Principles of Loss Management

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FIRST REVISED EDITION

Complied by retired Lieutenant Colonel Joshua Murire for the Institute of Certified Loss Management

Preface

The Institute of Certified Loss management welcomes you to this programme of studies. As students of loss management you are living in the world whose economy is in depression. Many of your colleagues doubt the value to be gained from a loss management qualification when many qualified people are going about without employment. However, one thing is certain; knowledge and education once acquired become permanent investments which position you in readiness to exploit many opportunities that lie ahead. By enrolling on the loss management programme you are already breaking new ground.

In many countries, Zimbabwe included, loss management and its qualification has not yet received formal adoption as a profession yet the practice is a key element of business operations and is much older than many professions we know today. Every organisation worries about the probability and consequences of incurring losses, thus they all employ loss control officers, security officers, risk managers or safety officers in their bid to militate against loss. By fragmenting loss management functions and treating them as independent sub-systems many organisations fail to appreciate the benefits that accrue from treating loss management as one integrated system. Loss management practitioners themselves have also failed to establish a common platform from which to project their real identity and, as a result, their profession has failed to attract the social recognition it deserves. It has not been until recent times when, pressured by security and occupational safety threats and the ever increasing exposures to complex business risks, that organisations started recognising the importance loss management as a business function that demands knowledge research and skills training. Loss managers have also started advocating for the practice to be put on the same platform with other professions. In response to this new development many countries have taken the initiative to invest in loss management training, research and curriculum development.

The loss management function embraces all activities undertaken by organisations in an effort to prevent loss arising from their business activities. All loss management functions have a common denominator which is focused on safeguarding organisations from experiencing incidents or events that may attract losses into their operations. There is therefore, no logic in splitting these functions and treating them as though they have different objectives. It is costly, as we shall demonstrate in our studies, for any company to differentiate these functions and treating them as separate and independent systems. Loss management education and training curriculum should be designed and implemented as a single programme that addresses skills requirements for professionals and needs of organisations. Looked at from a common objective, safety, security, risk, cost control and investigations are the critical constituent elements of a single function, the loss management function. From this perspective there is reason and justification for society to invest in the curriculum and study of loss management. Organisations should be encouraged accord loss management the professional status that it deserves and to support its growth.

Most companies do not appreciate the real savings are achieved by investing in an integrated loss management system. With inadequate training, in Zimbabwe, loss management practitioners have not operated in keeping with standards and ethics and, as a result, the image of the profession has continued to rank last when compared with other professions. This lack of effort has also affected the status of loss management personnel which, currently is undervalued. In Zimbabwe and in many other African countries excluding South Africa, loss management practitioners have also failed to make their practice meet profession requirements hence to date, it remains an occupation whose remuneration and rewards is not recognised on a professional scale. Firstly, they have no established professional bodies, Secondly practitioners are currently not guided by any Code Ethics and Thirdly they have no identifiable values and norms that members ought to observe and Lastly they have no public or internal regulatory framework which sanction members from wayward conduct and there are no traceable register of those in practice. In developed countries loss management is regarded as a public service regulated through an act of parliament. Introduction of such arrangement worldwide is inevitable and only time will determine.

Loss management concepts, theories and principles

This module is designed to highlight concepts, theories and principles of loss management and to provide insight into the future of a profession whose foundation is already laid. Importance of the loss management function in serving society's security and safety and business concerns is gaining momentum as most Governments across the world are now increasingly creating space and infrastructure for the operation of private loss management services and encouraging institutions to have their own private safety and security arrangements. They are encouraging private individuals and organisations to only fall back to public safety and security on issues that real fall within the public domain as resources to provide such service to an ever increasing pollution are getting overstretched. This shift of focus by States and Governments is already seeing the growth in the establishment of private loss management service institutions and corresponding transformation of the discipline once regarded as a simple occupation into a profession. The loss management profession is following the natural evolutionary path that many other *professions followed to reach where they are today. Literature on loss management is still very scarce; however, a lot of work on the subject is being undertaken by many scholars. It is hoped students of loss management are going to equally make significant contribution in determining the future of the profession as they embark on research projects. This module is not meant to be a text book but just a guide prepared to help students in their studies. Most of the information contained herein has been gathered through research and from available text books referenced at the end of the module. Those who make effort to get access to the referenced material will find it very helpful.*

Acknowledgement

Special acknowledgement and appreciation goes to Mr L. Masaire who is the lecturer on this module. His comments made me to revise original module layout and content. I have to thank Patrons of Cresta Restaurant, Pa Parliament, who made a lot of debate on the viability of Security Management Diploma programme in Zimbabwe. Special thanks go to my former friend and workmate Mr Lewis Kajau who debated so much in support of my idea and encouraged me go ahead with its implementation. He was to later sacrifice his valuable time by becoming the first loss management module lecturer to our first group of students when we finally introduced the programme in July 2003.I cannot afford to forget my other friend, Mr Douglas Makuku, who argued so much against the viability of such a programme. His contribution made the debate worthwhile and it facilitated generation of more valuable ideas on the subject.

It is not possible for me to lose memory and fail to appreciate the significant role played by Mr Peter Boudillon, former Zimbabwe Institute of Management (ZIM) Registrar, who facilitated for his organisation (ZIM) to accept our invitation to partner with ICLM on the new programme as its examining board. His facilitation unlocked the professional experience and expertise we so much needed to walk the journey. It made the programme succeed and progress to its present status. Through his facilitation ICLM is now a renowned, registered and accredited professional examination body on its own with a professional Council whose mandate is advancement of professional interests of its members. ICLM is greatly indebted to the following organisations; Reserve Bank of Zimbabwe (RBZ), Zimbabwe Revenue Authority (ZIMRA), Civil Aviation Authority of Zimbabwe (CAAZ), University of Zimbabwe (UZ), TelOne, Net ONE, Zimbabwe Prisons and Correctional Services (ZPCS), Zimbabwe Electricity Supply Authority (ZESA), Air Force of Zimbabwe, Zimbabwe National Army and many others who sponsored their staff on the programme. We also appreciate those institutions which saw value in ICLM qualification and employed its graduates. On this occasion special appreciation goes to Econet Wireless, Mbabda Diamonds, City of Bulawayo, First Banking Corporation, and Commercial Bank of Zimbabwe, ZUPCO, and many other companies outside our borders who supported the institute in the same way.

When I personally first conceived the idea of a security management curriculum and training programme in 2001 it looked, to many people, like I was day dreaming. I was also not very confident of what I was about to embark on as loss control and management then, was having different meanings to different people. Formal security management as a training programme that leads to a professional qualification was equally unknown as it did not exist.I am proud to have led the introduction of the programme and seeing the institute climbing new heights through upgrading of the programme from simply security management to the loss programme that it is today. The programme is now running in neighbouring countries including Botswana and Zambia. Plans are afoot to take the programme to Tanzania, Uganda, Sudan and Swaziland and the rest of SADCC on an initial market expansion. I have no doubt with concerted professional effort the programme is going to receive attraction from wide and far. Lastly we extend many thanks to our graduates who have not let us down as they have performed beyond everyone's expectation where ever they got engaged. They have become ICLM ambassadors. A lot of opportunities lie ahead and we encourage all our graduates and students to work hard towards fulfilling our collective professional aspirations.

I wish you all best,

Lieutenant Colonel Joshua Murire (Retd)

Programme Director

Foreword

Loss management is a philosophy and an alternative approach to organisation efficiency and effectiveness management. The fundamental objective of every organisation is to have efficient and effective operations that produce positive results. Business operation involves input, process and output. It is assumed that processing adds value to input and produces output which, with mark-up, makes the final result of business operation. Experience has shown that business operation does not always produce a positive result (Profit). At times businesses produce negative results (Loss). Management has always attributed occurrence of business loss to some external and internal factors which interfere with its operational activities (input, process and output) and causing negative variance on budgeted result. The loss management philosophy argues that efficiently and effectively management business operations should always produce positive results and that any negative variance is a reflection of management failure. Effects of external and internal variables on operations can always be handled by management and environmental interference can be identified and controlled. Uncontrollable variables are an exception which can be identified and whose effects can be quantified using appropriate loss management techniques.

The underlying assumption of the argument is that "a properly managed business operation involves efficient and effective planning and budgeting process which is aimed at achieving a positive result" and when the actual outcome (result) has a negative variance some intervening factors should have negatively affected the operational activities (input, process and output). If planning and budgeting processes are properly done such a scenario could be a reflection of implementation failure. The whole process from planning to implementation is susceptible to risk exposures and vulnerable to threats which can be managed using appropriate loss management systems. It is the responsibility of management to manage the possible sources and causes of loss. The equation of a business operation's effectiveness and efficiency in guaranteeing a positive variance on its result can be demonstrated as;

$$P_e = (I + I_f) + (P + P_f) + x = O_r$$

Where: P_e = *is effective plan*

I = *is the value of input*

I_f =*is the intervening factors affecting input*

P =*is the process*

P_f =*is the intervening factors affecting the process*

x =*is the value addition*

O_r =*is the result of the operation*

The loss management approach is interested in variable factors, P_e, I_f, P_f *and* x *as these are the ones that are responsible for negative influence on the values of planning, input and processing variables of the business' operation and ultimately affecting the value of* O_r *. The approach argues that loss making is a process that builds up from the beginning to the end of a business's operation where the final result will be reflected. Risks, loss exposures and threats are critical factors which may negatively affect the planning, input, process, and output and value addition variables and can be identified, recognised and managed. Losses are events or risk exposures that are exploited by threats and occur during the planning, input-process-output activities and accumulate at the end of a business operation Any business activity that ultimately produces and records loss as its final result reflects poor management practice, poor loss management systems or managerial inefficiency and ineffectiveness. Occurrence of loss is a result of exposures being exploited, risks not identified and mitigated and threats not being prevented. Loss management identifies security and risk,* *worker safety and health management and cost control as key instruments through which loss can be managed.*

The ICLM loss management programme is designed to equip learners with skills in identifying and managing loss. A lot of other literature is incorporated because of its importance to the loss management function. Topics on power and politics, Corporate Governance, law, business administration, psychology, quantitative methods, research methods have been included as they provide knowledge which is necessary in facilitating the smooth functioning of loss management department in an organisation. The end product of the curriculum is a graduate equipped with necessary to handle loss management in any business environment.

CONTENT OF THIS MODULE IS ARRANGED AS FOLLOWS;

Unit One; *Introduces the reader to the definition and origin of loss management as a practice. It outlines how loss management came about and the philosophy behind the practice. It also outlines the concepts, principles and theories that guide loss management thinking.*

Unit Two; *Addresses the function, nature and scope of loss management by giving a definition and analysis of the various core elements that make up the practice and those disciplines that support its operation. Loss management challenges are also explored so as to identify limitations and opportunities faced by the practice.*

Unit Three; *Identifies attributes of a profession, its objectives and environment and evaluates a comparative evaluation of loss management as a profession. It also gives students the opportunity to evaluate loss management as a profession in Zimbabwe and to assess its future.*

Unit Four; *Looks at how organisations are designed and structured and how loss management structures are aligned to the main structure. It also looks at organisations as systems and how loss management operates as a sub system that should contribute to the organisation's existence and survival*.

