

CRIMES AGAINST BUSINESS:
THE COST OF SECURITY

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INTRODUCTION

The estimated cost of crimes against business exceeded \$30 billion in 1976. This loss estimate is limited to "ordinary crime"; i.e. it is largely exclusive of organized crime and certain white collar crimes whose measurement is especially difficult, such as embezzlement, security fraud, and computer crime. The \$30 billion total includes not only crime losses but also the cost of crime prevention: the wages and administrative costs involved in establishing and maintaining private forces of security personnel. These forces are needed to complement the crime prevention and detection services of public law enforcement.

The aim of this brief report is to provide as complete, up-to-date, and detailed a picture as is feasible of the size, the cost, and the growth of security forces in the United States. Emphasis is placed on the private security sector, although public police and guards are also covered. The exact extent to which public resources are involved in prevention and detection of crimes against business is not known, but it is assumed that a significant portion of such resources are indeed so involved.

A detailed breakdown of how financial and human resources are being spent in the field of security is provided by means of two tables. Table 1, prepared by the Department's Office of Consumer Goods and Service Industries, presents estimated public and private security employment and expenditures in 1976. Table 2 summarizes the findings of an earlier Justice Department funded study by the Rand Corporation. The tables and accompanying footnotes indicate both the diversity and the limitations of official data sources in the field of security.

The total cost of public and private security in the United States in 1976 is estimated at nearly \$20 billion as compared to nearly \$9 billion in 1969. Employment of full time security personnel exceeded 1 million in 1976, as compared to about 800,000 in 1969. The total number employed, including part-time and administrative/clerical personnel, cannot be determined due to gaps in official data.

The total cost of private security services and equipment in 1976 is estimated at \$5.9 billion. This cost is a drain on productivity and profits which is ultimately paid in large part by consumers in the form of higher prices.

There are two broad categories of private security forces: (1) proprietary or in-house personnel employed by a single business, institution, or individual; and (2) those working for contract security agencies. Contract agencies provide one or more of the following services: guards, detectives, armored car escort, and burglar and fire alarm services. In-house security forces perform guard and detective services.

Since contract security agencies are shown as a separate industry in the Standard Industrial Classification (SIC), data from official sources such as the Bureau of the Census and the Bureau of Labor Statistics are available. This is not true of in-house or proprietary forces, though some estimating can be done using Bureau of Labor Statistics data supplemented by other studies.

Although Table 1 addresses the year 1976, the most recent year for which data are actually available varies considerably among official sources. Where official data for 1976 were not available, estimates have been made based upon recent growth rates. In one case, where 1977 data were available from the Bureau of Labor Statistics, the figures are provided in footnotes. Where estimates have been made in spite of a lack of official data, assumptions made and/or unofficial sources used also are specified in the footnotes.

Comparison of Table 1 and Table 2 provides a picture of growth trends in public and private security from 1969 to 1976. During this period total employment rose at a 3.8 percent annual rate (from 804,000 to 1,044,000) and total expenditures at a 12.2 percent rate (from \$8.7 billion to \$19.5 billion).

The rates of private sector growth in employment and expenditures were slightly lower than those of the public sector. There was a marked difference during the period in the growth rates and relative shares of private security services provided in-house and by contract agencies.

Contract agency revenues increased over 16 percent annually (from \$868 million to \$2,460 million), while in-house security expenditures rose 11.1 percent annually (from \$1,600 million to \$3,340 million). Employment in contract security grew 14 percent annually (from 67,500 to 169,000), while in-house employment actually suffered a decline from 224,400 to 204,000. Accordingly, contract agencies' share of the total private security industry grew from 23 to 45 percent in terms of employment, and from 36 to 42 percent in terms of expenditures.

However, contract agencies' share of security actually relating to crimes against business is probably somewhat lower, since contract services are employed by individuals as well as businesses. The exact proportions are not known.

