Succession Architecture

AT A GLANCE • The People • The Authority • The Liquidity • The Decisions

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1 | WHY ARCHITECTURE, NOT DOCUMENTS

The four pillars a practice arranges before the emergency · Chs. 11–12

200 — decisions a complete pediatric partnership agreement resolves

4 Ds — disability, death, divorce, divestiture — the events that force a valuation

5 years — the succession runway — structural, human, then mechanical work

$150–500K — in legal and expert costs — one contested exit with no formula set in advance

8–14 — of 36 points — where legacy agreements routinely score

THE PREMISE

- **Architecture is what already exists** before the emergency — the people, the authority, the liquidity and the decisions arranged for the moment the person holding everything together no longer can.
- **A document is not architecture.** A complete agreement resolves **200 distinct decisions** across 12 domains; fewer than a tenth of them concern ownership percentages. The majority govern who decides what, who pays for what, and who bears which risk.
- **Ungoverned practices pay for governance anyway** — just at the worst moments. The unaddressed provision converges on two consequences: recruitment difficulty from perceived instability, and litigation with its expense and distraction.

THE FOUR Ds ARRIVE WITH A SIDE ALREADY FAVORED

- **Disability · death · divorce · divestiture.** The forcing events. Valuations are almost never commissioned in calm weather, and every one of the four arrives with emotion attached.
- **So the formula predates the event.** Set the valuation formula before the stressful event — wait until a stressful time and emotions get in the way of a fair deal for both sides.
- **The same clause, two different instruments.** A formula adopted while every partner might be the next buyer or the next seller protects both sides. The same formula proposed after a retirement announcement is a negotiating tactic, whoever proposes it.

THE TIMING RULE

- **Write it while it still describes nobody.** Nearly every one of the 200 decisions is easiest to make fairly before anyone is the senior partner nearing exit, the junior partner buying in, the partner whose divorce puts equity in play, or the one on the losing side of a deadlocked vote.
- **Twenty minutes, or a negotiation.** A valuation formula agreed three years early was 20 minutes of a partner retreat. The identical clause after the announcement is a fight.
- **The premise underneath it all** — partners are fiduciaries of the practice. When a partner acts as an owner, the practice's financial interest comes first and her own earnings come second.

THE COST ASYMMETRY

WHEN IT IS DECIDED	COST
Drafted in calm weather	$15,000–$40,000
Contested exit, no formula	$150,000–$500,000
Judicial dissolution	Going-concern value destroyed outright

A deadlock that reaches a court destroys the panel, the referral relationships and the trained staff along with the enterprise both parties wanted to keep. The whole deadlock package — definition, ladder, terminal mechanism — runs about two pages of drafting.

2 | PILLAR 1 | THE PEOPLE

Who runs it, who is next, and how far the rope runs · §12.2.1, §11.11

MANAGING PARTNER · FOUR DESIGN ELEMENTS

- **Elected.** Majority vote, a two-to-three-year term with reelection.
- **Compensated explicitly.** A stipend or protected administrative time, so the work is a defined job rather than an accumulating resentment.
- **Bounded.** The tier thresholds of section 3 limit the role's authority.
- **Removable.** Supermajority of the other partners — and the removed partner keeps full clinical partnership. Only the role and its stipend end.

This provision exists precisely because it cannot be drafted once it is needed.

WHEN ONE MANAGER IS NOT ENOUGH

- **The threshold.** Around six partners or multiple sites, the single-manager model strains.
- **Executive committee of three** in staggered two-year terms — president, finance lead, operations lead. It holds the same dollar limits and the same reserved-matters list, and reports monthly to the full partnership.
- **Three standing committees** for larger groups. Quality: peer review and credentialing. Finance: budget and audit oversight. Compliance: billing and regulatory risk.
- **Each chartered in a paragraph** — composition, authority, reporting, and the boundary where committee recommendation ends and partner vote begins.

DELEGATION · FIVE LEVELS

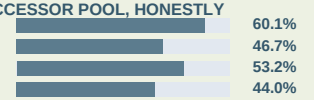
LVL	THE INSTRUCTION
1	Do exactly as instructed
2	Research and return with options
3	Recommend, then proceed on approval
4	Complete independently, submit for review
5	Complete and report only by exception

Naming the level at assignment prevents both the micromanaged manager and the surprised owner. A dollar threshold says what a manager may decide; the ladder says how much oversight each decision carries.