Unit Five; *Looks at how power and politics is exercised in organisations and how it affects organisational efficiency and effectiveness. It exposes students to how the loss manager can position himself in the organisational power politics game so as to influence decision making. It also looks at the corporate governance of organisations with a view to position loss management a critical be part of the governance structure.*

UNIT ONE: LOSS MANAGEMENT- THE PRACTICE AND ITS

ORIGIN

1. THE LOSS MANAGEMENT PHILOSOPHY

1.1. DEFINITION

In studying anything it is important to understand its nature, form and environment and to describe its characteristics. In other words, the first thing in any learning situation is to describe or define the subject and objective under study. It is thus equally essential, in our study of loss management that we first we understand the meaning of the word "loss" before we attempt to examine "loss management "and its meaning as a body of knowledge relating to a practice. Loss may therefore be defined as;

1.1.2. "The state or occurrence of disadvantage, detriment or deprivation from failure to keep, have or get something" as in loss of production or machine down time.
1.1.3. "The state of being deprived of or being without something that one has had before the occurrence of the depriving event" as in losing an item to thieves.
1.1.4. "Death or the fact of being dead" as in loss of life
1.1.5. "Failure to make good use of something such, as time; wasted time
1.1.6. Failure to meet set targets. "loss of opportunities"
1.1.7. Breakdown of operations. "loss of production"

Loss management as a practice focuses on actions taken by individuals and organisations to prevent or at least to control potential loss of assets or resources. In all situations and specifically in organisations loss management occupies itself with the protection of all critical organisation resources including personnel. The peculiarity of personnel as a resource of a company tend to attract special and separate attention through provision of a special function commonly referred to as "occupational safety and health" and specifically designed to provide personnel or worker security. Nonetheless, loss management also deals with security of other non-human resources and assets owned by individuals or organisations as both human and non-human resources are objects requiring security and safety protection. Non-human assets may be physical wholly lost through theft or lose value through natural wear and tear, malicious or intentional or accidental damage in the same manner as physical assets, human resources may get injured or killed through negligent, accidental or natural and work induced causes. It is necessary that, while the common objective of loss management is loss prevention, the discipline has two branches which reflect the natural differences between the objects whose loss we seek to prevent.

This module is designed to provide introductory knowledge of concepts, theories and principles of loss management and other relevant disciplines that complement its operation. The general term "security management" is often mistakenly used when referring to non-human resource protection but security management, in general, looks at protection of both human and non-human resources. The term asset is often used to refer to non-human resources. The essential element of loss management is its focus on managing potential threats to organisation's resources and systems and to the successful achievement of its goals. Loss management as a professional study aims at balancing the probability and impact of threats, determining and implementing protective measures, improving effectiveness of current measures, minimise or eliminate exposures in relation to resources or assets of an organisation. Separate modules will address issue to do with threats to specific assets and resources. Modules on "Occupational Safety" will address the study of human resources safety, the Loss Management 2 module looks at the safety and security of other assets apart from human resources. Complementary subject modules like Cost and Management Accounting at prevention of loss arising from ineffective and inefficient use of resources and systems operations.

1.2. PURPOSE

Loss management is designed to develop and provide systems which can satisfy individual and organisation needs for personnel and asset security and safety and to avoid potential or actual occurrence of whatever type of damage or injury or loss of assets or life. Before organisations came into being the practice of loss management has always been existence and practiced by individuals and communities. Individuals on their own practiced loss management by preventing potential and actual physical injury or loss of life or household assets. For individuals, assets simply comprised of domesticated animals, home implements and basic household apparatus. Early people practiced loss management by putting in place basic protection systems like their own shelter and kraals and fowl runs for their animals. They would head their animals or hire other people to do it for them. Domestic animals were the major source of wealth and needed to be protected from attacks by wild animals such as lions, hyenas, leopards etc. They also needed to protect these animals from getting astray or being stolen by other people. They also needed to protect their crops. On their own, individuals needed to protect themselves against attacks by animals or by other human beings intending to dispossess them and they needed to protect their own bodies against self-inflicting or accidental injury. Communities also had their own arrangements for security and safety.

1.3. ORIGIN AND GROWTH

1.3.2. Socio-economic evolution

Aristotle is reported to have said, if you would want to understand anything, observe its beginning and its development. The practice of loss management is as old as the narrations of the bible and the socio economic evolution. The functions of loss management practitioners in modern society mirrors the functions of a shepherd as spelt out in the bible. Some of the duties of a shepherd included seeking and finding stray sheep (investigations), counting the sheep in the evening as they entered the fold (risk management), building permanent sheepfolds (security) and protecting sheep from thieves and wild animals (security). Protection of the Master and his dwellings was the preoccupation of others such as the night watchman. The development of the night watching practice also followed the socio-economic evolution. This illustration gives us a reflection of the shepherd and the knight watch man's duties which are more or less similar to those of the security guard and the accountant in our modern society with its new property arrangements. This section focuses on the beginning, development and application of principles of loss management. As observed, loss management, having been in place from ancient times, has several approaches and this module focuses on knowledge required in analysis and evaluation of security management, risk management and safety and health as key elements of the loss management profession and appreciation of other complementary disciplines such as accounting, law, ICT, psychology, and general management. The core functional elements of loss management cannot be practically separated or functional isolated.

1.3.3. Human settlements

Settlement, Locality or populated place are general terms used in geography, statistics, archaeology, landscape history and other subjects for a permanent or temporary place in which people live or have lived as a community, without being specific as to size, population or importance. A community is a large group of people settling at a specific place, sharing common values and identifying themselves as belonging to the group. A settlement can therefore range in size from a small number of dwellings grouped together to the largest of cities within urbanised areas. The term may include village, town and city or other conglomerations of buildings where people live and work. Settlements grew from the earliest primitive human life to later arrangements here human beings came together to settle in large groups commonly referred to as communities. With passage of time communities and later States settlements emerged. The demarcation of boundaries to mark and protect areas of their jurisdiction was the first form of defence and security. A state is an autonomous entity, having sovereign government and constitutional recognition within a defined territory. The emergence of states settlement did not do away with private property ownership rather it created a new class of ownership through group ownership as in organisations, communities and sovereign states. The need for States to employ systems to prevent occurrence of potential or actual loss of property and space arose as a necessity. Communities needed protection and security of assets and maintenance of order, peace and stability was their form of their defence and security. Common property was entrusted in the hands of those who had the power. With passage of time other people were specifically tasked to provide defence and security and eventually armies were created to ensure protection of sovereign interests just as policing was necessary to maintain internal law and order.

1.3.4. Individuals, communities and state security

The origin and development of loss management as a practice or profession is anchored on human (both as individuals and groups) psychological, social and economic needs and perceptions and has been influenced by property relations. Individuals, Communities, States and Organisations need loss managers to protect the means to their actual and perceived psychological and social interests, and rights invested in wealth creation systems and property, against all forms of threats. The nature of these investments interests and rights thereto determine the nature and type of loss management systems to be employed. Loss management aims at designing and putting in place systems which can remove any potential threats to the rights to possession and use of owned property, wealth and activities of individuals, Organisations, Communities and States. Loss management systems ensure property and processes are protected and secured, and human beings work in safe and healthy environment and that any risks thereto are assessed and mitigated. The types of assets (property and wealth) to be protected depend of the owning entity and come in different forms and with different risks, exposure and threats hence application of loss management systems may vary. Individual security requirements are tailor made to meet specific tastes, those of organisations are designed to meet shareholders and management interests while community security is designed to address public security requirements and policing may be the appropriate approach. In organisation shareholders and management interests at times conflict on the basis of costs and objectives thereby placing challenges on loss managers in designing and implementing loss management systems that satisfy both interests.

1.3.5. Industrialisation and work specialisation

Industrialisation, regarded as the cornerstone of modern civilisation, is the foundation of factory work systems, work specialisation and technology advancement. Arguably, the first highly mechanised factory was John Lombe’s water powered silk mill at Derby, operational by 1721. Lombe learned silk thread manufacturing by taking a job in Italy and acting as an industrial spy, however, since the silk industry there was a closely guarded secret, the state of the industry there also remained unknown till today. During this period, attracted by job opportunities in factories, large numbers of people migrated into the cities to take paid jobs. Nowhere was this better illustrated than in Manchester, nicknamed Cotton polis, the world’s first industry city.

Improvement in the factory production set up gave birth to business oriented production systems. Industrialisation did not only create the factory as a form of production but furtherance of institutional arrangement, worker employee relations, private and public security systems as well as creation of public utilities ownership and public service structures. Inevitably, work specialization agreements within organisations saw workers most suited (by virtue of their natural attitude, location, skill or other attributes and qualifications) for specific activity or tasks assuming greater responsibility for their execution or performance. From this process loss management also emerged as a specialised function hired to serve a civilised community by protecting clients' interests.

Today, with society becoming increasingly more complex various loss management functions like audit, safety, fire protection, cyber security, and business intelligence, just to name a few, are continuously standing out as specialised practices and professions on their own. Loss management broadly defined, is any method used by an entity to account for, prevent, and reduce the likelihood of loss(e.g. reduction of workers' productive capacity, money, materials or financial resources) resulting from a host of adverse occurrences such as crime, fire, accident, natural disasters, error, poor supervision, poor work methods, inefficiency, bad investment decisions etc. This broader definition provides a foundation upon which loss management systems design and development can be explored to the limit of an individual practitioner's imagination.

This module treats auditing, security, risk management and occupational health and safety as the founding practices of loss management whose principal objective remains the same i.e. loss prevention. This module gives attention to principles, concepts and theories of security, risk management and occupational safety and health as building blocks for the loss management course. Auditing which normally takes a review function is, from a loss management perspective treated as more of detection than prevention exercise.

1.4. CONCEPTS AND THEORIES

1.4.2. Private property, wealth and inequalities

There is no evidence that history has ever provided justification of private property ownership. The dynamics of society has always depicted signs of discomfort in the present system of property ownership to an extent that society is always in contradiction within itself because of unexplained disparities in the operation of the system. Private property is looked upon by some as merely reflecting or expressing the justification of economic inequalities between men; the man perceived as poor in ability is the man rewarded less and therefore left poor in property and wealth. While the reward system and property ownership are unequal the demands of life are equal on every person. The question, whether private property system furthers the welfare of society better than would any alternative arrangements for the control of economic wealth always remain unanswered but the need for security as a functional element of loss management is apparent under private property ownership system. It is, therefore, for this reason that professional services such as policing and security are necessary to ensure threats and risks against the operation of property ownership system are managed. Loss managers, to some extent and by virtue of their job, are key property relations players and therefore the need for them to have knowledge and understanding of concepts, theories and practice of property ownership is inevitable.

1.4.3. Property ownership

Property ownership is the legal control over resources of economic income. The Latin word property means ownership, hence that which pertains to the individual, that which is a man's own. The law makes a distinction between property rights and equity rights. Certain subtle distinctions have their reason in history, if not in the logic of the law, but which are not essential in economic discussions. The focus in this module is on equitable claims of men to assets and wealth, which can be lost, rather than the technical rights. There are different forms of property ownership: first is private ownership, as that of individuals, families, partnerships, or corporations: second is public ownership, as in state properties, public utilities and state land. These ownership forms and rights are equally effective as against the claims of outsiders, but the rights of those inside the circle of ownership differ. Private property is the characteristic feature of our present day industrial society, but it exists side by side with public property and with many intermediate grades between private and common property. Private property, while attacked on some sides, is usually accepted without question; but for our purpose in the programme it is important to examine private property ownership, its origin and limits, with reasons for them noted, its purpose, faults, and effects should be set clearly. We also give attention to loss management practice by examining its origin, justification, faults and effects as well as its implication on the interests of the general public in relation to property owners' interests. Such examination provides some of the reasons which have created a fertile ground for the development and growth of loss management as a practice and profession.

i. Origin of private property practice

The older theories of the origin of private property ownership are those of occupation, conquest, labour, natural rights, and law. The theory of occupation is that property ownership is based on the priority of claim of one who finds a resource without an owner and appropriates it. This, to be sure, is a statement of what would happen when one settles on unclaimed land, but it is not an explanation of the rights to that land and of the property ownership exclusion rights that are acquired through conquest, nor does it give logical reasons for the continuance of ancient property rights. Rights are only there because, by consensus the law says and justifies they should and society accepts their existence. Loss managers are duty bound to uphold the law on behalf of those who hire their service.

ii. The practice in early societies

The practice of private property ownership has evolved under diverse conditions; the question of its origin is not the same as that of its present justification. In early societies individual property rights were not very clearly marked. Every tribe asserted against other tribes, and acted to uphold, by war, its claims on its customary hunting grounds; but the claims of the individual hunter and fisherman within the tribe did not often come into conflict as it does today. Private property at the onset was in the form of personal possessions, ornaments, weapons and utensils, necessary for household use and survival. These personal possessions were very meagre in those primitive societies. Later events saw the development of private land ownership and means of production emerging and increasing in practice thereby creating the need for protection of rights to that ownership and output from it.

