practice before

becoming a partner. This generally follows the rules of supply and demand. If you have many candidates eager to join your practice, you may require that the employee be responsible for tail insurance. If your applicant pool is small, you may have to pay the tail. You can also decide to split the tail 50/50. Unfortunately, the decision on how to handle the tail is often left out of contracts, leading to misunderstandings.

6 Clearly state that all accounts receivable, charts, lists, and practice trade secrets are the employer's property. The new employee physician should not have rights to any of these. If the associate does not stay with the practice, the information in patients' charts can be obtained through proper release-of-information requests, but the actual hard copy chart is the work product of the physician owner of the practice.

7 Find out if restrictive covenants are legal in your state by calling your state medical association. If so, you can specify in the contract that the employee physician cannot leave your practice and set up a competing practice within a certain distance of your practice. Depending on the state, restrictive covenants may be allowable only after a physician becomes a shareholder or partner. If such covenants are allowed, they must be reasonable: for example, limited geographically to the draw area of the practice and temporally to 2 to 3 years.

8 Help employee physician candidates make a good decision about the opportunity by also discussing lifestyle issues such as real estate, schools, recreation, culture, entertainment, sports, and your business and medical philosophies.

9 Create an incentive program that will help the employee physician know what is expected in terms of productivity. Share practice expense information with the physician to illustrate what it takes to run a practice and what revenue is necessary to achieve a desired net income. If you have a

serious candidate, share financial data to the degree you are comfortable, but ensure that the employee physician signs a confidentiality agreement. After the physician reaches the incentive threshold, the additional money generated should either be given in bonus or placed in escrow to satisfy the buy-in should partnership be offered. If the doctor decides not to join the practice and become a partner, the bonus amount belongs to the associate and should be given in the final paycheck.

10 The practice's current overhead ratio should be calculated to determine break-even. A 50% operating overhead would double the direct costs in additional overhead. It is only fair to the new employee physician to exclude the senior partner or partners' discretionary expenses such as travel, entertainment, etc. This will determine a break-even point the employee physician must achieve to pay for his or her salary, benefits, and contribution to overhead.

The employer deserves a return on investment for outlaying money for salary and benefits. The employee could be given 25% of the excess revenue generated beyond the break-even point, with the employer retaining 25% for return on investment. The entire bonus can be given to the employee, placed in escrow for credit against the buy-in, or split in some proportion. Here is an example.

Employee Cost

\$300,000 Salary
 + \$75,000 Benefits (payroll tax, worker's compensation, health and life insurance, 401K)
 = **\$375,000** Total direct MD costs
 + **\$375,000** Overhead costs (at 50% overhead ratio; this includes share of fixed costs such as rent, and new and incremental variable costs such as medical, office supplies, telephone, dues, and subscriptions)
 = **\$750,000** Break-even needed in revenue/collections

Employee Revenue

\$800,000 Associate revenue/collections
 - \$750,000 Break-even
 = **\$50,000** Excess

Excess Distribution

- **\$25,000** (50%) applied to operating overhead
 - **\$12,500** (25%) to owners for return on investment
 - **\$12,500** (25%) to employee for bonus or escrow toward buy-in

ROAD TO PARTNERSHIP

Before you offer a candidate the job, make sure to decide on the methodology and approximate cost of a buy-in to the practice. Having this prepared in advance allows the

prospective employee physician to make a long-term decision about future opportunities within the practice.

Here are a few questions you should be answering as a part of that process.

- **Will goodwill or intangible asset value be included, and, if so, by what methodology?** Give an estimate of this amount in today's dollars. You should assess goodwill or intangible asset value back to the point in time the employee physician came into the practice. Thereafter, the employee is also building goodwill.
- **Will accounts receivable be included in the buy-in?** These should be discounted by insurance adjustments and age.
- **How will tangible assets be valued?** Will they be based on book value or fair market value? Fair market value is usually more in line with true value. Items may have been purchased and expensed but are not on the depreciation schedule; if older than 12 years and still in use, book value would place this value at zero.
- **Will a buy-out be valued the same way?** Will the new physician have a buy-in and buy-out of a senior partner at the same time?
- **How will the physician pay for the buy-in?** Will a lump sum borrowed from the bank be required, or will the senior partner or group allow the associate to make payments over time taken out of his or her monthly draw over, say, 3 to 6 years? You should keep the practice buy-in and any surgery center buy-in as two transactions and value them separately, just as real estate transactions would be.

FINAL TO-DOS

In addition to these considerations, be sure to tell the potential associate that marketing activities are a requirement to become a partner.

Once hired, you should mentor the new employee physician and demonstrate how to build referral sources and patient confidence to book procedures and surgeries.

Assign an area of management responsibility before offering partnership, and assess whether the associate is shareholder or partnership material by his or her degree of involvement and ability.

The road to future successful partnerships with any associate can be summed up with the four C's: Have the *courage* to *communicate*, *confront*, and *compromise*.

After all, it's better to have a friend in the practice than a foe around the corner. ■

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