There was also a striking contrast in growth trends within the private sector between the two major occupational categories. There was significant growth in the number of private guards and watchmen but not of private police and detectives. From less than 258,000 in 1969, the number of guards increased to 352,000 in 1976 and then fell to 339,000 in 1977. The number of guards, however, declined during the entire period: from 32,000 in 1969 to 21,000 in 1976, before climbing to 23,000 in 1977.

While the sources used in compiling the two tables are similar, there are differences of coverage in certain instances. For example, the annual joint report of the Census Bureau and the Law Enforcement Assistance Administration on Expenditure and Employment Data for the Criminal Justice System is cited more frequently in Table 1 than in Table 2 since coverage is now more complete. Unofficial source data differ since studies in the field of security have been conducted on a one-time basis by a number of research groups, rather than on a recurring basis by one single source. In Table 1 the figure for cost of security equipment is lower than that shown in Table 2 -- not because of an actual decline, but because a more conservative estimating approach was taken. The estimate relates to equipment which can be isolated in official data. In addition, seven digit data are now available on value of shipments of alarm systems.

The report's final section contains a bibliography of sources which address various aspects of security not covered in this report, which is basically limited to outlining the magnitude of resources involved in preventive security. These sources treat of such topics as: training and evaluation of private security personnel; advantages and disadvantages of contract versus proprietary forces; identification and description of security equipment devices and their uses; relationships between public and private security forces; licensing and regulation of private security services; and the effect of rising protective security costs on productivity. In-depth answers to many of the practical questions facing the business community must await further research. Too little work has

been done as yet to evaluate the costs and effectiveness of specific types of private security services and equipment for specific types of crime and specific types of security users. A study of security equipment and its applications is underway in the Department of Commerce as part of the Department's crimes against business program. Studies already published provide general suggestions on security systems in such sectors as retailing and service industries. The Department's crimes against business reports are also listed in the bibliography.

Any questions concerning this report should be directed to Ralph S. Edwards, Room 1104, U.S. Department of Commerce, Washington, D.C. 20230, Area Code (202) 377-4697.

HIGHLIGHTS OF TABLES

Employment of Security Personnel
(thousands)

<u>Sector</u>	<u>1969</u>	<u>1976</u>	<u>% Change 1969-76</u>
Total Public Sector	515	671	30
Law Enforcement	395	526	33
Guards	120	145	21
Total Private Sector	290	373	29
Contract	68	169	146
Proprietary	222	204	-8
Grand Total	804	1,044	30

Total Expenditures or Revenues
(\$ million)

<u>Sector</u>	<u>1969</u>	<u>1976</u>	<u>% Change 1969-76</u>
Total Public Sector	5,400	13,290	146
Law Enforcement	4,400	11,030	151
Guards	1,000	2,260	126
Total Private Sector	2,500	5,800	132
Contract	900	2,460	173
Proprietary	1,600	3,340	109
Security Equipment	800	441	-45*
Grand Total	8,700	19,530	124

* As explained in Introduction drop is due largely to differences in coverage rather than actual decline.

TABLE 1: ESTIMATED PUBLIC AND PRIVATE SECURITY EMPLOYMENT
AND EXPENDITURES IN 1976
(N/A indicates data not available)

Type of Security Personnel or Organization	Numbers of People ^a		Expenditures or Revenues (\$ million)	
	Security Personnel	Total Employment	Payroll	Total
<u>Public Law Enforcement</u>				
Local police (municipal and county)	373,600 ^b	451,400 ^c	} 6,640 ^c }	} 7,720 ^c }
Special local law enforcement agencies	N/A	49,100 ^d		
State police or highway patrol	44,700 ^b	63,600 ^c	} 1,270 ^c }	} 1,700 ^c }
Special state law enforcement agencies	N/A	34,300 ^d		
Federal law enforcement agencies	N/A	72,300 ^{ce}	1,360 ^{ce}	1,610 ^{ce}
Total Public Law Enforcement	526,000 ^f	670,700 ^c	9,270 ^c	11,030 ^c
<u>Public (Government) Guards</u>				
(All Governments)	145,000 ^f	N/A	N/A	2,260 ^g
<u>Total Public Sector</u>				
(Public law enforcement and guards)	671,000 ^f	N/A	N/A	13,290