1.4.4. Theories of ownership

A lot of theories are advanced on how private property ownership arise or arose. The following have been given attention to explain the origin of private property ownership;

a. Conquest/Occupation theory

This theory suggests that private property ownership has its roots derived from use of force. The reasoning is similar to the invasion of the Roman Provinces by the Barbarian tribes who invaded the land, divided it and enslaved the original occupiers. Europeans did the same when they invaded African land, divided it, shared amongst themselves and enslaved the inhabitants. It remains true that at some point the paten of private property ownership was shaped by historical theories of forced occupation. The theory rarely applies to present-day happenings and at its best it should not, to modern minds, shape and explain present day property rights which are shaped by law.

b. labour theory

This theory suggests, where others fail, that ownership is based on production, on the right of a man to that to which his brain and his effort have imparted value. It is evident that application of this theory leaves without explanation or justification of a great number of things that do not exist in tangible form but have existed as private property where brain and effort have not been imparted. Land that is acquired through conquest is such example. With notion it follows that man always expect a reward which reflects fair value of effort and where his brain has imparted value failure of which temptation arise to dishonestly dispossess those who have taken the benefit. It is the exercising of the right to private property ownership where some people own more and can derive or add value from other people's efforts that tend to breed dishonest and spirit to dispossess. Fair reward is a myth for it is subjective. The need for loss management arises because unequal opportunities and distribution of income; unfair labour relations and greed tend to be part and parcel of social and economic systems raped in law. The legal system plays a role by trying to give solutions where these contradictions arise. The act of dispossession of one person by another becomes the source of civil and criminal cases. It is the role of loss management to prevent personal dispossession of assets already legally owned by another or prevent threats to loss of life in an attempt to disposes. The conquest theory is based on the winner takes all and not socially justified yet it is an economic and natural reality. The labour theory tends to be based on fair value yet fair value is never objective. It is not the function of loss management to determine fair value or to find whether ownership is backed by conquest or labour theory as long as it is backed by law. Loss management is meant to protect property ownership which is backed by legal rights. Appreciation of the operation of the legal system with regards to security and protection of private property ownership is central to the duties and practice of loss management.

c. Natural rights theory

The natural-rights theory suggests private property ownership is necessary for the realisation of dignity of human nature. The legal explanation of the natural rights theory is that property ownership exists because the law says it shall exist. The law determines the dimensions of rights to private property ownership without specifying the limits of the law with respect to those rights. This argument puts man to be always in conflict between those who own and those who do not own property and forms the basis of the existence of law enforcement and protection systems such as policing and security management.

1.4.5. Delegated responsibility and the agency theories

Delegated responsibility refers to giving (duties, power etc.) to another as agent, representative or deputy. An individual who is in charge of certain group of tasks, a function or a sub-set of a company is said to have delegated responsibility.

a. ***The agency theory***

Agency theory is the theory that explains the relationships between principals and agents such as shareholders and company executives and employer and employee. In such relationships the principal (owner) delegates or hires an agent (employee) to perform certain functions on his or her behalf. Of importance, the theory attempts to deal with two problems of interest to the loss manager; firstly that the goals of the principal and agent may be in conflict (Agency problem); and second, that the principal and agent interests have to be managed at a certain level of risk tolerances. In addition to protecting the private property owner's interest from external threats the Loss Manager has agency responsibility to protect the principal's ownership interests from potential internal threats from other agents and from other stakeholders and non-stakeholders. In this instance it is essential that the loss manager understands the agency theory and its implications on private property relations and rights thereof.

b. Theory of the firm

Industrialisation gave birth to the firm as the principal organ of organised production factories and market systems. The theory of the firm explains the objective of the firm's operations as that of satisfying market needs through profit maximisation. It consists of a number of economic theories that explain and predict the nature of the firm including its existence, objectives, behaviour, structure and relationship to the market. In other words the basic assumption of the theory is firms aim at avoiding losses and maximising profits. The theory of the firm's profit maximisation assertion is essential in carrying out risk assessment, threat analysis and in developing appropriate loss management systems, but it should be realised that there are other technical theories which qualify for more consideration in developing loss management systems. While shareholders as principals may aim at profit maximisation management as agency may have other interest which may make them fail to fully observe the need to balance loss avoidance and profit maximisation objective. Loss management may be seen by management as a wasteful function that goes against profit maximisation maxim.

1.4.6. Management behaviour theory

Management behaviour theories examine the relationship between behaviour of management and shareholder interests.

a. Managerial approach

In the early 1960s the profit maximisation theories and other neo-classical theories of the firm were seriously challenged by alternative ones such as managerial and behaviour theories. Managerial theories of the firm; as developed by William Baumol (1965-1962), Robin Morris (1964) and Oliver E. Williamson (1966) suggest that managers would seek to maximise their own utility and consider the implications of this for the firm behaviour in contrast to the profit maximising case. There is no loss of value to this thinking if, for the purpose of loss management training, we also suggest, on the same reasoning, that employees and stakeholders are motivated by maximising opportunities to gain more from the firm's operations. Without morality consideration, non-stakeholders are also attracted to opportunities available for them to also helping themselves to the assets of the firm. Managers' best interests are best served by maximising sales after achieving a minimum level of profit which satisfies shareholders. On the other hand employees' best interests are best served by maximising output and rewards after putting a minimum level of effort. This thinking has developed into what is referred to as "principal agent analysis" e.g. Spenser and Zeckhause and Ross (1973) on problems of contracting with asymmetry information, which models a widely applicable case where a principal (shareholders) or firm cannot costless infer how an agent or employee is behaving. This may arise because the agent has greater expertise or knowledge than the principal, or because the principal cannot directly observe the agent's actions. It is the asymmetric information which leads to a problem or moral hazard. This means that, to an extent, managers or employees can pursue their own interests at the firm's expense. Traditional models typically assume that managers and employees, instead of maximising profit, they maximise a simple objective of utility function (this may include perks, security, power, prestige, personal gain) subject to an arbitrarily given profit constraint or, in the case of employees, output satisficing. It is for this reason also that loss managers are needed to act as agents in a different role in this economic benefit game.

b. Behavioural approach

The behavioural approach as developed, in particular, by Richard Cyert and James G. March or the Carnegie school places emphasis on explaining how decisions are taken within the firm and goes on well beyond the neo-classical economic theories. Much of the theory depend on Herbert A. Simons' work in 1950s' concerning people's behaviour in situations of uncertainty, which argued that people possess limited cognitive ability and so can exercise only "bounded rationality" when making decisions in complex and uncertain situations. Thus, individuals and groups tend to satisfice, that is, they attempt to attain realistic goals, rather than maximise a utility or profit function. Cyert and March argued that the firm cannot be regarded as a monolith, because different individuals and groups within it have their own aspirations and conflicting interests, and that firm behaviour is the weighted outcome of these conflicts. Organisational mechanisms such as loss management systems and satisficing and sequential decisions taking exist to maintain conflict at levels that are not unacceptably detrimental. Compared to ideal state of productive efficiency, there is organisational slake (Leibenstein's X-inefficiency

END OF UNIT EXERCISE

1. *Define loss management?*
2. *Explain the role of loss management as a practice?*
3. *Discuss how loss management can be linked to socio-economic development?*
4. *Human settlements have no relationship whatsoever with the practice of loss management. Evaluate?*
5. *The origin of loss management as a practice and profession is encored on human psychological, social and economic needs and perceptions and has been influenced by property relations. Evaluate?*
6. *Industrialisation and work specialisation contributed to treatment of loss management as a specialised function: Discuss?*
7. *The dynamics of society has always depicted signs of discomfort in the present arrangements of property ownership to an extent that society is always in contradiction with itself. Evaluate the implication of this scenario on loss management practice?*
8. *Contradictions within society are caused by disparities in private property ownership arrangement and perpetuated by the loss management? Comment*
9. *Identify and discuss theories of private property practice?*
10. *Compare and contrast the theories of private property?*
11. *Delegated responsibility and agency theories have nothing to with loss management professionals' work. Evaluate the validity of this statement?*
12. *Compare and contrast delegated responsibility and agency theories and management behaviour theories*

UNIT TWO: **LOSS MANAGEMENT- FUNCTION, NATURE AND SCOPE**

1. LOSS MANAGEMENT FUNCTION

1.1. DEFINITION

Loss management is defined as the process through which professionals identify and prevent events which have potential to cause losses that may affect the attainment of business objectives. Loss may be a result of a number of possible adverse occurrences including but not limited to crime, fire, accident, natural disasters, error, poor management or wrong decisions. Loss management is therefore made up of systems applied by organisations in order to manage threats on business revenue generation capacity, assets, or services. Loss management as a function operates in the environment of business.

1.2. FUNCTION

The function of loss management is to assist individuals or institutional entities through provision of systems and services designed to monitor and protect assets (property, capital, production systems, wealth etc.) against any form of security risks and threats. Systems designed and administered by loss managers and employed by individual and institutional entities in protecting assets, property and wealth creation include security, risk management, occupational safety and health and investigations. The systems listed above form building blocks or core functions of the loss management. Other disciplines, including accounting, auditing and law play complementary roles.

2. CORE FUNCTIONS OF LOSS MANAGEMENT AND COMPLEMENTING DISCIPLINES

The core function of loss management is prevention of any event or activity that has potential to negatively affect an individual or organisation and resulting in loss. In the case of an organisation such events or activities may be directly or indirectly associated with physical assets, processes or human resources (workers). Loss management as a discipline and practice has its own distinct body of knowledge with principles, concepts and theories which help organisations understand how best they can achieve their profit maximisation objectives. As acknowledged above the core functions which loss managers should have knowledge of include security management, risk management, occupational safety and health and investigations. Like all other professions and disciplines loss management, as a profession and discipline, also applies concepts, principles and theories drawn from knowledge of other professions and disciplines such as Accounting, Law, Psychology, Information Communication Technology, and Finance in order to gain knowledge of the environment in which it operates so as to fully understand and resolve problems it encounters. It is therefore essential for loss management practitioners to have in-depth knowledge and concepts, principles and theories applicable to their core functions as well as gaining knowledge and appreciating application of concepts, theories and principles drawn from knowledge of other professions and disciplines. We look at the core functional areas of loss management as follows;

2.1. THE SECURITY MANAGEMENT FUNCTION

2.1.1. Definition

Security management is defined as the identification of risks and assets exposure to security threats followed by development, documentation, installation and implementation of protection systems. Security management is one of the functional areas of loss management which focuses on critical assets and value adding processes of an organisation and on measures for ensuring they are secure from damage, theft, displacement or interruption. Loss management practitioners use security management systems such as information gathering, risk and threat identification, security assessments and surveys to identify and categorise assets and rating their vulnerabilities so as to identify threats and to implement appropriate protection systems. The major approaches used in security management or asset protection are intrusion detection, access control, physical protection/policing and surveillance. Security management relies heavily on risk management principles and concepts in profiling threats. The concept of security in an organisational sense has evolved gradually throughout history. Security holds a mirror up not to nature but to individuals, society and institutions. Security is at times confused with policing which is more of an approach to security than a stand-alone discipline or practice.

