

The Security Driver from a Business Perspective - The Cost of Executives behind the Wheel

JOE AUTERA AND TONY SCOTTI

Perk or Prerequisite; the Security Driver from a Business Perspective

Of the various and sundry perks commonly afforded executives, none seems to draw the ire of some, or appear any more ostentatious to others, than the executive driver. We need only look back to 2009 when former U.S. Senator Tom Daschle was forced to withdraw his name from consideration for the cabinet-level post of Secretary of Health and Human Services to find an example of this. Forced to withdraw from the process when it came to light that he had failed to properly report taxable income, the alleged oversight was viewed by many as particularly egregious once it became clear that the lion's share of the unpaid taxes were related to a car and driver provided by a private equity fund that he was acting as a consultant to. Failing to pay taxes on such a luxurious perk was simply too large a hurdle for the former Senator to overcome.

While the executive driver may be a symbol of corporate excess to some, from a business perspective it may be more practical than most other forms of non-wage compensation. In fact, when viewed through the lens of corporate governance, providing an appropriately trained executive driver may just be elevated from something that is an attractive perk to a prerequisite for decreasing risk, increasing efficiency, fulfilling fiduciary responsibilities and addressing duty of care issues.

In terms of risk management, consideration must be given to what the near term and over-the-horizon impact would be if one of the company's key executives were suddenly and without warning, completely and utterly unable to continue in their role. No matter how well developed the succession plan, no matter how well the individual in question articulated their vision or strategy, the impact would undoubtedly be significant. As one of the leading corporations in the world learned firsthand when a senior executive was kidnapped and killed while driving himself to work one morning here in the U.S., the sudden loss of connectivity and continuity in terms of internal and external business relationships is hugely costly. According to one internal source, the immediate, direct financial impact alone was upwards of \$100 million; the loss of shareholder confidence almost immeasurable. While the company ultimately recovered from the loss of a crucial member of its senior leadership team, it was not without a concerted effort and the allocation of considerable human and financial resources. Fortunately this particular

entity had the wherewithal to do so; for a company with fewer resources an incident such as this could prove devastating.

Notwithstanding the fact that the executive in question was afforded a driver but frequently chose to drive himself, or that the incident in question took place more than 20 years ago, it remains relevant today for a number of reasons. First and foremost is the fact that the time an executive spends in their vehicle is without a doubt the highest risk period of their day. From a safety standpoint, this is borne out by the latest statistics on fatal vehicle crashes from the National Highway Traffic Safety Administration (NHTSA). In 2012, the latest year for which a full analysis is available, NHTSA found there were 33,651 crash-induced motorist fatalities, a 3.3% increase over the year prior. Of those 33,000 plus fatalities, 21,316 involved passenger vehicles as opposed to large trucks or motorcycles. In those crashes involving passenger vehicles approximately 72% of those killed were behind the wheel when the crash occurred.

From a security perspective, according to one of the most exhaustive studies to date, which was conducted by Gavin DeBecker, Tom Taylor and Jeff Marquart and published in the book *Just 2 Seconds*, 43% of all security incidents in which a specific individual was the target of an act meant to embarrass, harass or cause harm occurred while the intended target was seated or riding in a vehicle. According to this study, which examined over 1,000 incidents worldwide, security-related risks are far more prevalent when the intended victim or target is in their vehicle than at any other time or location. An analysis released on April 20, 2014 by IntelCenter, a private entity which provides intelligence to private sector and government clients, indicated that thus far in 2014 the majority of targeted kidnappings (34.15%) around the globe occurred while the intended target was driving; it's worth noting that the subject matter experts at IntelCenter expect that trend to continue for the foreseeable future. Given the clearly defined risks associated with the executives travelling from point A to point B by car, it stands to reason that managing those risks should be a priority.

Looking beyond the risk factors and casting an eye on efficiency, the loss of productivity that every executive suffers should he or she choose to drive themselves should certainly generate serious discussions about the value proposition an executive driver represents. According to research conducted by the Associated Press which relied on data from Equilar, an executive pay research firm, the median compensation for a CEO

in 2012, again, the latest year for which a credible analysis is available, was \$9.587 million. If one assumes the “average” number of hours worked on a weekly basis at by an executive at this level is 60, than that executive’s time is worth \$3,072.75 per hour. The more relevant question is what is that executive’s time worth in terms of revenue generation and shareholder value? Undoubtedly, their time is worth some multiple of that \$3,000 plus hourly figure. Which leads to the question of where the value proposition lies in having a senior executive spend one, two, or more, hours behind the wheel on any given day? Internal and external perceptions notwithstanding, when considering ways to maximize the efficiency of senior executives few, if any, solutions are more effective than taking them out from behind the wheel and moving them into the backseat with a laptop, cell phone and WiFi “hotspot” device, thereby allowing them to focus on the business at hand.

