

CHAPTER 1

BEFORE YOU READ take an *Overview* of the subject matter by *Assessing Your Prior Knowledge*. AS YOU READ apply the new *Reading Technique*, learn the *Vocabulary*, and complete a *Language Activity*. AFTER YOU READ check your understanding through *Fact and Idea Review*, *Critical Thinking Question*, *Guided Discussion*, *Authentic Assessment*, and *Mini-Quiz*.

The Power of the Paycheck

Payroll processing has made Paychex' founder rich enough to undertake his own political crusades

By William C. Symonds in Rochester, N.Y.

It was 1975 when Tom Golisano paid an urgent visit to his sister, Marie Graham. Golisano, then 34, had spent four years struggling to build his company—a risky venture in the decidedly unglamorous field of payroll processing. His company needed a computer system to grow, but no bank would give Golisano a big enough loan. So he turned to Marie. Her husband had died, leaving her with three children to support and a \$42,000 life insurance payment. "Can I have that money?" Tom asked, without explaining what exactly he intended to do with it. In a leap of faith, she lent him \$30,000.

Although it took Tom four years to pay her back, Marie now says that "it was the best move I ever made." Her grateful brother later gave Marie a chunk of Paychex Inc. stock, which has become one of the surest bets on Wall Street. Over the past five years, Paychex shares have appreciated at an annual clip of 47%, compared with 26% for the *Standard & Poor's 500-stock index*. Now trading at 49, it commands a Microsoft-like multiple of 59 times expected fiscal 1999 earnings of 83 cents per share. This stellar record earned Paychex the No. 34 spot on this year's *BUSINESS WEEK 50*, our annual list of the best-performing companies in the S&P index.

Golisano's secret? He picked a seemingly obscure business and built it into a gold mine by providing a place where small companies can outsource the mindnumbing and bothersome task of churning out paychecks. Over the years, as IRS and state tax reporting rules have become increasingly complex, demand for payroll services has soared. In fiscal 1998, Paychex' net income jumped 36%, to \$102 million, on sales of \$993 million.

No one has benefited from Paychex' success more than its founder, whose 11.4% stake in the company is now worth over \$900 million. And with the Rochester (N.Y.)-based company humming along, the ever-restless Golisano, 58, has time and money to spend on his greatest passion outside of work: political activism. Over the past decade, he has made a name for himself in Rochester as a crusader against drug abuse and teen pregnancy, and he helped found the Independence Party, the New York wing of the national Reform Party of Ross Perot fame. He has also run for governor of the state twice, burning through \$20 million of his own money for the privilege. Some Reform Party insiders even see him as a potential Presidential or Vice-Presidential candidate for their party in 2000.

EARLY SETBACKS. That's a long shot, but Golisano, never lacking ambition or ego, says: "Stranger things have happened." Ever since he was 16 and witnessed his dad, a macaroni salesman, and his mom, a seamstress, sink into bankruptcy, Golisano has thought big. "He was always looking to figure out how he could get ahead," recalls boyhood friend Eugene R. Polisseni, now head of marketing for Paychex.

A mediocre high school student, Golisano was turned down for entry level jobs at Eastman Kodak Co. and Xerox Corp., Rochester's two biggest employers. Supporting himself with a series of odd jobs, including working in a bank vault, he went back to school and earned a business degree at a two-year college. Later, while working for Electronic Accounting Systems (EAS), a regional payroll processor for big companies, Golisano realized there was a huge, untapped market for small-company payrolls—98% of all companies have fewer than 100 workers. But when Golisano took a scheme for serving this market to EAS, his superiors scoffed.

So he struck out on his own, with a one-room office, three cheap desks, and one employee, Kathy Angelidis, a recent college grad. The grind was unrelenting. "We printed out W-2 forms on New Year's Eve," and often "put in 100 hours a week," recalls Angelidis, who's still with Paychex, as manager of data administration. Unable to pay himself, Golisano relied on his wife, Gloria, who ran a nonprofit

organization, to support the family. And for months, he used his credit card to pay Angelidis' salary.

"NEAT FREAK." By 1974, the payoff was in sight: Paychex had grown to 250 clients. But Golisano's marriage was unraveling. "All the long hours created a lot of stress, and it was very tough financially," he says. Over the next five years, Golisano built Paychex into a network of 18 partnerships and franchises with a total of 6,000 clients. Among Tom's business associates: his ex-wife Gloria, who insisted on the New York City franchise to settle their 1977 divorce. In 1983, after the group formed a single company, Paychex went public and all 18 original partners became millionaires.

