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Employing Better Practices

Steve Sarowitz had dreamed of starting his own business since his college days. But it was his accountant who helped him muster the courage to actually start Paylocity, an independent payroll service, in 1997.

"I worked for a couple of companies that were bought out for millions of dollars, and my accountant said to me, 'Stop making other people rich and go do it yourself,' "says Sarowitz. "And that's what I did."

However, starting a business wasn't easy. Sarowitz invested \$70,000 of his savings and worked without pay for nearly a year.

Today, he no longer needs to worry about money. Paylocity, a payroll processing firm, is expected to reach more \$10 million in revenue in 2005, a \$4 million increase over 2003 revenue. Sarowitz believes the rapid growth will continue and hopes to triple his revenue in the next five years.

For now, he's focused on dealing with the problems that come with fast growth. It's a struggle, but something Sarowitz is confident can be overcome.

"We have a great story to tell, in that we are a two-time Inc. 500 company that is privately held, virtually debt-free and profitable," says Sarowitz, president of the firm.

Smart Business talked with Sarowitz about how he finds good employees and why he is improving the structure of Paylocity.

You recently hired an HR manager to help manage the challenges of fast growth. What impact has this had on Paylocity?

We had some issues with turnover last year. We have always had relatively low turnover throughout our whole existence. If you look at our management team, we still have relatively low turnover.

Last year, we had high turnover for the very first time. A lot of it was just poor hiring procedures.

How have you improved your hiring practices?

We had one employee, for example, that we didn't do a background check on. We found out after the fact that he never attended the college he said he graduated from. He also had a pending legal case with his prior employer.

These are things that we didn't check out prior to hiring him. We didn't do our due diligence. That one employee probably cost us five more employees.

What we learned is that you have to screen people up front. Also, we not only have an HR manager but also a recruiter. We have a really good staff. We have a lot of people who contribute to our company's success. What we realized the hard way is that one bad hire can cost you a lot, so we want to be more careful in our hiring.

How are you attracting and retaining better employees?

One thing we thought we were weak on was giving our middle managers training. As we grew, we hired people who were competent, and we took those people who were competent and promoted them into management positions.

And that doesn't necessarily make them good managers or experienced managers. What our head of internal training asked for is to give people more support in becoming better managers.

When we had our first consultant in to talk to us about training our middle managers, he started asking us about our mission statement, business statement, all of the structural things that we need as a senior management team in order to help our junior management team. We realized that we needed help.

We are doing really well and have been extremely successful, but we are hitting the next level. We are investing a lot in the process to make sure that we have a structure in place so that people can have a career here – not just a job but a career. Over the next year, we are going to be instituting training for our middle management team fitting into what our mission and vision are and what our goals are.

It's putting more structure in place. That will help retain good people, because they will have a pathway to success and they will have more structure so they will know what they need to do.

How will you attract good employees?

Part of our problem with recruiting over the years is we are a busy, growing company, so each manager was also their own hiring person – which is good in that they know what they want, but we weren't spending enough time really making sure that we looked thoroughly every time we had an open spot.

Right now, we have a couple open sales spots. What we would have done before is ask anyone here if they know any good salespeople and maybe have done a little recruiting.

The bottom line is our sales managers are too busy selling to really worry about heavy-duty recruiting. Now they're using a recruiter, and we are on all the Web sites, we're going to a sales career fair and we are just looking in different places.

We are also honing our presentation to candidates. We haven't always properly told candidates how good a company we are. We are upgrading our image.