Type of Security Personnel or Organization	Numbers of People ^a		Expenditures or Revenues (\$ million)	
	Security Personnel	Total Employment	Payroll	Total
<u>Private Sector Security</u>				
Detective and guard services	N/A	234,600 ^h	1,160 ^h	1,580 ^{hj}
Armored car services	N/A	28,200 ^{hi}	245 ^h	405 ^{hj}
Burglar and fire alarm services	N/A	19,200 ^h	205 ^h	475 ^{hj}
Subtotal contract security	169,000 ^k	282,000 ^h	1,610 ^h	2,460 ^{hj}
Proprietary security (in-house guards and detectives)	204,000 ^f	N/A ^l	N/A	3,340 ^m
<u>Total Private Sector</u>	373,000 ^{fn}	N/A ^l	N/A	5,800 ^m
Alarm systems	N/A	N/A	N/A	253 ^o
Safes and vaults	N/A	N/A	N/A	188 ^p
<u>Total Security Equipment</u>	N/A	N/A	N/A	441 ^q
GRAND TOTAL	1,044,000 ^f	N/A	N/A	19,530

- a) Figures refer to total employees including part-time unless otherwise specified. Parts may not add to totals due to rounding.
- b) Source: FBI, 1976 Uniform Crime Reports. Figures are for full time sworn law enforcement officers as of October 31, 1976. Local police total shown includes 287,400 sworn officers in cities and suburbs and 86,200 in country sheriff departments.
- c) Source: Expenditure and Employment Data for the Criminal Justice System 1976, Law Enforcement Assistance Administration (LEAA) and Bureau of the Census, March 1978. Expenditure data are for fiscal year 1976, employment data are for October 1976, and annual payroll figures are estimates based on October 1976.
- d) Derived by subtracting FBI data, which is limited to regular police services, from LEAA data, which also includes such specialized police forces as airport police, free and toll highway police, free and toll bridge and tunnel police, housing police, maritime police, park police, transit and other utility system police, college and university campus police, and alcoholic beverage control agents.
- e) Federal data refer to law enforcement activities of the following agencies: U.S. Capitol, Library of Congress, and Supreme Court police forces; U.S. Forest Service; Park Police and Rangers; Drug Enforcement Administration; FBI; Immigration and Naturalization Service; F.A.A. Airport Police; Coast Guard; Bureau of Alcohol, Tobacco and Firearms; I.R.S.; Customs Service; Secret Service; Treasury Department Law Enforcement Training Center; General Services Administration; Smithsonian police; Postal Inspection Service; V.A. Security Division.
- f) Source: Bureau of Labor Statistics (Current Population Survey); excludes part-time employees unless their primary occupation is security related. Grand total includes following occupational categories: guards and watchmen (Category 962); marshalls and constables (Category 963); policemen and detectives (Category 964); and sheriffs and bailiffs (Category 965). Two categories of protective service workers are excluded: crossing guards and bridge tenders (Category 960) and firemen, fire protection (Category 961). Public law enforcement total employment figure includes all components even though figures for some categories are not available separately.

1977 BLS employment data are as follows:

Total Public Law Enforcement	539,000
Public (Government) Guards	151,000
Total Public Sector	690,000
Contract Security	179,000
Proprietary Security	183,000
Grand Total	1,051,000