Since then, Golisano has put his managers on a grueling march for growth. He demands that the company's client base increase 10% a year. To achieve that, every salesperson is expected to make 50 calls per week, 8 personal presentations, and at least 3 sales. Underperformers don't last long. And with boot-camp-like discipline, Golisano insists employees observe a strict dress code and adhere to a "clean desk" policy, requiring everyone to leave their offices neat as a pin at the end of each day. "He's a neat freak whose cars look like they've never been driven," says Polisseni.

Indeed, Golisano prides himself on running a tidy—and tight—operation. Even top managers aren't allowed such perks as company cars or country-club memberships. Last year, Golisano paid himself \$696,000; not exactly poverty wages but less than 10% of the \$10.6 million made by the average chief executive on the BUSINESS WEEK Executive Compensation Scoreboard. Golisano declines to take stock options for himself, although he has awarded plenty of them to others over the years. With the top 250 or so managers now sitting on paper profits of \$450 million, turnover is low.

In recent years, fueled by new, higher-margin services such as direct-deposit and 401(k) plans, Paychex has kicked into overdrive. Last year was the seventh straight in which net income grew by

at least 35%. And with the small-business market still far from tapped, "the outlook is outstanding," says shareholder Kristin Gamble, president of Flood Gamble Associates, a money-management firm.

Now, businessman Golisano is striving to transform himself into Citizen Golisano. He has used his wealth to put his mark on everything from education policies to drug rehabilitation. Convinced, for instance, that just locking up drug abusers wasn't working, Golisano helped fund the creation of a "drug court" in Rochester to divert nonviolent offenders into treatment instead of prison. The program has reduced the rate of repeat offenders to the point where it is being emulated around the state. And after struggling to find a job and housing for his mentally retarded son, Steven, now 34, Golisano created a foundation to help other disabled people.

SWING POWER. Still, firing up Golisano's 1998 bid for governor wasn't easy. His platform of campaign-finance reform and reducing the state's big debt drew just 8% of the vote. However, that was enough to make Golisano an emerging player in state politics, where third-party endorsements can often tip the balance in an election. In the next election, the Independence Party "could have a considerable influence," predicts Theodore J. Lowi, a political scientist at Cornell University.

Now, Golisano is at a crossroads. "He must do some real soul-searching to decide if he really wants to be a politician," says Michael J. Bragman, Majority Leader of the New York State Assembly. Investors happy with Paychex aren't cheering him on. Says Gamble: "I'm glad he didn't win." Others believe Golisano has a future in politics. "I think the governorship is within his grasp," says former Connecticut Governor Lowell Weicker, who was elected as an independent. Another run for governor or just stay in charge of a hugely successful company? Either way, it sure beats asking sis for a handout.

Reprinted with permission from Business Week, May 24, 1999.

BEFORE YOU READ

Overview

Tom Galisano built "Paychex" from the ground up, taking it from a struggling small business to the payroll-processing giant it is today. His ability to think big and his hands-on management style are the secrets to his success in a competitive business environment.

Assessing Prior Knowledge

1. What do you know about payroll processing? How would you define it? Based on the knowledge of jobs you've had, or those of friends and family, what are the different ways for employees to get paid for their work?

2. Have you ever taken a risk in order to achieve an important goal? What were you risking: money, reputation, freedom, or a relationship? In hindsight, was it worth taking this gamble?

AS YOU READ

Reading Technique

Set a purpose for your own reading by writing questions based on the title and subheadings. For example, asking "What is the power of the paycheck?" will assist you in understanding how the title correlates to the article. As you read, pay attention to finding the answers to each of these questions.

Vocabulary

payroll processing The record-keeping procedure by which the salaries of a company's employees are calculated. This would include keeping track of time sheets and/or pay rates, amounts of hours worked, the gross salary to which each employee is entitled, the necessary deductions required, and the resulting net pay due to each employee. The preparation and issuing of paychecks may also be involved. This may be done either by an outside contracted company or performed in-house by the employer.

Standard & Poor's 500-stock index A list of 500 leading, publicly owned companies selected by Standard & Poor's, a well-known rating and publishing company. The index averages the prices of these 500 companies on an ongoing basis as a measure of the advance or decline of the prices in the stock market. This data is used as a standard guideline within the industry.

outsource To acquire products, materials, or services from an outside source or supplier.

franchise The privilege, often exclusive, of selling the products of a manufacturer in a given area. A privilege or right granted by a government; the right to vote.

turnover The number of people hired to replace workers who leave or are dismissed. The amount of changing from one job to another; rate at which new workers are hired.

high-margin services Particular services or programs that earn higher than average profits for a company.

direct-deposit The automatic transfer of funds (i.e., social security benefits, retirement pension payments) into an individual's bank account by a company or government agency.

