

# Performance-Based Contracting/Pay-for-Performance

By: Prentice Robertson  
American Society of Industrial Security Council on Business Practices  
Executive Vice President – Whelan Security

As industries morph from one stage of evolutionary cycle to the next, it is interesting to observe the innovations that are created. The automotive industry, for example, started out offering the accepted product, which came only in black and got its customers from Point A to Point B. After the initial excitement wore off, innovations started to pop up as the customer asked for the desired product, and automotive companies competed by adding more colors, ashtrays and AM/FM radios. However, as the buyer became more and more sophisticated, the desired product was no longer good enough, and the industry leaders kicked it into high gear by surprising the customer with the possible product or service, including ideas such as heated seats, keyless entry, CD changers and solar-powered engines. Customers of those forward thinking companies were not only surprised, but delighted, and those leading edge firms helped to raise the bar for the industry as a whole in an ambassadorial sort of way.

So if the automotive business and many other industries can evolve so successfully, what about the contract security field? What stage is it in? Are there elements of the contract security industry that remain prehistoric in its approach, only offering the accepted service? Do industry leaders tout themselves as the best in the business, when in reality they have barely shifted into second gear by providing a few desired services? Has the industry even scratched the surface of surprising or wowing the customer with true leading edge innovation? Answers can vary from company to company, but overall, most would agree that the evolution of contract security companies has moved at a slower pace than other fields.

In the last decade or two, a handful of security companies stepped up in their efforts to bring a higher quality of professionalism to buyers of their services. Expanded features such as in-depth employee screening processes, enhanced employee benefits packages, holistic training and development programs highlighted by distance learning, automated payroll and billing systems and operational tracking systems marked the shift from the accepted service to the beginning stages of the desired service. As time has gone by, the competition has caught up and equalized service capabilities in these basic areas from one company to the next. For the most part, what one company can do in employee background checks, another can as well, so forth and so on. It is safe to say that the majority of companies in the security field, whether local, regional, national or global, have responded to the tribal calls of the customer who has asked for these basic features.

But what about the customer who wants more – who is tired of settling for the customary mediocre performance which is markedly better than 20 years ago, but still lagging behind performance standards of most industries? It is that type of customer who is begging for the contract security industry to take the next step in its evolution towards the possible service, like the automotive and other industries did before. The big question – how? If the service features that were expanded in the last 20 years represent the accepted service and early stages of desired service, what are the next innovations and which companies are willing to create compelling differentiators to springboard the industry to higher levels of customer service?

When examining the improvements mentioned above that have been made in recent years, it is evident that all of the process improvements are important, but at the same time, merely a means to an end. The real desired result of the customer is high quality, professional security officers, whereas employee screening,

benefits, training and automation are simply process steps to that end. One could infer that the needed innovation the industry has desperately sought for so long is something that can serve as an end to those means – real quality assurance through quantifiable performance metrics measurement. And taking that one step further, performance measurement that ties a company's profit to its performance, effectively “putting its money where its mouth is.”

Major corporations have tinkered with the idea of performance measurement and pay-for-performance with its security contractors. A select few have even enjoyed moderate success in this area. But for the most part, when confronted with the idea of full disclosure, performance-based contracts, both customers and providers alike have run full-speed in the other direction. Why? The customer has been concerned about the amount of time it will take for its internal team to manage, audit and grade the performance metric process, and the contractor has feared allowing its customer “behind the scenes” into the reality of its management support structure and practices. Like other industries, many security companies have become very savvy at presenting themselves as being very attractive in a sales presentation, but heaven forbid allowing the customer to “peel back the layers of the onion” and take a close look at all the good and bad of their service delivery program. In addition, with slim profit margins, the prospect of placing profit at risk as it relates to performance objectives is not a paradigm into which most contract security owners would want to shift.

