Private equity is an enormously powerful and wealthy industry that has a huge impact on the public [and their human rights](https://link.springer.com/article/10.1007/s12142-023-00680-w). As a sector, it holds around [US$4.4 trillion](https://www.warren.senate.gov/imo/media/doc/PE%20Stats%20Final.pdf) (£3.5 trillion) in assets, while in the US, [one in every 14 workers](https://www.motherjones.com/politics/2022/05/private-equity-buyout-kkr-houdaille/) is employed by a company owned by a private equity firm.

These firms use a unique business model. They attract outside investors by promising high returns, and invest this capital in buying companies.

The aim is to make these companies more profitable, return the necessary gains to their investors and then sell the company, usually [around five years](https://www.privateequityreportinggroup.co.uk/Portals/0/Documents/EY-Annual-report-on-the-performance-of-portfolio-companies-XIII.pdf) later.

Recently there has been an increased appetite for private equity firms to buy companies that provide services such as health and social care, detention facilities and housing – services often relied on by vulnerable people.

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Those people – and the workers who provide the services – are directly affected by some of the tactics used by private equity firms to make money, such as cutting staff and other running costs.

Other ways of raising funds quickly include “leveraged buyouts”, where the purchase price of a company is partly funded by a loan taken out against that company. Another common method is “dividend recapitalisation”, which means borrowing to pay investor dividends.

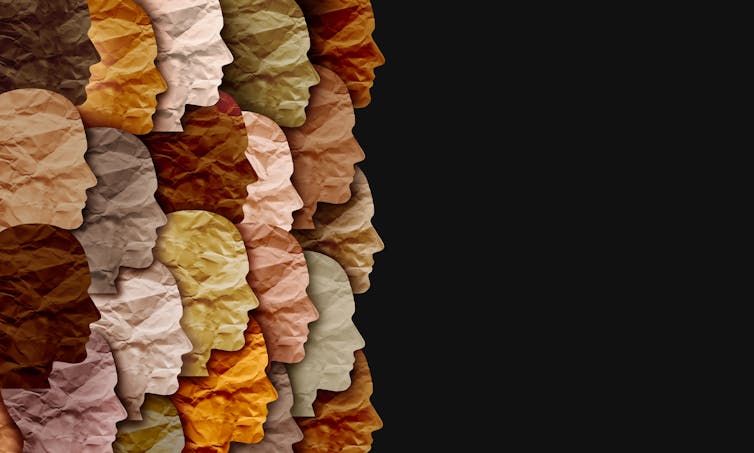
But these strategies – known as “value extraction” when they deliver investor returns by weakening the company – often lead to unsustainable debt levels and poorer quality services. This in turn can have a damaging effect on people’s lives and a significant impact on their human rights, including employment rights and the rights to health and housing.

In the US, for example, many hospitals bought by private equity firms have [been accused of](https://www.propublica.org/article/investors-extracted-400-million-from-a-hospital-chain-that-sometimes-couldnt-pay-for-medical-supplies-or-gas-for-ambulances) drastic cost cutting, leading to persistent mechanical breakdowns, a lack of medical supplies, and insufficient fuel for ambulances due to unpaid bills. [A study](https://www.nber.org/system/files/working_papers/w28474/w28474.pdf) found that private equity ownership increases the “short-term mortality” (deaths in care and during the following 90 days) of Medicare patients by 10%.

[In the UK,](https://blogs.lse.ac.uk/politicsandpolicy/corporate-care-homes/) two of the largest nursing home chains collapsed following private equity takeovers (Southern Cross in 2011 and Four Seasons in 2019), leading to job losses and closures. Research also suggests that workers in private equity owned nursing homes [earn around 30% less](https://journals.sagepub.com/doi/epub/10.1177/0308518X19862580) than they would in a home run by the government.

**The private and the public**

The tactics built in to the private equity business model directly affect people’s lives and human rights. So human rights governance needs to address these tactics directly.



Economic activity affects everyone. [Lightspring/Shutterstock](https://www.shutterstock.com/image-photo/multicultural-diverse-cultures-society-international-tolerance-1908957070)

Our [recent research](https://link.springer.com/article/10.1007/s12142-023-00680-w) suggests that an area of law known as “human rights due diligence” could provide a solution. Already in place in France, Germany and Norway, these laws require companies to identify the human rights risks within their operations. They then need to investigate and mitigate these risks, with a legal obligation to cancel a project or activity if the risks are too high.

There are already specific human rights standards applied in sectors such as [mining](https://www.oecd.org/daf/inv/mne/mining.htm), farming, [fast fashion](https://cleanclothes.org/) and factory manufacturing. If a company sources from a factory, for example, it should ensure there is no child labour involved.

Applying the same approach to private equity firms is rather different, because something like the act of borrowing a large sum of money to pay dividends does not directly violate human rights in the way that factory operations might do. It is instead the debt and cost cutting made necessary by the loan that could lead to understaffing and poor levels of care, which can then violate human rights.

But just because it is different does not mean it is impossible. Human rights laws already apply to bank lending, and the economic activity of private equity firms should also be covered.

The technique would be fairly simple. A private equity firm undertaking any form of value extraction from a company it owns should identify how that undertaking will affect how that company is able to meet its human rights obligations. If no subsequent effect on human rights is found, it may proceed.

However, if an effect is likely, the size of the debt raised or the dividend paid out to investors should be reduced to the extent that human rights are left intact. The law would be able to punish any firm that failed to conduct adequate human rights due diligence.

Such a move would help to ensure that human rights are respected more widely. Across the world, those rights are routinely affected by economic activity – and as the impact and wealth of private equity firms continue to grow, legal enforcement would offer better protection for all of us.