THE RUNWAY · FIVE YEARS, NOT FIVE MONTHS

- **Five years out — structural.** Valuation formula reconciled and signed, balance sheet cleaned, corporate and real-estate structures arranged so the practice is transferable, and the candid conversation about who the successor generation actually is.
- **Two to three years out — human.** Successor identified and tested, buy-in executed on the affordability math, governance transitioned deliberately, founder's wind-down schedule written with compensation stepping down alongside it.
- **The final year — mechanical.** Payer credentialing for every successor arrangement, patient communication sequenced, records custody and tail coverage executed, seller's post-close availability contracted — three to six months of transition is the working minimum.

THE SUCCESSOR POOL, HONESTLY



Share of physicians in private practice, and the owner share, 2012 to 2022 (AMA PRP, 2012–2022). Hospital-owned practices rose to 31.3%; private-equity-owned stood at 4.5% of physicians in 2022.

- **Build it deliberately.** The decline is driven by new physicians choosing employment, so the internal successor pool is structurally thinner. Waiting for a buyer to emerge on his own from the associate ranks no longer works.

3 | PILLAR 2 | THE AUTHORITY

The line separating what may be decided without a vote from what may not · dollar bands scale to a typical single-site practice · §12.2

TIER	THRESHOLD	WHAT IT COVERS	HOW IT IS DECIDED
Operational	**To $10,000**	Day-to-day spending, staff management below the clinician level, scheduling, vendor operations.	Managing partner or administrator, unilaterally.
Operational	**$10,000–$50,000**	The notice-and-objection band. Same subject matter, larger dollars.	Proceeds after five business days' notice unless a partner objects.
Significant	**Above $50,000**	Budgets, clinician hiring and termination, payer contract execution, new service lines, leases within bounds, compensation-plan parameters.	Noticed partner vote at simple majority. Quorum a majority or two-thirds present; five business days' notice with an agenda; minutes taken.
Fundamental	**Reserved matters**	Sale, merger or dissolution; admitting or expelling a partner; amending the agreement; changing the valuation formula or compensation methodology; major borrowing, guarantees, capital calls, opening or closing locations.	Supermajority — two-thirds to 75%. Unanimity is reserved for almost nothing, because a universal veto eventually gets used as one.

THE THREE HABITS THAT MATTER MORE THAN THE THRESHOLDS

- **Annual indexing.** Thresholds are indexed or revisited every year, so 2015's numbers do not govern 2030.
- **Named signature authority.** The agreement names who may bind the practice contractually and makes unauthorized signatures personally recoverable — because vendors do not read bylaws.
- **Absolute information rights.** Every partner is entitled to the monthly financial package, and no partner's access to books, bank statements or the practice-management system may be restricted. Most governance disasters begin with one partner controlling the information.

REMOVAL WITHOUT AN EXISTENTIAL FIGHT

- **Removal from role is not expulsion from partnership.** Blurring the two converts a management correction into a fight about whether someone stays a physician here.
- **What ends:** the role and its stipend. **What survives:** full clinical partnership, the vote, the equity.
- **What it takes:** a supermajority of the other partners.
- **Minutes are the cheapest litigation insurance** in the document — the 15-minute habit. A signed record of who voted for the compensation change outperforms every memory in the deposition.

SEAT MATH · TRANSLATE EVERY THRESHOLD INTO NAMES

- **Three partners.** Two-thirds and simple majority are the same two people, so a supermajority there is unanimity whether intended or not.
- **Six partners, percentage voting, a 55% founder.** A "majority" is one person.
- **Retranslate at every admission.** A threshold that made sense at four partners means something different at six.
- **Counting rule first.** Per capita protects junior partners from permanent minority status; percentage weights capital and seniority. Many stable groups blend the two.

TRAP · THE ZOMBIE PARTNER

- **Unlinked documents create her.** Clinically departed, contractually undead. The employment agreement permits termination without cause; the partnership agreement contains no employment-linked buy-out trigger.
- **The result:** the practice hosts a 25% owner who sees no patients, draws no salary, votes on everyone's compensation — and waits, her leverage compounding.
- **The two-sentence fix.** Termination of employment, for any reason, is a mandatory buy-out trigger with terms varying by exit type; the employment agreement cross-references it.

4 | PILLAR 3 | THE LIQUIDITY

Every policy allocates money between partners somewhere · insurance is a governance subject, not an administrative one · §12.12.1

SIZING THE FACE VALUE · THE WORKED EXAMPLE

- **Buyout alone is the wrong number.** The practice that loses a partner owes the estate *and* must recruit at the same time.

Buyout obligation	**$400,000**
Recruitment cost	**+ ~$150,000**
Face value per partner	**$500,000–$600,000**

The face value is sized to the buyout **plus the cost of replacing the physician**, not the buyout alone.