In late 2003, the shift began. A regional security company called Whelan Security created a document called The Truth Report™ which is revolutionizing the industry. The genesis and ensuing evolution of this document mirrors many great business stories, where monumental ideas start from very humble beginnings. One fateful day in early 2003, a scheduling support specialist in its Dallas, Texas office introduced a concept to the local manager called the Strategic Performance Measurement Process (SPMP), an analytical metrics driven process he had learned about during his years working with a major Silicon Valley high-tech corporation. He and the local manager spent some time developing the idea and process to fit the contract security industry, and the two of them introduced Whelan's first SPMP document to a key customer in Fort Worth, Texas - Miller Brewing. This performance measurement process worked so well, Whelan received rave customer satisfaction scores from Miller, including the highest rating a security provider had ever been given at a Miller facility.

Several months later, a new Executive Vice President joined the company, after spending 12 years with one of the largest national security providers and searching for most of those years for a way to effectuate real quality assurance for his clients. Upon his visit to the Dallas office, the staff member showed him the SPMP, and the EVP had one of those “wow” moments. What he and all of his larger competitors had never been able to capture in the larger national companies was alive and well in his new regional company. He immediately emailed the SPMP to about three dozen Corporate Security Director friends for their feedback and evaluation. After that series of modifications and validations, the document was renamed The Truth Report, and today exists as the industry standard in performance measurement and as THE industry innovation that is serving to take the security industry to the next level.

The Truth Report measures 20 categories, all of which are quantifiable and verifiable with real performance data. No longer does a performance document have to be laced with subjectivity and opinion, but rather true quantifiable fact. While the 20 categories consist of the areas rated most important by the round of validations with the Corporate Security Directors, they can still be customized to fit the specific needs of each customer. Each category has a score ranging from 1 to 5, with 5 representing an exceptional level of performance, 4 representing very good, down to 1 representing below average. A total score of 80 is considered the pass/fail threshold, as that would constitute an average score of 4, or very good, across all categories.

Standard measurement categories include items such as employee retention, scheduling, training frequency and results, employee inspections, report accuracy, inventory control, incident tracking, payroll and billing accuracy and safety – all categories that serve as key indicators to important security issues such as loss prevention, risk analysis, shrinkage, internal theft, etc. Due to the quantifiable nature of all categories, this performance scorecard can be managed and audited by Whelan to alleviate the customer concerns of having to manage the process. With The Truth Report, the provider owns the process, and presents all information to the customer once a quarter as an aggregate score of the previous three monthly scores. The name of the report serves as a self-fulfilling prophecy, because the requirement of back-up data to each category ensures that Whelan is telling the truth in presenting both the good and the bad.

A real transformation has occurred in customer relationships at Whelan via the utilization of The Truth Report. Now, the customer knows how the means to the end are being handled, but more importantly has the quantifiable end results of those means at their fingertips. Now, the customer/provider meetings are spent discussing real issues, real performance that is relevant to the customer's needs, and focusing on action plans in areas that need to be improved. At Whelan Security, performance measurement has truly evolved into continuous improvement, a concept that has been somewhat foreign to the industry in the past.

Maybe most significant of all is Whelan's willingness to place profit with certain customers at risk as it relates to the quarterly scores in The Truth Report. By tying this innovation of quantifiable performance measurement to its wallet, Whelan has added teeth to this process. Each quarter, the scores are reviewed and validated by the customer through the review of the back-up data, and Whelan pays a refund of its profit for scores below 80, maintains standard bill rates for scores ranging from 80-84 and receives a bonus for superlative scores of 85 and above. Any bonus payments made to Whelan are promptly split with all security personnel on that account, thus ensuring ownership and buy-in to this process from all parties involved.

This pay-for-performance approach has enabled Whelan Security to win contracts with numerous Fortune 500 firms over the past few years, and the reason given by those customers for choosing Whelan was simple. According to those business partners, "while all security companies are pretty even in standard service features, Whelan is different by offering real quantifiable quality assurance, and performance-based contracting. Instead of saying what they are going to do, they do it, and if they don't, our costs are adjusted," (paraphrased).

What heated seats, keyless entry and solar-powered engines did for the automotive industry, The Truth Report is doing for the contract security field. The expectation is that the industry as a whole will get better because of it.