2.1.2. Origin of the concept of security management

As stated in our opening discussion, in pre-civilisation communities a shepherd is said to have been employed to take care of the master’s animals and what the shepherd actual practiced was more than caretaking as his responsibility included security.

In ancient settlements communities practiced security to protect themselves and their belongings. Tribes had armies and soldiers to defend themselves against other tribes. Individuals built houses for shelter and personal protection and kraals to safeguard their animals. The emergence and increased practice of private property ownership, accumulation of wealth and the rise of structured settlements gave further impetus to the growth of forms and methods of security. The history and development of security can be more illustrated using the medieval England and the United States which have more documented history of the development of their own security systems in forms and methods. In the medieval England people lived in communities and there were programmes to clear bushes and other concealment on either sides of the king's road as a precaution against robbers and there were also night watchman to protect citizens from night thieves. In the later development of the US security would be found in form of cleared areas adjoining perimeter fences and buildings, in security patrols and intrusion alarms. Throughout history it is possible to trace the emerging concept of security as a response to, and a reflection of a changing society, mirroring not only its social structure but also its economic conditions, its perception of law and crime and its morality. Thus security remains a field of perception, response to human and social behaviour, culture, values, economic dynamics and tradition and of dramatic change.

Employment of the shepherd in pre-civilisation communities, night watchman in the medieval England and the early US security systems are examples of rudimentary security practices.

Developments in technology and its advanced scientific systems, information communication technology and discovery of new knowledge and social responses to these developments continue to change the forms and methods of security systems and in the process shaping the security manager's job. Security today is directed towards solving modern problems including threats of direct attacks, theft, financial fraud, cyber-crime, computer fraud and terrorism. These modern problems have given impetus to the development of new security methods such as forensic investigations and forensic accounting and auditing. The advancement in technology and growth in institutional complexities further complicate the nature of security threats and its requirement for holistic, loss management approaches which embrace knowledge from other disciplines. Growth in security management is guided by the basic foundation upon which its professional standing is encored. The foundation of security management is built on its contribution to loss management objectives. This contribution is the core discussion topics in loss management 2 module of the loss management programme. Some of the terms and concepts used in security management include;

a. Deterrence measures

Deterrence measures are designed to convince potential attackers that a successful attack is unlikely due to strong security and protection systems. Deterrence measures may include warning signs, restricted access points, security lighting, fences and stickers. Deterrence measures also include physical barriers, natural surveillance and security lighting.

b. Intrusion detection and electronic surveillance

Intrusion detection uses equipment to detect any action occurring within restricted areas. Intrusion detection relies on equipment such as electronic alarm systems and sensors and video surveillance.

c. Access controls

Access controls are methods used to monitor and control traffic through designated access points and areas of the secured facility. A number of systems are used to control access and these include mechanical and electronic control systems, identification systems, access policies and procedures.

d. Security Guards

Security Guards are deployed to enhance the deterrence of intrusion and access control measures. All of the other systems that may be employed to enhance physical security are useless without accompanying human reinforcement and intervention. Security Guards are useful for the manipulation of physical security systems, responding to breaches and equipment maintenance.

2.1.3. Conceptual framework for Security

The practice of security is based on some conceptual thinking and perceptions held by human beings in their quest to put protection measures around themselves and their assets. In employing security measures security practitioners are guided by general conceptual beliefs which include;

a. **Assurance**- That there is a certain level of guarantee that a security system will behave as expected.
b. **Counter measure-** That there is a way to stop a threat from triggering a risk.
c. **Defence in depth**- That one single security measure alone may not be relied upon.
d. **Risk**- That there is always a possible event which could cause a loss.
e. **Threat-** That there is always a method of triggering a risk event that is dangerous.
f. **Vulnerability**- That there is a weakness in a target that can potentially be explained through a security threat.
g. **Exploit**- That a vulnerability can be exploited by a threat

2.2. THE SAFETY AND HEALTH MANAGEMENT FUNCTION

2.2.1. Definition

Occupational safety and health or workplace safety and health, as it is alternatively referred to, is an area normally concerned with the safety, health and welfare of people engaged in work or employment. World Health Organisation (WHO) considers occupational safety and health as dealing with all aspects of safety and health in the workplace and has a strong focus on primary prevention of hazards. Health is defined as "a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity". Occupational health is a multidisciplinary field of healthcare concerned with enabling individuals to undertake their occupation and work circumstances that may cause least harm to their health. Health generally is defined not in the same manner, for example, with the promotion of health and safety at work, which is concerned with prevention from any incidental or accidental hazards, arising in the workplace. Like risk management, occupational safety and health owes its objectives to loss management. In fact it is focused on security of human beings at work or out of work

2.2.2. Objective

The underlying objective of any OHS system is to manage resultant losses associated with occupational and non- occupational safety and health risks. Occupational safety and health programmes are designed to foster a safe and healthy (secure) occupational and non-occupational work environment. OHS may also protect co-workers, family members, employees, customers, and many others who might be affected by the workplace environment. The term occupational safety and health is referred to as occupational health and non-occupational safety in the United States for it embraces safety for activities outside of work environment. We shall conveniently adopt this term for our loss management training programme. Poor safety and health systems are potential sources of loss hence the systems need to be managed.

2.2.3. History

Research has shown that regulation of occupational safety and health is a relatively recent phenomenon. As labour movements arose in response to worker concerns in the wake of the industrial revolution, workers' health entered social consideration as a labour-related issue.

In 1833, Her Majesty Factory Inspectorate was formed in the United Kingdom with a remit to inspect factories and ensure the prevention of injury to child textile workers.

In 1840 a Royal Commission published its findings on the state of conditions for the workers for the mining industry that documented the appalling dangerous working environment that they had to work in and the high frequency of accidents. The commission sparked public outrage which resulted in the mines Act of 1842. The act set up an inspectorate for mines and collieries which resulted in many prosecution and improvements, and by 1850, inspectors were able to enter and inspect premises at their discretion. Otto von Bismarck inaugurated the first social insurance legislation in 1883 and the first workers' compensation in the world. Similar acts followed in other countries, partly in response to labour unrest.

2.2.4. Importance

Occupational safety and health can be important for moral, legal and financial reasons. In common-law jurisdictions, employees have a common law duty (reflecting an underlying moral obligation) to take reasonable care for the safety of their employees.

a. Reduction of employee injury and financial losses

Good occupational health and safety practices can reduce employee injury and illness related costs which include medical care, sick leave and disability benefit costs. Adverse incidence/accidence may negatively:

- Impact on the company's operations
- Impact on the company's cost structure
- Impact on the company's social reputation
- Ensure a safe environment for workers

Safety and health is important both to the loss manager and the worker because it is one of the sources of potential loss to the organisation. Safety and health programmes help in avoiding losses resulting from huge compensation payment increased insurance premiums, sick leave and even death of employees all of which may consequently result in productivity and financial loss to the organisation. It is surprising that many organisations have not made effort to account for the real cost of poor safety and health systems. This is normally the case where loss management has no provision for undertaking detailed calculations of real costs or loss attributable to such poor systems. Most loss managers are incapable of carrying out such tasks and the ICLM loss management curriculum includes Cost and Management Accounting and Quantitative modules in order to overcome that disability on its graduates.

b. Compliance with statutory requirements

Governments impose general legal obligations and create government bodies with powers to specifically regulate workplace safety issues. In such case compliance with statutory requirements become important as organisations have to observe the law and avoid costly penalties. Details of the legal actions vary from jurisdiction to jurisdiction. Knowledge of occupational safety and health management is essential to the loss manager hence complete modules on this subject are provided for as part of the loss management programme and course structure.

2.3. THE RISK MANAGEMENT FUNCTION

2.3.1. Definition

Risk is defined as a systematic approach to identification, assessment and prioritisation of risks (defined in ISO 3100 as the effect of uncertainty on objectives) followed by coordinated and economical application of resources to monitor, control and minimise the probability of unfortunate events impacting the realisation of opportunities.

A risk management system includes various policies, procedures and practices that work in unison to identify, analyse, evaluate, address and monitor risk. Risk management uses information along with other mathematical and non-mathematical techniques, such as brainstorming, to arrive at a risk management decision.

Risks come from uncertainty in the environment including operations breakdown, financial markets, threats from project failures (at any phase in design, development, production, or sustainment life cycles), legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attack from an adversary, or events of uncertain or unpredictable cause. Several risk management standards have been developed by many institutions including the Project management Institute, the National Institute of Standards and technology, Actuarial Societies, and ISO standards. Methods, definitions and goals of risk management vary widely according to whether the risk management environment is in the context of project management, production, engineering, industrial processes, financial portfolios, actuarial assessments, or worker safety and health and asset protection.

Strategies to manage threats (Uncertainty with negative consequences) typically include transferring the risk to another party, avoiding the risk, reduce the negative effect or probability of the risk, or even accepting some or all the potential consequences of a particular risk, and the opposites for opportunities (uncertain future states with benefits).

Certain aspects of many of the risk management standards have come under criticism for having no measurable improvement on risk, whether the confidence in estimates and decisions seem to increase.

2.3.2. Risk management methods

Ideal risk management follows defined methods with a prioritisation process whereby the risks with the greatest loss (or impact) and the greatest probability of occurring are handled first, and risks with lower probability of occurrence and lower loss are handled in that descending order. In practice the process of overall risk management can be difficult, and balancing resources used to mitigate between risks with high probability of occurrence but lower loss versus a risk with high loss but lower probability of occurrence can often be mishandled. The risk management methods consist of sequential steps.

2.3.3. Risk management steps

Certain logical methods are used in risk management and the following are the commonly used ones:

a. Identification and characterisation of the risk
b. Assessment of the vulnerability of critical assets to specific risks
c. Determining the existence of the risk (i.e. the expected likelihood and consequences of specific types of threats on specific assets)
d. Identifying ways to reduce the risk
e. Prioritising risk reduction measures based on a strategy

2.3.4. Risk management principles

The International Organisation for Standards (ISO) identified the following as desirable elements of principles of risk management.

a. Be an integral part of the organisation processes

b. Be part of the decision making process
c. Explicitly address uncertainty and assumptions
d. Be systematic and structured process
e. Be based on the best available information
f. Be tolerable
g. Take human factors into account
h. Be transparent and inclusive
i. Be dynamic iterative and responsive to change
j. Be capable of continual improvement and enhancement
k. Be continual or periodically re-assessed.

ISO concludes that risk management should create value- and resources expended to mitigate risk should be less that the consequence of inaction or (as in value engineering), the gain should exceed the pain.