THE POLICY, NOT JUST THE FACE VALUE

- **Practice-owned term life on each partner.** The practice is funding a contingency, so the instrument is **five- or 10-year term**, not whole life.
- **Re-shopped at renewal** against the then-current buyout value — so the valuation and the insurance file are audited together.
- **Death trigger drafted around it.** Proceeds pay the estate, with a stated timeline for any unfunded excess. No automatic estate or spousal ownership.
- **Insurability belongs in the admission checklist.**

THE DISABILITY SIDE · TWO INSTRUMENTS AND A CLOCK

- **Mandatory individual disability coverage** as a condition of partnership, plus **disability buyout insurance** to fund the redemption.
- **The salary-continuation clock is drafted to end where the disability policy begins to pay.** One practice paid a partner unable to work his full salary for **60 days**; it stopped on **day 61**, the exact day the long-term policy began — agreement, insurance and calendar as one instrument.
- **What that design lets you not buy:** short-term coverage, expensive per dollar of benefit. Continuation runs 30, 60 or 90 days.

TRAP · THE DEDUCTED PREMIUM

- **The practice pays the premium without deducting it.** The non-deductible premium is what keeps the death proceeds non-taxable.
- **The CPA confirms the treatment** in the year the policy is written. A deducted premium discovered at claim time is a tax problem arriving in the worst week of the partnership's life.
- **Same discipline, the tail.** Malpractice tail responsibility is drafted into the trigger matrix, so every departure already knows who buys it.

PAYOUT PROTECTIONS BENEATH ALL SIX TRIGGERS

- **The payout period** — five years standard for large buyouts.
- **Promissory-note terms** with security and stated interest.
- **Offsets** for debts, advances and tail-coverage allocations.
- **The departing partner's accounts-receivable rights**, defined once for every trigger rather than argued at each exit.

THE AGGREGATE ANNUAL BUYOUT CAP

- **The provision practices skip** until two partners retire in the same year. It caps total buyout payments at a stated percentage of collections, so simultaneous exits stretch payments rather than break the practice.
- **Stress-test it first.** Two young partners funding three or four retirements in sequence is structurally a Ponzi scheme unless the replacement hires are as productive. Chart each partner's horizon and ask.

THE TWO CHECKS THE ANNUAL AUDIT RUNS ON THE FUNDING

- **Face values against current values.** Every life-insurance face value is read against the current buyout obligation, not the one that was current when the policy was written.
- **Definitions against current triggers.** The policy's definition of disability and the agreement's have to be the same definition — along with guarantee releases for departed partners.

5 | PILLAR 4 | THE DECISIONS

Six events that will happen, each defined, priced, funded and protected · §12.6, §12.4

TRIGGER	DEFINITION	VALUATION TREATMENT	PAYOUT STRUCTURE	FUNDING SOURCE
Death	Mandatory buyout of the estate; automatic estate or spousal ownership prohibited.	Formula value, reviewed against the annual valuation update.	Insurance proceeds, with a stated payout timeline for any unfunded excess.	Practice-owned term life on each partner, sized to buyout plus replacement cost.
Disability	Defined in days — commonly 90 to 180 consecutive, or cumulative within a period; matched to the disability policy's own definitions.	Equity redemption where the disability proves permanent.	Salary-continuation bridge for the gap before insurance attaches; redemption follows if permanent.	Mandatory individual coverage as a condition of partnership; disability buyout insurance funds the redemption.
Divorce	The overlooked trigger: in community-property states a spouse's claim can reach the equity.	Defined divorce buyout at formula value where a court nonetheless awards an interest.	Spousal signatures at admission acknowledge the buy-sell terms and waive ownership claims beyond economic value.	No dedicated insurance; the standard payout machinery applies.
Retirement	Defined by age and notice; 12 months' advance notice is common for a full retirement.	Formula value, less the failure-to-plan discount — 25% under a year, 50% under six months.	Standard terms, or the reduced-schedule pathway: semi-retirement with FTE-scaled compensation.	No dedicated insurance; the standard payout machinery applies.
Voluntary departure	Resignation on notice — 90 to 120 days standard for clinical continuity.	Formula value; accounts-receivable treatment per the agreed formula.	Transition obligations gate the payout: chart completion and property return before any installment, and covenants activate on the last clinical day.	No dedicated insurance; the standard payout machinery applies.
For-cause termination and expulsion	Automatic, no vote: license revocation, federal-program exclusion, loss of DEA registration, felony conviction. Voted: material breach after cure, conduct harming the practice.	The bad-leaver discount — a stated discount to formula value, sized before anyone has triggered it.	Standard payout terms; the discount is both deterrent and rough compensation for the disruption.	No dedicated insurance; the standard payout machinery applies.