- g) Estimate based on extrapolating estimate made in Rand Corporation study performed under grant from the National Institute of Law Enforcement and Criminal Justice, Law Enforcement Assistance Administration, Department of Justice: Kakalick, J.S. and Sorrel Wildhorn, Private Police in the United States: Findings and Recommendations, R-869/DOJ, and The Private Police Industry: Its Nature and Extent, R-870/DOJ, Washington, D.C. 1972.
- h) Estimates based upon data in 1972, 1974 and 1975 County Business Patterns and 1972 Census of Selected Service Industries for Standard Industrial Classification (SIC) 7393 - Detective Agencies and Protective Services (does not include establishments primarily engaged in installation but not in maintenance and monitoring of mechanical protective devices). Estimates assume that 1975-76 growth continued at same annual rates as in 1972-75 (11.5 percent for employment and 18.3 percent for payrolls), and that proportion of subtotal among three categories remained constant 1972-76.
- i) Figure compares with industry estimate of 30,000 (National Armoured Car Association).
- j) Estimates assume payroll is 65.5 percent of revenues, as in 1972 Census of Selected Service Industries.
- k) Source: Bureau of Labor Statistics industry employment data adjusted to compare with occupational data, i.e. 17,000 clerical employees were subtracted from total 186,000 for detective and protective services; excludes employment in armored car firms.
- l) No definitive figure is available for all employees of proprietary or "in-house" security forces, and hence no definitive total can be given for private security forces both contract and proprietary. Estimates can be

derived from a recent industry survey or by extrapolating from official data.

The 1976 Report of the Task Force on Private Security, issued by the National Advisory Committee on Criminal Justice Standards and Goals, projected a total of over 1 million employees in private security. This estimate was based on an American Society of Industrial Security (ASIS) survey which provided data on the number of persons employed in security organizations of which ASIS members are a part. If the 282,000 persons estimated based on official data to be employed in contract security are subtracted from the total, this leaves a much larger number of proprietary employees--approximately 700,000. The survey itself, however, points to the opposite conclusion: a greater number of employees were found to be employed by the organizations of the Society's contract members than by those of its proprietary members. As noted in the January 1976 issue of the Society's magazine, Security Management, analysis of information regarding specific numbers of security personnel is difficult since several of the same companies had multiple respondents.

Another possible estimate of total proprietary employees in 1976 is 340,000--based on extrapolating 1975 data on contract employees (see footnote h) and assuming that non-security personnel (i.e., part-time and administrative/clerical) are 40 percent of the total, the same proportion estimated for contract security. This figure, too, could be high since the proportion of part-time employment in proprietary security is probably somewhat smaller than in contract security work, according to the Rand report (footnote g).

- m) Estimates using Bureau of Labor Statistics data on contract and proprietary employment and County Business Patterns data on contract revenues: assuming that the costs of contract security in proportion to employment are 20 percent less than for in-house security, (based on Rand report), and adding to BLS contract security employment figure estimated employment in armored car firms (based on its proportion of total employment in 1972 Census).

Total private security estimate compares with \$6.6 billion estimate by Time Magazine, August 30, 1976.

- n) 1976 total private sector employment was comprised of 352,000 guards and 21,000 detectives; 1977 total private sector employment was comprised of 339,000 guards and 23,000 detectives.

- o) Source: Current Industrial Reports, MA-36N (76-1); figure is for SIC Codes 3662348-51 and 3662355-7.

- p) Source: 1976 Annual Survey of Manufactures; figure is for SIC 34991.

- q) Actual total is probably somewhat higher since it would include other equipment which cannot be isolated in official data. Using \$441 million as a working estimate and assuming that the private sector's share of spending on security equipment equals its share of spending for security personnel and services (30 percent), the total cost of private security services and equipment can be estimated at \$5,930 million.

