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Analysis on the Bidding System of the Private SECURITY Business through Improvement in Republic of KOREA

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Abstract

The national police service in Korea became incapable to satisfy demand for crime prevention and security as the Korean society has become urbanized. Despite the expansion of role and function of police, the shortage in absolute number of policeman and budget, outdated police equipments, excessive over-working time and work load, as a limiting factors, prevent police service from effective crime prevention. These inability of police service, a parent body of national security, to satisfy the expectation of citizens in qualitative and quantitative aspects, led to the increase in importance of private security industry. Especially, the realization that the public agency is no more a mechanism to protect private possessions and social activities due to problems such as absence of institutional safety device and accordingly, the increase of perception that 'My Safety by Myself' are contributing the creation of demands for private security. Most of private security companies, however, are struggling only for survival and profit instead of attempts to develop professional competence. In addition, the qualitative imbalance in security service due to the over-competition (lowest bid agreement, dumping agreement), absence of overall review for staff-related problems from supervision and coach to recruitment identity guarantee, and benefits due to lack of legal support, image depletion for private security companies because of various illegal acts, are all contributing to barrier to development of private safety industry and these factors may explain the qualitative stationary state despite the quantitative expansion of this field.

The purpose of this study was to provide fundamental data to develop directions to address bid-related problems of private security fields such as bidding corruption, acquire fairness, transparency, and equality in order to propose an improvement measures ensuring qualitative efficiency by analyzing the current status of bidding system of domestic private security industry.

The institutions that benefit whole stakeholders including users, companies, and security staffs, based on administrative transparency and fairness, need to be in place through improvement in bidding system in order to use effective private security service. The monogamous dominance of big private security company, in accordance with Security Industry Act may force small-medium companies that inferior in funds and man-power to be in poor performance, therefore, a measure should be sought to ensure both each specialization and whole growth of private security industry. For the qualitative development underpinning the quantitative growth of domestic private security industry, the bidding systems, based on improvement measures to mandate users to apply right-ful bidding system and ensure administrative transparency and equitable opportunity, need to be in place. In other words, the bidding system in private sector may have advantages of simplicity in administration and saving of expense in short-term, however may cause qualitative problems such as over-competition, lowest price bidding, lowest wage in long-term in private security industry, therefore the improvement of bidding system is essential to promise development of domestic private security industry.

[Keywords] Security, Private Security, Bidding System, Improvement, Republic of Korea

1. Introduction

The national police service in Korea became incapable to satisfy demand for crime prevention and security as the Korean society has become urbanized. Despite the expansion of role and function of police, the shortage in absolute number of policeman and budget, outdated police equipments, excessive over-working time and work load, as a limiting factors, prevent police service from effective crime prevention[1]. These inability of police service, a parent body of national security, to satisfy the expectation of citizens in qualitative and quantitative aspects, led to the increase in importance of private security industry. Especially, the realization that the public agency is no more a mechanism to protect private possessions and social activities due to problems such as absence of institutional safety device and accordingly, the increase of perception that 'My Safety by Myself' are contributing the creation of demands for private security[2]. Most of private security companies, however, are struggling only for survival and profit instead of attempts to develop professional competence. In addition, the qualitative imbalance in security service due to the over-competition (lowest bid agreement, dumping agreement), absence of overall review for staff-related problems from supervision and coach to recruitment identity guarantee, and benefits due to lack of legal support, image depletion for private security companies because of various illegal acts, are all contributing to barrier to development of private safety industry and these factors may explain the qualitative stationary state despite the quantitative expansion of this field[3].

The unreasonable dumping bid only aiming to win contract causes many problems. The companies, first of all, have to pay a low wage to staffs to achieve their benefits, meaning that they have no choice but to recruit non-professional individuals. The company that employ these non-professional ones, however, have no room to invest in education and training, meaning ineffective work performance of security staffs. These under-performance have negative effects on image or competition of the company, forcing them

again to participate in unreasonable dumping bids to win contracts. The factors generates viscous cycles and establish a phenomenon restraining the development of private security industry[4]. Current private security industries are being forced to lowest bid and unit price competition against new entries or competitors pushing the companies to mud-sliding environments. In other words, it is almost impossible statistically and practically for the incumbent companies to win again in yearly bid competition, meaning that they leave their fate on another contracts[5].

The purpose of this study was to provide fundamental data to develop directions to address bid-related problems of private security fields such as bidding corruption, acquire fairness, transparency, and equality in order to propose an improvement measures ensuring qualitative efficiency by analyzing the current status of bidding system of domestic private security industry.

