



EmPower HR

How Private Equity Back Office Outsourcing Helps Firms Scale



The back office is the pivotal support center where financial, technological and human resource functions are carried out. As private equity (PE) firms acquire new businesses, ensuring their foundations are running smoothly is crucial.

To get the most effective and lucrative result, private equity firms often work with outsourcing partners like EmPower HR to help professionalize and organize these operations.

Let's explore the reasons why private equity back office outsourcing for HR functions makes sense.

The Acquisition Is Complete

— Now Back Office Success Must Follow

According to [McKinsey's Private Markets 2020 Annual Review](#), the number of active private equity firms in the United States more than doubled in 2019 from the previous year. Much of the growth in this sector is from founder-led, entrepreneurial businesses who have launched and expanded over the last few years.

PE firms often quickly realize that the lower middle-market businesses they acquire need better, more thorough HR foundations in order to remain a great investment.

This has many private equity firms doing everything in their power to set up their portfolio businesses for success.

Why A Strong Back Office Should Be Important To PE Firms

If a PE firm acquires a business that doesn't have efficient HR operations, the business can be at risk. Factors like missing intricate regulations and compliance requirements can cost the business money and impact the valuation at exit.

Particularly, businesses that are getting their first round of institutional capital need to ensure they have a solid back office set-up, because that's the time when they become "professionalized."

When PE firms obtain a new business, strengthening the HR infrastructure is one of the most important first steps to ensuring a healthy exit.

This is because a professional back office with strong HR foundations are fundamental in creating increased value and allowing for easy integration of potential add-on acquisitions.

Why Private Equity Back Office Outsourcing Is A Smart Move

PE firms work with outsourcing partners who have experience in this specialized area because it's often the most efficient and effective way to strengthen the HR infrastructure and get it running the way it needs to.

Outsourcing these pivotal tasks creates efficiencies that allow the business leaders to focus on growing their business. Simply put, PE firms choose to outsource the back office functions of their newly acquired businesses, because it helps protect their investment.

Bolstering the HR infrastructure can take place in many ways. This can be anything from providing employee training to ensuring the right leadership is in place to getting proper human resource procedures set up.

The human resources side of the back office can be segmented into three levels:

1. Administrative
2. Foundational
3. Strategic

1. Administrative

HR administration seems simple but it is a critical activity, as it's the starting point to building an effective HR department.

Many lower to mid-market businesses struggle with these areas because they don't have strong HR capabilities in-house.

Lacking strong HR administration can lead to compliance issues, lags or gaps in benefits administration, a poor onboarding experience and issues with paying employees correctly.

HR administration includes:

- Payroll processing
- Benefits administration
- HR compliance
- New hire onboarding
- And more

2. Foundational

The foundational elements of human resources include functions such as developing a comprehensive employee handbook as well as inclusive and robust job descriptions

It also outlines best practices for handling employee relations issues such as terminations or lack of performance.

Foundational human resource elements are integral to a business' operation and culture.

For example, solid HR policies and procedures establish and outline employee expectations.

Overlooking foundational HR functions can lead to:

- Employee relations issues
- Disgruntled employees
- Poor work performance
- Increased turnover
- Compliance issues
- Regulatory issues
- And more

3. Strategic

Strategic HR functions are extremely important in cases where two or more businesses are coming together.

Experienced partners like EmPower HR can help harmonize the practices and workplace culture of newly combined businesses as well as assess current and needed staff roles. They can also help identify skill gaps where training and development are required.

Beyond the administrative, foundational and strategic functions, the right outsource partner like EmPower HR will continue to support your firm every step of the way.

Due Diligence

The right outsourcing partner has you top of mind, all the time. They are your eyes and ears, ensuring you've double checked key areas that are important not only today, but also for future evaluation and exit strategy.

At EmPower HR, we conduct two levels of due diligence:

1. HR Health Report
2. 360 Due Diligence

1. HR Health Report

EmPower HR uses a comprehensive health report to get a sense of where things are with the business. We zero in on the potential short-term and long-term threats and bring you solutions to help your firm address those issues as quickly and painlessly as possible.

2. 360 Due Diligence

Ensuring your outsource partner does thorough 360 degree due diligence, like EmPower HR does as part of their offerings, is imperative. This is especially key if you are purchasing and putting multiple businesses together

Choosing an outsourced partner with extensive experience servicing private equity firms and professionalizing back office HR operations will make your process much easier and smoother during your investment period.



Choose A Partner With A Proven Track Record

When it comes to private equity back office outsourcing, it's important to look for a partner with a proven track record. We specialize in helping PE firms just like yours. Our goal is your goal – to get your newly acquired businesses running as effectively and successfully as possible.

In fact, EmPower HR is a trusted partner of more than **25 private equity firms** throughout the U.S., including:

Lasalle Capital | Longshore Capital | Onward Capital | Prairie Capital | Industrial Opportunity | Trivest Partners | Listen Ventures | Broadhaven Capital | PS Capital Partners | Clovis Point

How EmPower HR Can Help?

EmPower HR offers a variety of human resource services tailored to your business needs. Let us handle the HR administrative tasks so you can focus on your business and employees.

Learn more at empowerhr.com

This document was prepared by EmPower HR and includes HR best practices, not legal advice. Please consult with your legal professionals before enforcing any process or policies related to the ETS guidelines.