TABLE 2: SUMMARY OF ESTIMATED PUBLIC AND PRIVATE SECURITY FORCES AND EXPENDITURES
 IN THE UNITED STATES IN 1969
 (N/A indicates data not available)

(Originally published in Rand Corporation report by Kakalick and Wildhorn, Private Police
 in the United States: Findings and Recommendations: R-869/DOJ, Washington, D.C., 1972)

Type of Security Personnel or Organization	Numbers of People		Expenditures or Revenues (\$ million)	
	Security Personnel	Total Employment	Payroll	Total
<u>Public Law Enforcement</u>				
Local police (city, county, township)	324,000 ^a	432,000 ^b	3,040 ^c	3,326 ^b
Reserve local police	N/A	N/A	N/A	N/A
Special local law-enforcement agencies	N/A	N/A	N/A	N/A
State police or highway patrol	39,000 ^a	} 54,000 ^b	} 455 ^c	} 621 ^b
Special state law-enforcement agencies	N/A			
Federal law-enforcement agencies	N/A ^d	36,000 ^{b,d}	344 ^c	492 ^b
Total Public Law Enforcement	395,000 ^e	523,000 ^c	3,839 ^c	4,430 ^b
<u>Public (Government) Guards</u>				
(All governments)	120,000 ^e	N/A	N/A	1,000
<u>Total Public Sector</u>				
(Police and guards)	515,000	N/A	N/A	5,400

Type of Security Personnel or Organization	Number of People		Expenditures or Revenues (\$ million)	
	Security Personnel	Total Employment	Payroll	Total
<u>Private Sector Security</u>				
In-house detectives and investigators	23,900 ^e	N/A	N/A	N/A
In-house guards	198,500 ^e	N/A	N/A	N/A
Subtotal in-house security	222,400 ^e	N/A	N/A	1,600 ^f
Contract detectives	8,100 ^e	N/A	N/A	N/A
Contract guards	59,400 ^e	N/A	N/A	N/A
Subtotal contract guards and detectives	67,500 ^e	110,000 ^g	435 ^h	620 ^f
Patrolmen in contract agencies	N/A (included in contract guards)	N/A (included in contract guards)	N/A	N/A (included in contract guards)
Armored-car services		10,000 ^g	73 ^h	128 ^j
Central station alarm services		N/A (included in contract guards)	N/A	120 ^k
<u>Total Private Sector</u>	289,900 ^e	N/A	N/A	2,500
<u>Total Security Equipment</u>	N/A	N/A	N/A	800
GRAND TOTAL	804,000	N/A	N/A	8,700

^a Sources: FBI, 1969 Uniform Crime Reports, and telephone conversations with personnel at International Association of Chiefs of Police. Figures are for sworn officers. Local police total shown includes 287,000 sworn officers in cities and suburbs and 37,000 officers in county sheriff departments. State figures include state police and state highway patrol officers.

^b Source: Expenditure and Employment Data for the Criminal Justice System 1968-69, LEAA, U.S. Department of Justice, December 1970. Expenditure data are for FY 1968-69, and employment data are for October 1969.

^c Source: Bureau of the Census publications (Census of Governments for various years, Public Employment in 1968, and Governmental Finances).

^d The 36,000 federal law-enforcement employees include all employees of only five agencies: FBI, Secret Service, Immigration and Naturalization Service, Bureau of Narcotics and Dangerous Drugs, and Bureau of Customs. But only a fraction of these employees are actually investigators or law-enforcement officers with police powers. From Hearings of the Committee on Government Operations, Unmet Training Needs of the Federal Investigator and the Consolidated Federal Law Enforcement Training Center, House Report No. 91-1429, U.S. Government Printing Office, 1970, it is estimated that the federal government's investigative force exceeds 50,000 employees.

^e Source: Bureau of Labor Statistics publications and unpublished data. Excludes part-time employees unless their primary occupation is security-related.

^f This estimate derives from two sources: Predicasts, Inc., and a Rand estimate, both of which are discussed in Chapter IV of R-870-DOJ.

^g Sources: 1967 Census of Business: County Business Patterns for 1968 and 1969. Includes part-time employees.

^h Assuming payroll is 57 percent of revenues, as estimated in the 1967 Census of Business.

ⁱ Source: 1967 Census of Business data extrapolated to 1969, utilizing revenue growth ratios equal to those achieved by large contract detective agencies and protective service firms.

j Source: 1967 Census of Business data extrapolated to 1969, using revenue growth rates equal to those achieved by large armored-car firms.

k Source: Predicasts, Inc., Special Study 56, Security Systems, 1970.