401(k) tax plan A retirement savings plan offered by companies to their employees in which employees can put aside an amount from their salary (up to a certain percentage or dollar amount) that are partially matched with contributions from the employer.

platform A plan of action or statement of the beliefs of a group. A policy or program. A draft or scheme of principles or doctrines made by, or on behalf of, a religious or political party or other group.

crossroads The place where roads cross. A critical turning point. A point at which two or more courses of action diverge. A situation where a choice must be made.

Language Activity

In the following sentences, the author uses words to impart a sense of energy, urgency, and enthusiasm. Replace the italicized phrases with the plainer words in the brackets. Then read the old and new sentences aloud and notice the differences in how they sound and feel. Which do you like more? Which would a person be most likely to use while speaking?

- 1) "He has also run for governor of the state twice, *burning through* \$20 million of his own money for the privilege." [using]
- 2) "Since then, Golisano has put his managers on a *grueling march* for growth." [program]
- 3) "Still, *firing up* Golisano's 1998 bid for governor wasn't easy." [beginning]

AFTER YOU READ**Fact and Idea Review**

1. Who did Tom Galisano work for before starting his own company?

2. According to the article, what are Galisano's salespeople expected to do each week in order to foster the growth of the Paychex company?

3. What childhood experiences influenced Galisano to get ahead in the world?

4. How did Galisano's sister, wife, and first employee each benefit from sticking by him during the early, challenging years of the company's existence?

Critical Thinking

Consider the managerial style and leadership qualities with which Galisano runs his payroll processing business. What conclusions might be drawn about the type of politician he would be if elected into office?

Guided Discussion

Analyze the management techniques that Tom Galisano used. What are the pros and cons of his interpersonal relationships his staff? Stage a debate to argue for the effectiveness of running a business with “boot-camp-like discipline.”

**Authentic Assessment
Corporate Presentation**

Imagine yourself in Golisano’s shoes at the time he worked for Electronic Accounting Systems. You have realized the potential for expansion into the tremendous and untapped market of processing payroll for small companies. At an upcoming board meeting, you will have the rare opportunity to present this idea to top managers and officers. Write a clear and concise proposal explaining your innovative new idea, and provide comprehensive steps as to how this could be incorporated into the company’s current structure. Use visual aids where applicable. Aim to impress your superiors with your preparedness, organization, and confidence. Convince them to let you be in charge of the project.

**Mini Quiz
Multiple-Choice Questions**

Based on the information in this article, answer the following questions by circling the correct responses. *Hint:* Select all answers that apply.

1. Why has the demand for external payroll services soared among smaller businesses in recent years?
 - a) Internal payroll departments are too expensive to operate.
 - b) New plans, such as direct-deposit and 401(k) tax plans, are making payroll processing more complicated.
 - c) More companies are realizing that churning out paychecks is a mind-numbing and bothersome task.
 - d) 98% of all companies have at least 200 employees.
 - e) The federal and state tax reporting rules have become increasingly complex.

2. How did Tom Galisano managed to get by at the time when he and his company were struggling financially?
 - a) He worked extremely long hours, even on holidays.
 - b) He took out a sizeable loan from a local bank.
 - c) He used his credit card to pay his employee's wages.
 - d) His sister lent him \$30,000 in life insurance money after her husband died.
 - e) He denied himself a salary and relied upon his wife's earnings alone to support the family.
3. How did Galisano use his personal wealth to do serve the community?
 - a) He created a foundation to assist people with disabilities.
 - b) He funded the creation of a "drug court" to divert non-violent criminal offenders into treatment rather than prisons.
 - c) He crusaded against teen pregnancy.
 - d) He became involved with various forms of political activism.
 - e) All of the above.
4. Which of the following facts about Galisano reflect common characteristics of an entrepreneur?
 - a) He started Paychex himself and built this organization to the point where additional employees were needed.
 - b) He had a passion for political activism.
 - c) He conceived an original idea for his business and pursued it with confidence, even though it was a risky venture.
 - d) He experienced poverty and bankruptcy as a child, providing him with the impetus to get ahead.
 - e) He was a mediocre high school student.
5. Galisano's managerial skills in staffing and leading are demonstrated by which of the following facts?
 - a) All 18 of his original partners became millionaires.
 - b) The turnover rate amongst his top 250 managers is very low.
 - c) His salespeople fulfill strict requirements in order to increase the client base by 10% a year.
 - d) His very first employee still works for the company at the time of this article.
 - e) He pays himself a much smaller salary than the average CEO.