2.3.5. Areas of risk management application

Risk management techniques are applied in different situations and in different types of organisations and, consequently different information is generated and used in managing associated risks. The following are the general areas where risk management is applied:

a. Enterprise risk management

In enterprise risk management, risk is defined as a possible event or circumstance that can have negative effect or influence on the enterprise in question. Its impact can be on the very existence, the resources (human and non-human), products and services, operations or customers of the enterprise, as well as external impacts on society, markets, or the environment. This definition resonates well with the definition from loss management perspective.

b. Financial risk management

In corporate finance risk management risk is defined as the technique for measuring, monitoring and controlling the financial or financial operation of firms, under their balance sheet. In a financial institution risk management is normally thought of as the combination of credit risk, interest rate or asset liability management risk, liquidity risk, market risk, and operational risk. There is nothing wrong with such definition except that it is too narrow for an enterprise focused application.

c. Medical device risk management

For medical associated environment, risk management is a process for identifying, evaluating and mitigating risks associated with harm to people and damage to property or the environment. Risk management is an integral part of medical device design and development, production processes and evaluation of field experience, and is applicable to all types of medical devices. The evidence of its application is required by most regulatory bodies worldwide. The management of risks for medical devices is described by the international organisation for Standardisation (ISO) in ISO 14971:2007, Medical Devices- the application of risk management to medical devices, a product safety standard. The standard provides a process framework and associated requirements for management responsibilities, risk analysis and evaluation, risk controls and lifecycle risk management. The medical device risk management is of interest to loss managers especially in handling the occupational safety and health function.

d. Risk management in natural disasters

It is important to asses risk in regard to natural disasters like floods, earthquakes, and so on. Outcomes of natural disaster risk assessment are valuable when considering future repair costs, business interruption and downtime loss, effects on environment, insurance costs, and proposed costs of reducing the risk. There are regular conferences in Davos to deal with integral risk management.

e. Risk management application in information technology

Information technology is increasingly pervasive in modern life in every sector. ICT risk is a relatively new term due to an increasing awareness that information security is simply one facet of a multitude of risks that are relevant to ICT and the real world processes it supports. A number of methodologies have been developed to deal with this kind of risk as we shall discuss in the ICT security module.

f. **Risk management application in mining, aviation, defence, petroleum and natural gas industries**.

For the offshore oil and gas industry, operational risk management is regulated by the Safety Case Regime in many countries. Hazard identification and risk assessment tools and techniques are described in the international standard ISO 17776:2000, and organisations such as the International Association of Drilling Contractors (IADC) which publishes guidelines, HSE case development which is based on the ISO standard. Further, diagrammatic representations of hazardous events are often expected by governmental regulators as part of risk management in safety case submissions; these are known as bow-tie diagrams. The technique is also used by regulators in mining, aviation, health, defence, industrial and finance.

g. Risk management application in pharmaceutical sector

The principles and tools for quality risk management are increasingly being applied to different aspects of pharmaceutical quality systems. These aspects include development, manufacturing , distribution, inspection, and submission/review processes throughout the lifecycle of drug substances, drug products, biological and biotechnological products (including the use of raw materials, solvents, excipients, packaging and labelling materials in drug products, biological and biotechnological products). Risk management is also applied to the assessment of microbiological contamination.

2.4. RISK PROFILE

Risk can take any profile which can be either positive or negative depending on how management decide to treat it.

2.4.1. Positive risk Management

Positive risk management approach is an approach that recognises the importance of the human factor and of individual differences in their propensity for risk taking. It draws from the work of a number of academics and professionals who have expressed concern about scientific rigor of the risk management debate, or who have made contribution emphasising the human dimension of risk.

Firstly, it recognises that any object or situation can be rendered hazardous by the involvement of someone with an inappropriate disposition towards risk; whether too risk taking or too risk averse.

Secondly, it recognises that risk is an inevitable and ever present element in life: from conception through to the point at the end of life when we finally lose our personal battle with life-threatening risk.

Thirdly, it recognises that everyone has a particular orientation towards risk; while at the other extreme people may by nature be timid, anxious and fearfully, others will be adventurous, impulsive and almost oblivious to danger. These differences are evident in the way we drive our cars, in our diet, in our relationships, in our careers.

Finally, positive risk management recognises that risk taking is essential to all enterprise, creativity, heroism, education, scientific advance, and in fact to any activity and all the initiatives that have contributed to our evolutionary success and civilisation. It is worth noting how many enjoyable activities involve fear and willing embrace taking risk.

a. Contribution

Positive risk management views both risk taking and risk aversion as complimentary and of equal value and importance within the appropriate context. As such, positive risk management is viewed as complimentary to the traditional management paradigm. It introduces a much needed balance to risk management practices and puts greater onus on management skills and decision making. Every organisation has roles better suited to the risk takers and roles suited to the risk averse. The task of management is to ensure that the right people are placed in each job.

b. Limitation

The complementary notion of positive risk management has been found to be a concept that does not work in practice and has its own short comings. Researchers at the University of Oxford and king's College London found major contradictions between rules based risk management required by managers, and ethics-based self-regulation favoured by staff and clients at a leading healthcare organisation. This produced tensions that led neither to complementarities nor hybrid forms, but produced instead a heated and intractable conflict which escalated, resulting in crisis and the organisational collapse. You will learn more on risk management principles and techniques in risk management 1 & 2 modules.

c. Implication to the loss manager

The time we have taken discussing risk management principles is a reflection of the importance that should be attached to the subject by the loss manager. You will notice that the foundation of all the other systems of the branches of loss management (security, management, Investigation, and occupational safety and health) is on risk management.

2.5. THE INVESTIGATION FUNCTION

2.5.1. Definition

Investigation is a science that involves careful examination and study of events or occurrences in order to discover facts and gain information which can be used to identify, locate and prove reasons or persons behind those events and occurrences. Occurrences may come in form of incidents and accidents. In organisations occurrences may take the form of theft, fraud, work stoppage, property damage, systems breakdown, employee injury or death. Whether an event or occurrence should be classified as an accident or incident depends on the impact it inflicts on the objective of the organisation the degree of its severity. Investigations may also be conducted to identify opportunities. For our purpose we examine investigation in the background of adverse occurrences. The fact that adverse events occur suggest that existing loss management systems have shown inadequacies.

2.5.2. Reasons for investigating

There may be several reasons why organisations conduct investigations. The following are the ones given as the most common;

a. Legal reasons

Investigations may be conducted to ensure organisation is operating within the law. They may also be conducted to ascertain breach of the law

b. Establish information and insights

Investigations are sometimes conducted in order to establish information and facts surrounding occurrences and events and to provide answers on;

- What, how, when and why of events or occurrences and
- Causes or people behind incidents or accidents.
- The way people or assets can be exposed to risks
- Deficiencies and inadequacies in control systems and recommend improvement.

c. Benefits

Benefits accruing from investigations include

- Recovery of loses and prevention of further occurrences
- Apprehension of perpetrators in case of crime.
- Prevent losses due to work disruptions, stoppage, lost orders and costs of criminal acts and litigations
- Improvement on employee morale in case of accident related injuries.
- Develop management skills

Investigation is not an end in itself but the first step towards preventing future adverse events. Investigations help in establishing why, existing loss management systems failed and identifying areas needing improvements or additional measures.

3. DISCIPLINES THAT SUPPORTLOSS MANAGEMENT FUNCTIONS

As mentioned above, like any other profession loss management relies on application of concepts, theories, and principles drawn from knowledge of other disciplines. Key disciplines whose knowledge loss management relies on are business accounting, psychology, law, administration, statistics, information communication technology, research methods, corporate governance and etc. The ICLM loss management curriculum has provision for students to examine these disciplines so as to appreciate their relevance and application to the loss management profession.

3.1. BUSINESS ACCOUNTING

Accounting as a practice is as old as human existence. As earlier noted in this module, examination of some of the duties of a shepherd from ancient times entailed accounting. The shepherd was required in those days to account for sheep and report to the master. The interests of the master that the shepherd needed to serve were in monitoring the sheep, recognise and register any reduction or increase in number which could have occurred either through some getting stray or being stolen or through slaughter by the owner himself or through some giving births. Industrial revolution and the development of private property and wealth ownership system, factory and industries production systems, trade between individuals, Organisations and States and the introduction of money as medium of exchange expanded the scope and nature of property and wealth beyond animals and households and the master's interests to include rights hence the accounting practice also evolved in response to new set of social, economic, and technical and legal demands. Accounting practice emerged to become a loss management support function with a distinct responsibility apart from security, risk investigation and safety and health functions. With the expanded scope of the practice of private and public property and wealth ownership and accumulation accounting is now a more dedicated and specialised professional function. The use of money as a medium of exchange also facilitated the accounting practice's technical complexity to its present scope whereby "measurement, recording, processing and communication of financial transactions relating to privately or publicly owned property and wealth activities are measured in monetary form.

Although accounting has become a dedicated standalone professional function, separate from loss management, monitoring the status and movement of an entity's property and wealth remains a common thread connecting it to the loss management function hence the need for loss managers to appreciate accounting knowledge with its concepts, theories and principles. Accounting knowledge is needed by loss managers when carrying out investigations, conducting risk assessments and analysing and designing of loss management systems and in preparing departmental budgets. Loss managers rely on accounting information to recognise authorised and unauthorised movement of assets and in noticing changes in the status of those assets and realising events and occurrences that have loss implications. Accountants and loss managers have a lot information and knowledge to share regarding protection and monitoring of business activities. Accounting and its concepts, theories and principles presents a common language through which loss managers, general management and other professionals, accountants included, can communicate.

3.1.1. Accounting concepts

Accounting is a principle based practice and profession whose basic objectives is to ensure the status of property and wealth (assets), is constantly monitored, recorded and relevant reports, reflecting any positive or negative changes prepared and presented to the owners and other interested parties. To achieve this objective accounting system relies on principles, policies and concepts which loss managers should understand. The following are the most common ones;

a. Money measurement concept

The money measurement principle recognises money as the common measure of value of assets. Any accounting system records an asset or the movement asset or its change of form using money as a unit of measurement of the value effect. In addition to the monetary value recording the system provides for other details of identifying the asset. These may include description date of acquisition, date of disposal, location and any other information that helps in ensuring that the asset is accounted for. The importance of this principle to loss manager is that a basis is provided for developing and implementing other loss management systems like security controls, risk profiling and monitoring of movements or change in value or form. Every country has its own money for use as a medium of exchange and accounting. In Zimbabwe we use multi-currency for exchange and accounting and this creates a number of challenges.

b. Double entry principle

The double entry concept proposes that any movement of an asset must have dual effect. It must have a giver or source that and it must have a beneficiary or receiver. This process does not matter whether the event in within or without the organisation. The issue here there must be created to aspect to any transaction. Transaction is an accounting term for the movement in or out of or from one location within the organisation changing or not its form in the process. The accounting system records such movement or change of form. The loss management implication of this principle is that assets are protected against loss or change of form by ensuring that records are maintained for such events. A more detailed application will be discussed in the Financial Accounting 1 and 2 and the Cost and Management accounting modules.

c. Matching concept

The matching concept assumes, and rightly so, that any increase in the value of one asset in the organisation must be accompanied by a corresponding decrease in the value of another asset in equal values. On the same rationale any movement of any asset out of or into the organisation should be accompanied by a corresponding movement of another asset in or out of the organisation respectively in equal values. It follows that any displacement of an asset from one location to another out of the organisation must have a record of one location losing and the other gaining. For any change of the asset in form and value resulting from the movement there must be a source or application of that change recorded accordingly following the double entry principle.

d. Going concern concept

The going concern concept is based on the assumption that any business is assumed to have a perpetual life unless facts to the contrary are known with certainty. All business transactions and accounting records should be maintained with a view that the business itself is a going concern. The loss management importance of this concept is that all business activities of an organisation including protection of and accounting for its assets should be carried out for its long term survival.

e. Materiality concept

The materiality concept accepts that accounting can account for everything and there is value limit below which an item may not be accounted for separately. In this case small item of insignificant values are given collective values and accounted for as miscellaneous. Examples of such items are ash trays and small stationary items. The loss management implication of this concept is that the effort of instituting separate asset protection measures for items of small values may have more cost than the items being protected and therefore the loss systems should rely on the accounting system in designing the relevant asset protection measures.

f. Historical cost concept

The basis of the historical cost concept is that the value of any an asset should be recorded using its monetary value at the date of acquisition and all other treatment events affecting its value should be treated using the original acquisition cost. This concept does not prevent the asset to be re-valued for the purpose of disposal or when the business is being valued. The importance of this concept to the loss management practitioner is that they have to be aware of the real values of assets in designing loss management system. In this case the practitioner should be aware that while an asset may be recorded using historical book value the actual market value and importance may have a very high loss impact.

