



The Human Touch

Insperity Handles HR from Pre-Acquisition to Strategic Execution

At age 29, Paul Sarvadi had an epiphany. A born entrepreneur, he had already launched several businesses, but he hadn't yet found his niche. He learned enough, though, to know that any company's success depended on five key areas: finance, sales, operations, technology and people.

"What struck me as astonishing was the fact that the success of the first four areas depend on execution by the fifth—the people," Sarvadi says. But many small and midsize companies didn't have the bandwidth or expertise to fully capitalize on this vital asset.

So in 1986, Sarvadi co-founded a company to help these businesses achieve success by making the most of their human capital. The company, called Insperity, would specialize in human resources (HR), handling that entire function for small and midsize companies. Eleven years later, he took the company public, and today Insperity has nearly \$3 billion in revenue. Sarvadi, chairman and CEO, has remained at the helm throughout the company's 31 years.

In the beginning, Sarvadi had to launch not just a company but an entire industry. The idea of outsourcing HR was new, and it didn't fit into the existing regulatory framework. Sarvadi

pioneered a novel legal construct called co-employment, whereby Insperity entered into a relationship with a client company and the client's existing employees, including the business owner. Under this arrangement, Insperity assumed or shared many of the responsibilities of being an employer. Then Insperity could aggregate the employees of all its clients on a common platform, which created a way for small companies to offer big-company benefits at a reasonable cost. Sarvadi fought and won a number of legal and regulatory battles, establishing a basis for what has become known as the Professional Employer Organization, or PEO, industry. Today that industry is estimated to generate more than \$136 billion in gross revenue.

Insperity is based on a philosophy that values people above all. Among the key tenets are that businesses should hire people for their input (i.e., their creativity and talents), and should recognize the value of how each individual contributes to the success of the whole. That's especially important in the middle market. "In small and midsize companies, every person needs to be a game-changer, because there are not that many people," he notes. The company also encourages a healthy work-life balance.

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PAUL SARVADI
Chairman and CEO, Insperty

That philosophy informs the services Insperty provides: handling employee benefits, including health, dental and vision insurance; 401(k) plans; payroll processing; HR administration; workers’ compensation; and regulatory compliance. It also helps with hiring and retaining talent.

These factors bolster the valuation of a company. A study by Insperty compared the valuations of public companies on Fortune’s 100 Best Companies to Work For list with other

public companies of similar sizes in the same industries. It found that the best companies to work for were consistently valued higher, retained more of their value in economic downturns, and recovered more quickly.

Insperty’s HR services can help private equity firms to standardize HR across their portfolio companies as well as their own organizations. This reduces costs and risk, while freeing management to focus on business strategy and execution.

For example, Los Angeles-based private investment firm StoneCalibre sought help in managing HR across its portfolio companies. “We needed HR oversight to help ensure compliance with employment laws,” says Mike Drury, the firm’s CFO and portfolio manager. “We also wanted our employees to have big-company benefits without the administrative burden of managing our own plans.” By using Insperty, the portfolio companies benefit from Insperty’s expertise, their HR is run efficiently and smoothly, and StoneCalibre “can focus on what we do best,” Drury says.

Insperty also helps ensure alignment between an organization’s goals and its HR strategy. “Our goal isn’t just to provide HR services,” Sarvadi says. “Our goal is to help businesses succeed.” Insperty assesses portfolio companies to make sure their HR strategy aligns with the PE firm’s objectives. Sarvadi adds: “In this way, we help

INSPERITY AT A GLANCE

Founded: 1986 in a 600-square-foot office

Headquarters: Kingwood, Texas

Public listing: 1997 on the NYSE under ticker symbol NSP

2016 revenue: \$2.9 billion

Number of employees: 2,700

Number of businesses served: Over 100,000

Range in size of customers: From five to 5,000 employees

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them reach financial objectives, maximizing value while minimizing risk. If that's not what private equity's about, I don't know what is."

Evaluating the leadership and staff of potential acquisitions is an especially valuable Insperty service. "When you're buying a company, you may start with the financials and the multiples, but what's driving those numbers are the people who are executing their roles every day," Sarvadi says. Insperty is an independent party that can make an objective assessment. Often a company's stated policies and practices differ from how things really operate. "Many times those don't exactly line up because there has not been systematic and strategic thinking," Sarvadi says. A clear-eyed evaluation reduces risk and increases the odds for success. "When you're in the PE business, you're going to win some, you're going to lose some, and you're going to lose more than you win," he explains. "But if you can find out and avoid potential loss up front,

your winning percentage is going to be much better than the next guy's."

Once a deal closes, Insperty helps ensure alignment and smooth integration of processes at the newly purchased business. "The last thing we want (when acquiring a company) is an avoidable glitch with negative employee impact, such as mishandling payroll," Drury says. "Working with Insperty helps ensure the integration process into StoneCalibre is as smooth as possible."

When Sarvadi launched Insperty, he could not have foreseen how successful his company, and indeed the PEO industry, would become. But his faith in the value of people and the role they play in business success has not wavered. In fact, with today's low unemployment rate, hiring and retaining talented people is more important than ever. With Insperty's help, private equity firms can build and profit from that human capital. //

▲ Paul Sarvadi has been at Insperty's helm for 31 years