2. Theoretical Background

The Korean government invoked Prime Minister directive no. 100 in 1971 to establish Focused Ordering System by Public Procurement Service and Constrained Mean-Price Sealed Bid System in order to prevent collusion among companies. In Constrained Mean-Price Sealed Bid System, a bidder that present a price closest to mean price of all bidders is awarded, proving that their bidder price is over pre-defined specific proportion of the expected bidding price. This system was abolished after domestic economic recovery due to economic development and came back to Lowest Bidder System[6]. The currently established bidding system in the field of private security is applying the bidding system and method specified in service(technology) part from rules related procurement and bidding system. These methods are classified into three ones as followings: general competitive bidding, limited competitive bidding, and designated competitive bidding.

First, general competitive bidding has advantages of providing bidding opportunities to multiple private security companies, fair selection, and prevention of price collusion among bidder companies due to participation

of many companies, however, this system may lead to excessive work load and procedural complication of bidder and bidding manager due to participation of too many private security companies and negative effects on credit and reputation of participants restricting business activities due to excessive competition among private security companies, moreover, these unexpected problems may lead to serious results such as failure to contract because of unexpected chain reactions.

Second, limited competitive bidding has advantages of, unlike general competitive bidding, reduction in competition among participating companies, ensuring the quality of services provided by private security company, preventing disqualified and unprofessional companies from unrestricted bidding, and addition of restrictive conditions according to needs of owner. This method, however, may damage equal opportunity for bidding because of unreasonable conditions posed subjectively by owner and has potential of corruption and lobby between owner or manager and a bidder private security company.

Third, designated competitive bidding has advantage of pre-excluding unprofessional and unqualified companies from bidding through prior investigation, ensuring the satisfaction and saving of work time for owner. The qualified companies are limited, meaning the potential of side effects such as price collusion among participants, bias toward a company in selection process. These problems may undermine the transparency through lobby and illegal acts in the course of agreements.

3. Problems of Bidding System

The problems of bidding system is not only for private security industry but also for whole industries. The solution to these frequently revealed these problems resulting from bidding only for winning the contracts and generation of profit has been main theme of related studies, however, institutional improvement to improve the transparency and fairness and ensure fair transaction has not

been achieved. The current problems, in addition to these bidding systems, may be summarized as follows:

First, a method for fair competition in bidding system is absent. Considering that the rate of successful bid has increasingly decreased due to over-competition among private security companies, a institutional measures are needed to prevent the deterioration of long-term managerial performance [7]. In current bidding system of private security industry, the owners are not government agencies but private organizations or individuals, employing bidding system other than open bidding system, in order to achieve high quality service with lower expense. Therefore, a rule to mandate open bidding system is urgent to solve problems caused by such systems.

Second, The open bidding system in private security industry is very poor. The current bidding announcement in private security industry is in accordance with bidding regulations from Act on the contract in which state is a party, Housing Act, and Enforcement Decree of Housing Act, however, is modified to satisfy the conditions posed by owners, limiting the transparency and fairness. A procedural criteria to select contractor through bidding system. Proving that the bidding system is 'owner dominated one; the winning system is 'bidder dominated, owner evaluated, and the propositions of bidder is key of evaluation[8]. A criteria reflecting the position of private security companies and ensuring equal opportunities need to be developed in order to improve the current status of bidding procedures.

Third, the rules addressing supervision and management of bidding system in private security industry are absent. The article 24 of Security Industry Act states that the central and local police chiefs may guide and supervise security provider and security manager for proper performance of security work, and local police chief or corresponding police manager may order police official to enter main office and branch office of security companies under jurisdiction and to supervise working, education, and training and order as required[9]. The permission and cancellation

of security business and rules related to suspension of business in stated in Security Industry Act is stated however a rules management and supervision for users of security service are absent. The management ethics need to be established to improve quality of management voluntarily in industry, in addition to administrative regulations to acquire confidence toward private security companies[10].

The definition of concept related to bidding and contract in order to achieve administration abiding rule of law and specification of lawmaking. The clear definition of these concepts may contribute to clear of problems caused by absence of such definitions[11].

4. Conclusion

The institutions that benefit whole stakeholders including users, companies, and security staffs, based on administrative transparency and fairness, need to be in place through improvement in bidding system in order to use effective private security service. The monogamous dominance of big private security company, in accordance with Security Industry Act may force small-medium companies that inferior in funds and man-power to be in poor performance, therefore, a measure should be sought to ensure both each specialization and whole growth of private security industry[12]. For the qualitative development underpinning the quantitative growth of domestic private security industry, the bidding systems, based on improvement measures to mandate users to apply rightful bidding system and ensure administrative transparency and equitable opportunity, need to be in place. In other words, the bidding system in private sector may have advantages of simplicity in administration and saving of expense in short-term, however may cause qualitative problems such as over-competition, lowest price bidding, lowest wage in long-term in private security industry, therefore the improvement of bidding system is essential to promise development of domestic private security industry.

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