It is therefore important for loss managers to appreciate accounting system and have knowledge of application of its principles in the design of asset protection systems.

3.2. PSYCHOLOGY

3.2.1. Introduction

Psychology is the science human and animal behaviour. Psychology includes the application of that science in solving human problems. The psychotherapist, i.e., a psychologist who specialises on treatment of human psychological problems treatment, talking to a worried client, the educational psychologist advising a school board on a new curriculum, the industrial psychologist trying to lessen tension between management and workers in a large industry are all practitioners of the art of psychology. The study of psychology dwells on human behaviour.

Behaviour can include feelings, attitudes, thoughts and other mental processes, internal events within a human mind, which cannot be observed directly but can be measured indirectly through how people behave, what they say and how they react to different problems and situations.

What a person says or does can be studied as objectively as a chemical reaction in a test tube. Perhaps the psychologists' measurements are less precise than the chemists' but in principle; the psychological and chemical observations are the same in that they both apply rules of science. Just as the chemist uses scientific principles to understand and predict physical events, so the psychologist uses the same principles to understand and predict behaviour.

Psychiatry, anthropology, sociology, economic political science, geography and history also study various aspects of behaviour. Together with psychology, these areas make up the discipline known as behavioural sciences. What sets psychology apart from other sciences are partly its exclusive interest in characteristics of the human mind and its role in determining human behaviour. Sociology studies human behaviour in groups and knowledge of its principles, theories and concepts are equally important to loss management studies, however it is not included as part of the syllabus at this stage.

3.2.2. Application of psychology in loss management

Organisations employ people to conduct their business. Loss arises from the interaction of assets and human beings. Loss managers are their fore interested in understanding what motivates people to behave in a manner that causes loss to organisation. This is the point where appreciation of concepts, theories and principles of psychology come in. The application of psychology solving organisation problems is given a special name industrial psychology.

a. **Industrial and organisation psychology**

The first application of psychology to problems associated with industry and organizations was the use of intelligence and aptitude test in selecting employees. Today many companies use modern versions of such tests in hiring and placement programs. Private and public organizations also apply psychology in designing and implementing management and employee training, supervision of employees, improving communication within the organisation, employee counselling and alleviating industrial life. They also apply it in understanding employee behaviour which may manifest into crime commitment or negligent at work, both of which may result in loss of production or resource to the organisation. Applied psychologists who do this work are sometimes called personnel psychologists and those who apply it in understanding criminal or disorderly behaviour are called criminal psychologists. Organisations hire the services of these specialists to solve critical problems and to have input in such activities as designing training programmes or designing and developing systems such as loss management.

Many industrial and organizational psychologists work as members of consulting firms which sell their services to companies. For one business they may set up an employee selection program; for another they may recommend changes in the training program; for another they may analyse problems of interpersonal relationships and run programmes to train company management and employees in human relations skill; and for another they may do research on consumer attitudes concerning the company's products. In some case they may advise on employee performance appraisal and general attitudes and behaviour.

Therefore, industrial and organizational psychology has a subfield called personnel psychology in which principals are applied to practical problems of work and commerce. The same applies to the criminal psychology subfield in which management is assisted in designing crime prevention systems and in carrying out investigations.

b. **Social psychology**

We all belong to many different kinds of groups, our family, and informal and our social class, to mention only a few.

The groups to which we belong influence our behaviour and shape our attitude about many things. Social psychologists are primarily engaged in studying the effects of group membership and individual behaviour. For instance, social psychologists might study how decisions of a committee member are influenced by what others on the committee say. Sometimes however, the emphasis on the way in which an individual affects the group, as in studies of leadership. Another focus of social psychology is on the way we perceive other people and how these perceptions affect our behaviour towards them. Social psychology merges with sociology. In contrast with the social psychologist whose interest is in individuals, the sociologist is more concerned with the formal characteristics and structures of groups and what large masses of people do, so the boundary between social psychology and sociology is often very thin. Social psychologists sometimes study group characteristics and behaviour. The study of management is one area which benefits a lot from social psychology principles, concepts and theories.

3.3. LAW

Another discipline of interest to the loss manager is law. Law refers to rules and regulations that govern human conduct, property and other societal relations and are enforceable by the state. It is the quality of enforceability that distinguishes law from other rules. There are, of course, other rules that govern human conduct such as moral rules, religious directives and organisational rules. These other rules may even be more effective in ensuring compliance with a particular type of conduct. They may even be more acceptable. A rule has to emanate from a recognised source and be recognised and enforceable by the state for it to be called law.

3.3.1. Law and justice

Law is law, regardless of whether it is just or unjust. Most legal rules are designed to achieve the ends of justice. As with morality, law-makers seeking to enact laws to regulate human conduct usually justify their enactment on the basis of justice. The fact that a rule is law does not necessarily mean it is just. Justice is an external standard against which law may be measured and an ‘unjust’ law is as much law as a just ‘law’. It is always presumed that states are there to ensure justice is upheld in human relations. However, private property ownership system and its distribution inequalities arising from does not reflect property law as just. It is the reason for the existence of private and public law enforcement organs are put in place to enforce the law.

3.3.2. Purpose and function of law

The traditional approach to the role and function of law is that it has two main purposes, namely, (i) to do justice, and (ii) to preserve peace and order. Legal theories are divided on the proper role of law but the above functions serve as starting point to understanding the various purposes and functions of law. The common functions of law are;

a. Law must serve the ends of justice
b. Law must preserve peace and order.
c. To enforce morality and
d. To protect the interests of the ruling class

3.3.3. Legal right

A legal right may be defined as an interest conferred by and protected by the law, entitling one person to claim that another person or persons either give him/her/it something, or do an act for him/her/it or refrain from doing an act. There are, of course other rights such as moral rights, which entitle persons to claim from others that they do or not do certain acts. A right is a legal right if-and only if- it is conferred and protected by law. A legal right entails either a positive or negative duty on another. It entails a positive duty when the claim is that the other person must perform an act. It is negative when the other person is restrained from doing an act. In general, this leads to two groups of legal rights: personal rights and real rights. A personal right is directed at a particular individual to do or to refrain from doing an act. A real right is not directed at any particular person but is binding on all persons, requiring them all to refrain from doing an act. It is called 'real' because it arises from a person's exclusive interest in or benefit from the thing. All other persons are bound to respect this interest in or benefit from the thing in question. A typical real right is ownership of property. The owner of a piece of property is entitled to prevent all other persons from interfering with his/her/enjoyment of the privileges of ownership. This last statement is the reason and function of security and risk management (protection of property rights) as part of loss management.

3.3.4. Loss Management and law

General appreciation of the concept of law is essential to practicing loss managers. As learnt from in the preceding discussion on private property relations loss manager are employed to design and implements systems that protect the assets whether privately or publicly owned. Private security managers are agents who act on behalf of private property owners by protecting their right to ownership of certain property. The relationship between owners and other persons regarding interest in and rights ownership of property is governed by the law which loss managers should be aware of. In addition, loss managers need to appreciate the implication of law in certain activities which they undertake as part of their functions. Examples are the rights of persons not to be interfered with which may affect execution of investigations function, legal powers of arrest and false detention, legal procedures regarding search and seizure, and legal requirement for formation of private security companies. These are basic legal issues whose concepts loss managers need to appreciate. The ICLM advanced diploma programme therefore includes modules on certain topic of law which students need to study and know.

3.3. INFORMATION COMMUNICATION TECHNOLOGY

Loss management has been influenced greatly and particularly technology and its pervasive force that transformed business processes and strategies. This is apparent with respect to the use of electronic and internet technologies. Not long ago, many organisations restricted the extent and type of internet provided to users; today, internet is part of the baseline configuration of just about every user desktop and is an essential tool for performing job functions. In some ways, the use of internet (and all its underlying technologies) has become the primary means by which organisations interact with the environment. While this brings tremendous opportunities, it also exposes organisations to new threats that must be identified, mitigated, and managed by good loss management systems so as to impede the organisation's quest to meet its mission. It is for this reason that ICT is included as part of the compulsory modules of the programme

3.4. OTHER DISCIPLINES

Other disciplines that are worth mentioning include quantitative methods. A quantitative method is the application of statistics in solving business problems. Activities such as forecasting, prediction estimation and probability can be done with reasonable accuracy when using statistics principles. Loss managers can easily judge the probability of a robbery occurring in a certain environment under known conditions. This can be done by collecting data from facilities which experienced previous robbery occurrences and co-relate it with how those events occurred and then use the result to assess the risk and probability of other facilities' with similar conditions being exposed. Preventive measures will then be designed by removing certain features that present risk exposures from those facilities or systems. It becomes evident from the above example that appreciation of quantitative methods as a discipline is important to any loss manager.

4. LOSS MANAGEMENT AS A PRACTICE

4.1. BACKROUND

The loss management is a principles, theories and concepts and knowledge based practice. Any person who engaged in work and follows accepted set standard procedures and has principles governing that work is said to be a practitioner in that practice. Loss managers follow standard operating procedures, observe principles and are governed by rules and regulations in designing loss management systems; therefore their work fulfils the necessary requirement to qualify as a practice.

4.2. CHALLENGES

Loss managers in modern organisations face huge challenges in their work, on a scale much higher than those experienced since the biggest recorded robberies, the Asian crisis and Indonesia tsunami disasters. These are experiences which make loss practitioners realise the need to get organisations prepare to protect their organisations against exposure to risk events. Many organisations are confronted with probability of failure to accomplish their mission in the face of increasing complexity and uncertainty brought by; and downstream negative effects of advances in knowledge and technology. Loss managers must also stay mindful of the heavy hand of the regulatory environment as legislators discover the importance of loss management, increased stakeholder's awareness of their stake in organisations' and the social responsibility of organisations to ensure public protection. These developments give impetus to increased demand and growth of loss management as a service. This part of the module discusses some of the challenges that organisations must overcome to be successful in the face of an ever-changing environment. For organisations, introduction of ways in which change in management's perception of loss management function can be driven might be the impetus for an emerging mission-driven approach to the profession.

4.3. SCIENTIFIC METHODS

Loss management has many attributes of a science which makes it possible for the practice to apply scientific methods in analysing and managing problems confronting the task. By examining challenges faced by the loss management practice and relating them to an analogy of biology wherein practitioners examine the concept of the cell. Each cell in the body system performs a specific function. To carry out this function, the cell receives input from the body environment, transmit it, and create output- a continuous cycle that lasts throughout the cell's life. The success of the cell in performing this cycle is important to the larger environment in which it exists- the organs, systems, and functions of the body. Interestingly, this cycle can also be used to describe the basic functions of the loss management system in relation to its environment. In particular, the loss management system can be described as an open system that gives and takes from the environment (the organisation) to be sustained, and succeed. We may not be missing the point by looking at today's loss management system in relation to the organisation in this context.

The loss management system exhibits a certain behaviour which is scientifically predictable if certain conditions are fulfilled. If the conditions are not fulfilled such behaviour is unlikely to manifest.

Example can be that of an alarm system which, it is known, if is set in a certain way and if triggered an intruder will run away.

Just like a cell in biology, loss management systems are connected to their environment in an ever increasing way. The bigger environment of loss management is the organisation and other functions are subsystems which it works in coordination with to ensure the organisation's survival.

END OF UNIT EXERCISE

1. *List occurrences that may lead to loss?*
2. *What is the relevance of loss management to function to business operations?*
3. *What are the sub-systems of loss management and what purposes do they serve?*
4. *What is the core function of loss management?*
5. *List and describe the core functional and supporting subjects of loss management?*
6. *The following are basic terms and concepts used in security management.*

a. *Deterrence measures*
b. *Intrusion detection and electronic surveillance*
c. *Access control*
d. *Security guards.*

Briefly describe what they mean in loss management?