BIBLIOGRAPHY

Security Studies

"ASIS Survey Results," Security Management, January 1976

The article describes the background and summarizes the results of the American Society for Industrial Security (ASIS) membership survey mentioned in footnote 1 to Table 1.

Cunningham, William C. and Philip J. Gross, "National Research Efforts on Private Security," Security Management, September 1977.

The article describes recent research funded by the Law Enforcement Assistance Administration of the Department of Justice and provides an annotated bibliography of the resultant studies.

The article also reports that in conjunction with the National Criminal Justice Reference Service (NCJRS), the Research Committee of ASIS has identified more than 800 security-related reports, studies and publications from a variety of sources. The NCJRS will conduct a free literature search of these sources upon request. Specific requests should be directed to the: National Criminal Justice Reference Service, Law Enforcement Assistance Administration, U.S. Department of Justice, P.O. Box 6000, Rockville, Maryland 20850, phone (202) 862-2900.

Denison Edward F., "Effects of Selected Changes in the Institutional and Human Environment Upon Output Per Unit of Inputs," Survey of Current Business, January 1978.

One of three social trends examined for their impact on productivity is the rise in dishonesty and crime, with attendant increase in the purchase of protective security services.

Kakalick, James S. and Sorrel Wildhorn, Private Police in the United States: Findings and Recommendations, R-869/DOJ, GPO, Washington, D.C., 1972.

This volume, the source of Table 2, summarizes 4 other reports based on a Rand Corporation study funded by the Law Enforcement Assistance Administration. The study's purpose was to describe the nature and extent of the "private police" industry in the U.S. and to recommend policy and statutory guidelines for improving the future operation and regulation of the industry.

The titles of the other Rand reports are:

Vol.2--The Private Police Industry: Its Nature and Extent, R-870/DOJ

Vol.3--Current Regulation of Private Police: Regulatory Agency Experience and Views, R-871/DOJ

Vol.4--The Law and Private Police, R-872/DOJ

Vol.5--Special Purpose Public Police, R-873/DOJ

Kakalick, James S. and Sorrel Wildhorn, The Private Police: Security and Danger, Crane Russak & Co., New York, 1977

This volume is an update version of the 1972 Rand Corporation study by the same authors.

Kingsburg, Arthur A. and Richard S. Post, Security Administration: An Introduction, Charles C. Thomas, Springfield, Illinois, 1977.

The volume provides an overview of the entire field of security loss prevention, crime prevention, and security management.

National Advisory Committee on Criminal Justice Standards and Goals, Law Enforcement Assistance Administration, Department of Justice, Report of the Task Force on Private Security, GPO, Washington, D.C., 1976

The report presents recommended standards and goals for the private security industry. It first provides an overview of the industry and then discusses personnel issues, crime prevention systems, the relationship of the industry to others, and government regulation.

"Making Crime Pay", Time, August 30, 1976

Article discusses growth of private security spending and factors favoring faster growth of contract agencies than of in-house forces.

Crimes Against Business Studies

The Department of Commerce program concerning crimes against business focuses on alerting businesses to the cost of crime losses and suggesting approaches to loss prevention and reduction. The studies and reports resulting from the program are listed below without description, since the first report is an annotated bibliography which includes coverage of the other publications.