DEADLOCK · DEFINE THE TRIGGER FIRST

- **Deadlock is not every disagreement.** It is a fundamental-tier matter failing to achieve the required vote at **two consecutive noticed meetings held at least 30 days apart**. That definition filters the transient from the terminal.
- **Every practice whose seat math can produce a tie** needs the clause — not only the 50/50 practices.
- **Two pages of drafting** covers the whole package: definition, ladder, terminal mechanism.

THE ESCALATION LADDER

- **1 · Structured discussion.** Disputes in writing, a mandatory partners' meeting with minutes, a cooling period, then a noticed re-vote.
- **2 · Mandatory non-binding mediation.** Costs split, settlement privileged, mediator pre-named — choosing a neutral mid-dispute is itself a dispute.
- **3 · The standing tie-breaker.** A rotating deciding vote held in alternating years, or a named neutral empowered to break specified ties.
- **4 · Binding arbitration for all other disputes.** One arbitrator, limited discovery, a one-day hearing target, a 90-day timeline, prevailing-party fees — injunctive relief carved out to the courts.

THE TERMINAL MECHANISM · PICK ONE IN ADVANCE

- **Shotgun clause.** Either partner names a per-unit price; the other must buy at it or sell at it within a fixed window. Self-enforcing honesty — but capital asymmetry makes it a one-way eviction unless all three patches are drafted: a **six-to-nine-month financing window**, an **installment option**, and a **price floor at a percentage of the last signed annual valuation (80% works)**.
- **Appraisal-based forced buyout.** A coin flip or neutral designates who exits; the agreement's formula prices it — the gentler alternative many groups prefer.
- **Both depend on the annual re-sign** — the single highest-yield item in the document.

6 | RED FLAGS | AND THE TEST

A nine-page, 28-year-old agreement scored 9 of 36 · legacy agreements routinely land between 8 and 14 · §12.13, §12.13.1

THE TELLS OF A LEGACY AGREEMENT

- **"Mutual consent" as the only decision rule.** No tiers, no quorum, no thresholds — scored 1 of 3.
- **Silence on the managing partner.** Not a weak provision — no provision. Scored 0.
- **A lapsed insurance reference.** Death addressed by pointing at a policy that no longer exists; disability and divorce silent. Scored 1.
- **No update mechanism.** Book value, asymmetry unexamined, and last amended for an address change. Maintenance scored 0.

THE SCORECARD · 12 DIMENSIONS

SCORE	WHAT IT MEANS
0	Missing
1	Addressed vaguely
2	Drafted but stale or asymmetric
3	Complete, current, consistent

Scored only against the documents **as executed** — an unsigned draft scores zero.

THE ANNUAL AUDIT · ONE MEETING, EIGHT STEPS, TWO HOURS

1. Re-run the scorecard and trend it. **2.** Re-sign the annual valuation. **3.** Reconcile the agreement against the year's hires, departures, leases, loans and locations. **4.** Check two-document consistency: cause, disability and retirement reading identically across every employment contract. **5.** Verify the funding instruments. **6.** Index the thresholds and re-run the seat math against the current roster. **7.** Log amendments with dates and custody in the practice's "Doomsday" file. **8.** Close on the question below. Calendared on the practice's annual rhythm, next to the valuation sign-off. Dimension 12 — maintenance and consistency — is the meta-dimension that predicts the other eleven's decay rate.

WHAT THE REPAIR LIST IS ORDERED BY

- **The value is the ranked list, not the number.** The practice's own circumstances order it: two partners, dimension 10 (deadlock and disputes) first; an aging founder, dimension 7 (life-event triggers) first.
- **Rank by what is most expensive if tested first**, not by what is easiest to draft.
- **Two hours a year**, against the six-figure cost of any single provision failing live.

THE TEST · ASK IT OUT LOUD, TODAY

"Which provision would embarrass us if tomorrow's event tested it?" The question the annual audit closes on, and the whole sheet in one line. A practice with the architecture in place answers it out loud, without opening a drawer: this is who runs it, this is what they may decide alone, this is the money that arrives when a partner does not, and this is what happens on the day the event fires. And the drawer exists anyway — the Doomsday file: executed agreement and amendment log, policies with face values and carrier contacts, signature authorities and banking contacts, attorney and CPA direct lines, custodian named, checked at the same audit. A practice that cannot answer has an architecture problem — and it will be solved in the worst week rather than at a retreat.

Sources: Pediatric Practice Management: The Fundamentals (Vanchiere), Chs. 11–12 · PMI governance dataset · AMA Policy Research Perspectives. General guidance only — not legal advice; agreement terms and state law govern. Prepared by Pediatric Management Institute.