7. *In developing security measures loss managers are guided by general concepts and beliefs. List and describe them.*
8. *What is the underlying objective of occupational safety and health?*
9. *What is the importance of occupational safety and health and what led to its regulation?*
10. *Define risk management from ISO 3100 perspective?*
11. *List 5 risk management steps?*
12. *List at least 8 risk management principles which should be observed in ensuring risk management methods create value?*
13. *Describe business areas where risk management principles are applied.*
14. *Describe positive and negative risks?*
15. *What is investigation and what role does it play as a loss management function?*
16. *Does investigation any value to business performance? Discuss*
17. *List any two disciplines that aid the operation of loss management?*
18. *What are the challenges faced by loss management professionals?*
19. *Loss management is not a science. Discuss?*

UNIT 3: LOSS MANAGEMENT AS A PROFESSION

1. DEFINITION

A profession is a vocation founded upon specialised educational training, the purpose of which is to supply objective counsel and service to others, for a direct and definite compensation, wholly and apart from expectation of other business gain. The term is a truncation of the term "liberal profession", which is, in turn, an Anglicisation of the French term "profession liberale". Originally borrowed by English users in the nineteenth century, it has been re-borrowed by international users from the late twentieth century, though the (upper middle) class overtones of the term do not seem to survive the retranslation: "liberal professions" are, according to the Directive on Recognition of Professional Qualifications (2005/36/EC) " those practiced on the basis of relevant professional qualifications in a personal, responsible and professionally independent capacity by providing intellectual and conceptual services in the interest of the client and the public. (Wikipedia)

'The term profession' stands for an occupation which requires some specialised study and training, and the purpose of which is generally to provide skilled services and guidance in lieu of a definite fee or remuneration. A profession is a calling and implies acquisition of a fond of knowledge, range of skills and their application in service of humanity. The service rendered by a professional may be direct as will the case of teachers and doctors or indirect as in the case of teacher trainers.

2. CHARACTERISTICS OF A PROFESSION

The following are the characteristics of a profession as defined:

2.1. It demands possession of a body of specialised knowledge and extended practical training.
2.2. It renders an essential social service.
2.3. It demands in service continuous training and development of its members.
2.4. It has a clearly defined membership of a particular group with view to safe-guarding the interests of the profession.
2.5. It involves a code of ethics.
2.6. It sets up its own professional organisation.
2.7. It assures its members a professional career.
2.8. It has a truth and loyalty.
2.9. It has transparency of work.
2.10. It gives instantaneous results.

3. CHARACTERISTICS OF A PROFESSIONAL

While the professional body has to have qualifying characteristics members of the professional are also expected to display certain characteristics that distinguish them as such. The following are the expected characters of a professional:

3.1. Specialised knowledge based on extensive training
3.2. Participates in on-going training and development
3.3. Accepts responsibility
3.4. Have a sense of ownership of their work
3.5. Maintain a collective networking spirit outside of the organisation
3.6. Maintains high standards of ethics and integrity

3.7. Maintains high standards of performance.

4. OBJECTIVE OF THE PROFESSION

Loss management as a profession owes its existence to individuals, organisations and societal rights some of which are vested in property ownership and the need to protect them. The state, through the legal system only defines and sets parameters within which rights are exercised but does not fully provide for protection of those rights against violation. Therefore loss management as a profession has broad and specific objectives.

4.1. BROAD OBJECTIVES

4.1.1. To provide protection to individuals and organisation by designing, developing, installing and managing systems that offer protection to personal and organisation rights from all forms of possible violation.

4.1.2. Build a bond of trust with individuals, organisations and society by providing reliable service through professionals who are of integrity, transparent, honest and ethical in conduct.

4.2. SPECIFIC OBJECTIVES

Some of the specific objectives of loss management profession are tied to its functional activities which are:

4.2.1. Identification of risks associated with clients' rights.
4.2.2. Assessment of threat to clients' rights.
4.2.3. Evaluation and assessment of potential impact of identifies threats.
4.2.4. Designing and implementing prevention systems
4.2.5. Incidents and accidents investigations.
4.2.6. Loss management systems audit

As discussed earlier in Unit 2 the components of loss management are the functional areas which constitute the work of a loss management professional. You may realise that with development in knowledge and technology a lot of these functions such as fraud investigation, cyber security, forensic investigation and etcetera have developed to become professions on their own right but loss management remains a common objective thus loss management can count itself as the root profession. As in medicine where you have a lot of specialists but the job of a general medical practitioner is still necessary to allow medical specialists to concentrate on critical conditions. The components of loss management profession, some of which have already been discussed, fall into the following categories:

5. ENVIRONMENT OF THE LOSS MANAGEMENT

Like any other profession, occupation or entity loss management as a profession operates within the confines of the environment it interacts with and other variables in it. Development of the profession has been a result of the profession's reaction to events occurring in the environment. Interacting with a complex operational environment is not a choice for today's professions. If a profession has to thrive and exist, it must be willing to expose itself to social, knowledge, economic and technical environment all of which generate both external and internal opportunities and risks. Environmental variables constantly change and evolve, increasing risks, exposures and threats to the profession and its clients. This problem is not limited to the profession of loss management as virtually all professions that interact with the complex and dynamically changing environment are equally affected.

This presents another challenge for managing loss because the loss management strategies must be sufficiently dynamic to keep pace with the rate of technical and non-technical change within the profession the organisations it serves. On balance, loss management must support the organisation's quest to be sensing, flexible, and adaptive to its environment and must be able to make measurable contribution to the organisation's bottom-line and long term resiliency. For the purpose of our studies the following environmental factors are examined:

5.1. ECONOMIC ENVIRONMENT

Economic environment is made up of economic variables which affect the operation of loss management systems. Factors that are generated by the economic environment include financial and market variables. Organisations are affected by the state of the economy. It is common knowledge that when a country's economic performance is down potential for organisations to incur loses increase and risks of theft also increase as many people are unemployed. Financial considerations also include budget processes. Loss management is just one of the departments in organisation which are allocated scarce resource from which to finance their operations. Economic consideration plays a critical role in prioritisation and selection of activities to be financed against the manager's objectives.

5.1.1. *Lack of directly measurable financial returns*

Dealing with complex operating environment is costly and can significantly impact an organisation's profitability. Protecting the financial condition and stability of an organisation is one of the most important issues for management. The resulting pressures from managing to the bottom line are a rich source of challenges for many activities throughout an organisation, especially for financial managers.

Expenditures receive much of the focus in organisations because they directly affect the organisation's bottom line. Responsible financial managers scrutinise all expenses and make implicit, if not direct, outflow versus income decisions. Loss management is no exception- it is often regarded as an expense based activity that can directly affect the organisation's profitability. It is no wonder then that organisations are reluctant to view loss management as a revenue generating expense that can indirectly improve an organisation's profitability. It is then the duty of loss manager to demonstrate how loss management can be a critical factor in organisation performance and profitability.

5.1.2. *Deferred financial benefits of loss management systems employment*

Results of the operation of loss management systems are not always instant and are not time bound, thus organisations may find no use making investments for the prevention of threats that are uncertain, not imminent, and whose probability of occurrence cannot be precisely determined. Loss managers are then faced with problems to convince management to increase budget allocation on loss management systems. It is in such case that quantitative to demonstrate economic of financial justification in financing loss management systems.

5.1.3. *Loss management costs as overheads*

The fact that most organisations view loss management costs as overheads is an unfortunate outgrowth of the lack of inclusion and measurement of metrics of loss management as an essential element of business profitability and growth drivers. Organisations do not routinely require return on investment calculations on loss management investments, nor do they attempt to measure or gather metrics of the performance of loss management investments.

5.1.4. *General consideration*

Without a set of established and accepted metrics for measuring direct loss management income and return on investment, there is little an organisation can do on its own in this area other than perform measurement in the context of incident or accident avoidance or impact of a realised risk (i.e., in which case, the impact costs less than the control, and therefore provides a return). Organisations are faced with yet another problem: Which loss management expenses should be treated as investments should be measured? Is it expenditure on technical controls, monitoring equipment and software, loss management staff or the loss manager? The measurement dilemma is pervasive across the entire loss management community, and lacking guidance, organisations have become comfortable characterising loss management activities as expenses on their balance sheets. Loss managers have a duty to develop financial measurement and metrics for loss management systems costs and advocate for the inclusion of the same in the mainstream of total business investment and return structures.

5.2. SOCIAL ENVIRONMENT

Developments in social environment affect the profession of loss management in a number of ways. Organisations are work places where people from different backgrounds converge for common purpose. It is common that people have different interests some of which may be at tangent with those of the organisation. People may form social groups within organisations which can be a source of peer influence and pressure affecting organisation performance. Crime is a social behavioural phenomenon practiced by people acting as individuals or in groups. Criminals are also found within employees of organisations. Culture, values and traditions are behavioural determinants and characteristics of mankind as customers, employees, directors and managers and influence how they relate with the organisation.

Loss managers should be aware of the social environment in which they operate and be able to identify possible threats generated by it and be able to put in place appropriate protection measures. A loss manager operating in South Africa, Nigeria or Zimbabwe will have to understand the cultures, values and norms in these countries if he has to design, develop and implement effective loss management systems be effective.

5.3. TECHNICAL ENVIRONMENT

Loss management systems partly depend on electronic and mechanical equipment installed as preventive measures against security threats to the organisation. Technology has changed the landscape of loss management to the extent that most systems are now technological based. Technology is very dynamic and fast changing making loss management systems and equipment being rendered ineffective by counter measures and always needing replacement.

The overdependence on electronic and mechanical equipment makes technology an indispensable characteristic feature of loss management systems. The view of loss management as a financial impediment for the organisation is often a consequence of the tendency by organisations to consider loss management as a technology-driven activity. Framing loss management in technical terms is a logical outgrowth of the expansive (and ever-increasing) number of technical products and services that are available to “help” organisations to frame loss management problems in technical terms, often ignoring the management and operational weaknesses that are root causes or contributing factors. The bias toward technical solutions or the framing of loss management issues in technical terms has done a great disservice to organisations in their pursuit of adequate loss management solutions.

In much the same way that investments in technology in information technology are now commonly capitalised, the challenge for loss management is to influence organisations in the same direction. Loss management is a business or organisational problem that must be framed and solved within the context of the organisation's strategic drivers. However, many organisations adopt a technology-centric approach to loss management by default.

5.4. LEGAL ENVIRONMENT

Just as the organisation must expose itself to its environment to operate, so must it be willing to accept the limitations imposed on it by the legislative environment for it to survive. Regulations are imposed by governments to regulate the operations of organisations in certain areas that are considered to be of public interest. In some cases the regulations may not be supportive to the strategies of certain organisations. Regulations may also reflect the need for organisation in a particular industry to look critically at their protection needs and to implement corresponding loss management strategies and controls. While this has had a positive effect in elevating the need to focus on loss management, for some organisations, it can also be deleterious in that regulations can become an organisation's loss management strategy by default. Regulations can draw the organisation's focus away from its strategic drivers and on to the compliance requirements of the moment. Complying with regulations is certainly an important aspect in an organisation, but it should not substitute for a mission-focused, strategic loss management process. Examples that come to light are when an organisation over-invests too much in safety and health so as to comply with the law.

5.5. POLITICAL ENVIRONMENT

Political environment produce a type risk, often referred to as political risk and part of country risk, faced by investors, corporations, and governments. It is a risk that can be understood and managed with reasoned foresight and investment.