Federal Government Sources on Crimes Against Business,
GPO, \$1.60

The Cost of Crimes Against Business, GPO, \$1.60

Crime in Retailing, GPO, \$1.10

Crime in Service Industries, GPO, \$3.00

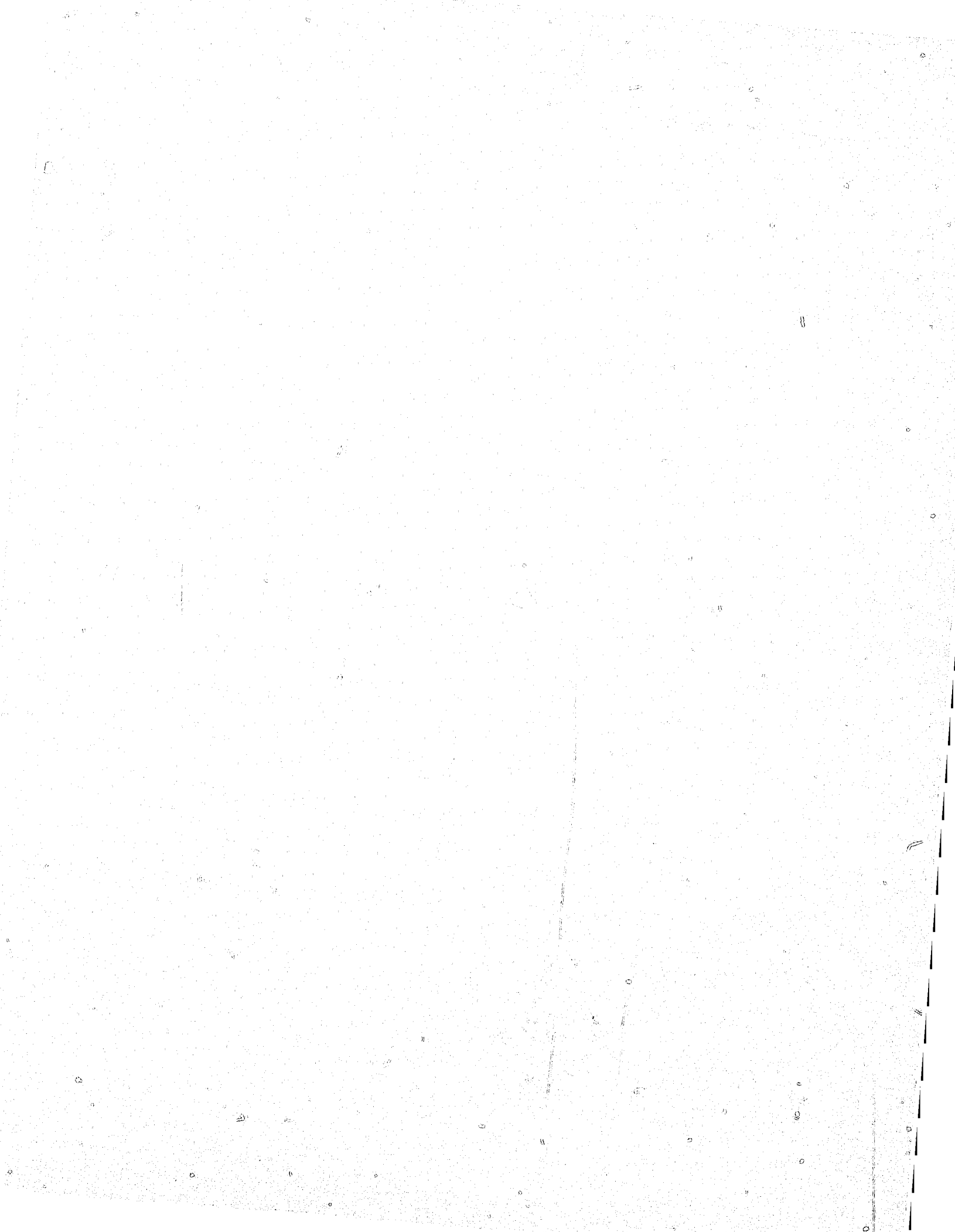
Crimes Against Business Seminar Proceedings:

Cincinnati, Ohio, September 25, 1975, GPO, \$1.70

Los Angeles and San Francisco, California, February 1976, GPO, \$3.60

Phoenix, Arizona, April 23, 1976

New York, New York, September 14, 1976, GPO, \$2.65



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