As with other forms of non-wage compensation, the value of providing the perk must be weighed against the implementation and sustainment costs. In the case of a security-trained executive driver, these costs may be offset by tax deductions if specific conditions are met. IRS Regulation §1.132-5(m)(1) addresses the conditions which must be met in order to deduct a portion of the costs associated with providing executive transportation based on a business-oriented security concern. There are a number of qualifying factors that must be addressed in order to claim the deduction, including the performance of a security assessment by an independent third party. It is worth noting that in recent years, as with many deductions, those relating to security-related transportation have come under increased scrutiny. Some corporations are reporting that the validity of the assessment has been called into question due to its age, as has the lack of recurrent security-specific training for the drivers. A number of independent consultants that perform the required assessments are reporting they have been queried by the IRS with regard to the methodology used. As with any tax matter, it is incumbent upon the taxpayer, be it an individual or corporation, to maintain compliance with applicable regulations, so simply supplying a car and an individual with a driver’s license but no formal training in security driving and secure transportation-related skills may not be the most prudent approach to providing executive transportation; particularly if the services in question are provided by a contract service provider.

Given the risks faced by corporate executives on a daily basis while traveling in a vehicle coupled with the impact which time spent behind the wheel have on the individual executives' efficiency and productivity, the case for providing an appropriately trained executive driver to those at or above a certain level in the management structure is a strong one, as is the value proposition in doing so. When coupled with the overarching fiduciary responsibilities and duty of care issues, providing a security-trained executive driver may very well be a prerequisite for demonstrating effective corporate governance, managing and mitigating risks in a cost effective manner and maximizing shareholder value.

About the Author

Joseph Autera, a former corporate security executive, is the President and CEO of Tony Scotti's Vehicle Dynamics Institute, one of the world's leading providers of highly specialized driver training programs to corporate security, law enforcement and military professionals. A highly sought after speaker on topics related to security driving, secure transportation planning and executive protection, he frequently consults with Fortune 500 companies and government entities on security-related transportation issues.

He can be reached at jautera@vehicledynamics.net. For more information about the training VDI offers, visit their website at www.vehicledynamics.net.

Executive Drive Time

Consider that if an executive drove to and from the office that time would be unproductive. What does that time cost the shareholders, and if the company supplies a Security Driver what is their Return on Investment (ROI)?

The answer to that question starts with - How much time is the Executive in a vehicle? A study done by Texas A&M titled the Annual Urban Mobility Report, answered that question for us.

Depending on the city, the Executive will be commuting from one to two hours a day. That does not count trips to the airport, meetings, and, at times, to evening activities. Also from the report an interesting statistic - you will be motionless in traffic 50 to 65 hours a year, which is only counting the commute time to and from work.

Working the numbers from the Texas A&M report, if the executive is in the vehicle for as little as an hour a day, considering a five day week, a 50 week year, they are in the vehicle 31.25 days a year. If the executive drove, he/she would be unproductive approximately a month a year, and that would be expensive.

What is one month of the executive's time worth in dollars? The following is an excerpt from an article "Perk or Prerequisite; the Security Driver from a Business Perspective" by Joe Autera:

"According to research conducted by the Associated Press which relied on data from Equilar, an executive pay research firm, the median compensation for a CEO in 2012, the latest year for which a credible analysis is available, was \$9.587 million. If one assumes the "average" number of hours worked on a weekly basis by an executive at this level is 60, then that executive's time is worth \$3,072.75 per hour."

Using the Executive hourly salary provided by Equilar (\$3072.75), if the Executive drove to and from work, and had one hour of non-productive Executive Drive time a day, it would cost the company \$768,187.50 in a year.

If the Executive drove to and from work, and had a total of 1.5 Hours of nonproductive Executive Drive time, it would represent a cost to the company of \$1,152,281.50 in a year.

If the Executive drove to and from work, and had a total of 2 hours of nonproductive Executive Drive time, it would represent a cost to the company of \$1,536,375.00 in a year.

Also, according to the study, and to make the driver's life more interesting, on an average, they will spend 24% of that time stuck in traffic. The Security/Executive Driver supplies the company with a significant return on investment.

The end result is that a Security Driver is a good investment.

Why a Security Driver and not a Chauffeur?

The Risks

The executive sitting in the back seat of a vehicle is not like sitting at his desk either at the home or the office. Although the time may be minimal compared to other executive activities, Executive Drive Time also comes with risk, and as with all risks good business practice suggests these risks be understood and addressed.

When travelling by vehicle the executive is isolated, their location is constantly changing, and if there is a safety or security emergency, the only person that can assist the Executive, is the driver.

Although there are crisis management plans in place that offer Executive Drive Time Driving safety and security in the home and place of business, this safety/security envelope is breached during Executive Drive Time.

Those risks are:

- The IRS
- Medical
- Vehicle Problems
- Safety
- Privacy
- Security

Future issues of Security Driver Magazine will address those issues.

Constant Learning

There are some that believe if they have training and/or experience their education is complete. What if this assumption is somehow flawed? Do you need more education or training? That's a question only you can answer.

We are in a time when there are more EP/Bodyguards/Security Drivers in the marketplace than there is a market. To separate from others, a professional must become a "Constant Learner"

The Constant Learner isn't described by a training curriculum. Rather, that person is marked by a perpetual curiosity, a demand to understand "Why am I doing this - Why is this significant? They feel a need to acquire additional skills, to meet and exceed what is expected from them.

The International Security Driver Association can help you become a Constant Learner by not supplying you with information, but by opening the door to your curiosity.

There are over 200 articles, like the above, available in the Resource Center on the Association's website, waiting for the Constant Learner.

For more information on the International Security Driver Association, please visit our website isdacenter.org. For comments and questions please send an email to info@isdacenter.org or call 1-855-473-2669.