Broadly, political risk refers to the complications businesses and governments may face as a result of what are commonly referred to as political decisions—or "any political change that alters the expected outcome and value of a given economic action by changing the probability of achieving business objectives". Political risk faced by firms can be defined as "the risk of a strategic, financial, or personnel loss by a firm because of such nonmarket factors as macroeconomic and social policies (fiscal, monetary, trade, investment, industrial, income, labour, and developmental), or events related to political instability (terrorism, riots, coups, civil war, and insurrection)." Portfolio investors may face similar financial losses. Moreover, governments may face complications in their ability to execute diplomatic, military or other initiatives as a result of political risk.

A low level of political risk in a given country does not necessarily correspond to a high degree of political freedom. Indeed, some of the more stable states are also the most authoritarian. Long-term assessments of political risk must account for the danger that a politically oppressive environment is only stable as long as top-down control is maintained and citizens prevented from a free exchange of ideas and goods with the outside world.

Understanding risk partly as probability and partly as impact provides insight into political risk. For a business, the implication for political risk is that there is a measure of likelihood that political events may complicate its pursuit of earnings through direct impacts (such as taxes or fees) or indirect impacts (such as opportunity cost forgone). As a result, political risk is similar to an expected value such that the likelihood of a political event occurring may reduce the desirability of that investment by reducing its anticipated returns.

There are both macro- and micro-level political risks. Macro-level political risks have similar impacts across all foreign actors in a given location. While these are included in country risk analysis, it would be incorrect to equate macro-level political risk analysis with country risk as country risk only looks at national-level risks and also includes financial and economic risks. Micro-level risks focus on sector, firm, or project specific risk.

5.5.1. ***Macro-level political risk***

Macro-level political risk looks at non-project specific risks. Macro political risks affect all economic sectors in a given country. A common misconception is that macro-level political risk only looks at country-level political risk; however, the coupling of local, national, and regional political events often means that events at the local level may have follow-on effects for stakeholders on a macro-level. Other types of risks include government currency actions, regulatory changes, sovereign credit defaults, endemic corruption, war declarations and government composition changes. These events pose both portfolio investment and foreign direct investment risks that can change the overall suitability of a destination for investment. Moreover, these events pose risks that can alter the way a foreign government must conduct its affairs as well. Macro political risks also affect organizations operating in the affected nations and the result of macro level political risks are like confiscation, causing the seizure of the businesses' property.

Research has shown that macro-level indicators can be quantified and modelled like other types of risk. For example, Eurasia Group produces a political risk index which incorporates four distinct categories of sub-risk into a calculation of macro-level political stability. This Global Political Risk Index can be found in publications like The Economist. Other companies which offer publications on macro-level political risk focused on frontier markets such as Africa include Economist Intelligence Unit, DaMina Advisors and the PRS Group Inc.

5.5.2. ***Micro-level political risk***

Micro-level political risks are project-specific risks. In addition to the macro political risks, companies have to pay attention to the industry and relative contribution of their firms to the local economy. An examination of these types of political risks might look at how the local political climate in a given region may affect a business endeavour. Micro-political risks are more in the favour of local businesses rather than international organizations operating in the nation. This type of risk process includes the project-specific government review Committee on Foreign Investment in the United States (CFIUS), the selection of dangerous local partners with political power, and expropriation/nationalization of projects and assets.

To extend the CFIUS example above, imagine a Chinese company wished to purchase a U.S. weapons component producer. A micro-level political risk report might include a full analysis of the CFIUS regulatory climate as it directly relates to project components and structuring, as well as analysis of congressional climate and public opinion in the United States toward such a deal. This type of analysis can prove crucial in the decision-making process of a company assessing whether to pursue such a deal. For instance, Dubai Ports World suffered significant public relations damage from its attempt to purchase the U.S. port operations of P&O, which might have been avoided with more clear understanding of the US climate at the time.

Political risk is also relevant for government project decision-making, whereby government initiatives (be they diplomatic or military or other) may be complicated as a result of political risk. Whereas political risk for business may involve understanding the host government and how its actions and attitudes can affect a business initiative, government political risk analysis requires a keen understanding of politics and policy that includes both the client government as well as the host government of the activity.

5.6. ENVIRONMENTAL SECURITY

Environmental security examines threats posed by environmental events and trends to individuals, communities or nations. It may focus on the impact of human conflict and international relations on the environment, or on how environmental problems cross state borders. The Millennium Project assessed definitions of environmental security and created a synthesis definition:

"Environmental security is environmental viability for life support, with three sub-elements"

5.6.1. preventing or repairing military damage to the environment,
5.6.2. preventing or responding to environmentally caused conflicts, and
5.6.3. Protecting the environment due to its inherent moral value.

It considers the abilities of individuals, communities or nations to cope with environmental risks, changes or conflicts, or limited natural resources. For example, climate change can be viewed as a threat to environmental security. Human activity impacts CO2 emissions, impacting regional and global climatic and environmental changes and thus changes in agricultural output. This can lead to food shortages which will then cause political debate, ethnic tension, and civil unrest.

Environmental security is an important concept in two fields: international relations and international development.

Within international development, projects may aim to improve aspects of environmental security such as food security or water security. Targets for MDG 7 about environmental sustainability show international priorities for environmental security. Target 7B is about the security of fisheries on which many people depend for food. Fisheries are an example of a resource that cannot be contained within state borders. A conflict before the International Court of Justice between Chile and Peru about maritime borders and their associated fisheries is a case study for environmental security. Environmental security is basically considered in line with threats against natural habitats and environment. Example in Zimbabwe is the protection of wetlands which has been a subject for debate where some people want to build on reserved wetlands.

6. ETHICS, VALUES AND MORALS

Having defined a profession and its characteristics this part of the module looks at the reflection of ethics, values and morals on professions. Ethics, values and morals are key concepts governing the operation of any profession and are the foundation upon which the conduct expected of members of a profession is built.

6.1. ETHICS

You can have professional ethics, but you seldom hear about professional morals. Ethics tend to be codified into a formal system or set of rules which are explicitly adopted by a group of people; a profession. Thus you have medical ethics. Ethics are thus internally defined and adopted, whilst morals tend to be externally imposed on other people.

If you accuse someone of being unethical, it is equivalent of calling them unprofessional and it may well be taken as a significant insult and perceived more personally than if you called them immoral (which of course they may also not like).

Ethics are designed to educate members, to help them to behave and interact and communicate properly with clients and other members etc. Professional ethics are meant for members to follow the measurement standards of morality, adopted in order to guide professional behaviour.

These are the standards professional members navigate towards. Aligning themselves to these values, members should cultivate appropriate personality qualities. There are ethics for each profession and examples are: medical ethics, educational ethics, lawyer ethics, social worker ethics, engineer ethics, etc. Each body of professional ethics is determined by the peculiarity of its activity and has its own specific requirements in the field of morality. For example, the ethics of a research scientist involves first such moral values as academic integrity, personal integrity, and of course patriotism.

Judicial Ethics requires honesty, justice, sincerity, humanity (even to the accused in his guilt), and fidelity to law. For any organization the way employees follow organization's guidelines is very important because this can directly affect the common success as well as the corporate values and ethics

Morals, professional **Values** and **Ethics** make members gain respect. It all depends on the way members communicate with each other and with society at large, the attitude they take over their job and how well they meet their responsibilities. In other words, for a profession, professional values and ethics guidelines show how it expects its members to behave while executing their assignments, interacting with the public and the moral standards they should meet.

6.2. MORALS

Morals have a greater social element to values and tend to have a very broad acceptance. Morals are far more about good and bad than values. We thus judge others more strongly on morals than values. A person can be described as immoral, yet there is no word for them not following values.

6.3. VALUES

Values are the rules by which we make decisions about right and wrong, should and shouldn't, good and bad. They also tell us which are more or less important, which is useful when we have to trade off meeting one value over another.

Professional Values are a set of moral principles and standards of conduct, supporting the moral prestige of professional groups in society. The tasks of professional ethics are to identify moral standards and assessments, judgments and concepts, characterising people as representatives of a particular profession.

7. CODE OF CONDUCT AND REGULATIONS

7.1. CODE OF CONDUCT

A code of conduct is a set of rules which a professional board sets to guide the conduct of its members and how they carry out their work. It addition to morals, values and ethical requirements the code of conduct consists of the do and don’ts for members and on how they should relate with their peers, clients and the public. The professional code of conduct alone is a guide on expected conduct and is not sufficient to regulate the proper function of a professional body. Regulations are therefore, required to sanction those members who fail to practice and live up to expectation of the profession. Now that we discussed the concepts used in the construction of a professional code of conduct we need keep at the back of our minds that the loss management professional code of conduct and the regulations thereof constitute the professional loss managers’ bible. Details of the loss management professional code of conduct and the accompanying regulations will be discussed separately later in the programme.

7.2. CONSTITUTION AND REGULATIONS

Regulations form the instrument which provides guidelines on the internal administration of the profession. It is the instrument which provides mechanism to bring members together and guiding them on how to comply with the code of conduct, morals, values and ethics. Regulations also provides for penalties for non-compliance. Such issues as election and appointment of members who should administer the administrative and policy activities of the professional body are covered in the constitution of a profession. This also includes appointment of people, as employees, engaged to perform the full time paid work for the professional body. Regulations are at times confused for the constitution of a profession. It most cases the two are bound together as one book but they are different. Inside the book will be sections separately dealing with each of them. A constitution is basically the founding document which gives life to the professional body. It spells out the reasons and purpose for the profession and its legal standing. A constitution is crafted in line with provisions of the law and it has to be registered and have approval by the responsible authority of state.

END OF UNIT EXERCISE

1. *What is a profession?*
2. *What are the essential characteristics of a profession?*
3. *What are the objectives of loss management as a profession?*
4. *Like any other profession, loss management is affected by environmental variables. Evaluate how environment variables affect loss management as profession?*
5. *For any discipline or practice to be considered as a profession it has to have values, ethics, and morals. Discuss?*
6. *What other conditions should a practice meet for it to be regarded as a profession?*

UNIT 4: LOSS MANAGEMENT: ORGANISATION MANAGEMENT AND SYSTEMS DESIGN

1. BACKGROUND

Organisations need efficient and effective ways in which to organise activities in order to fulfil their profit and growth objectives. As a result, they seek to implement the most effective and efficient ways to improve business operations, keep ahead of competition and grow revenue. To stay competitive and consolidate their position on the market companies must safeguard and manage their assets, operations facilities, and information so as to ensure adequate and uninterrupted support is provided to their systems and processes at all times. For this reason, management takes into consideration the need to promote efficiency and effectiveness and prevent any threats and risk exposures that can affect the organisation's operational capacity. Loss managers help organisations to identify and manage any risk exposures and threats and to minimise their impact on profit generation capacity. To achieve this goal, a number management approaches are employed. We discuss some of the documented approaches as follows:

2. ORGANISATION AND MANAGEMENT

Management is the framework of policies, processes, and procedures used to ensure organisations can fulfil all tasks required to achieve its objectives. There are many management systems approaches used by organisations to enhance efficiency and effectiveness.

2.1. HUMAN BEHAVIOUR APPROACH

Human behavioural approach relies on the existing and newly developed social sciences theories and methods. It uses the study of human behaviour ranging from personality dynamics of individuals to cultural relations. The basis of the behavioural approach is understanding and ability of management to apply Social Psychology theories on management systems design.

2.1.1. Features

As loss is a result of human beings working to defeat organisation objectives, loss managers should understand human behaviour in order to formulate effective loss management systems and strategies. Emphasis is put on increasing the effectiveness of loss management systems through motivation and good human relations. It also considers the behaviour of internal and external stakeholders and non-stakeholders which may translate to threats to the organisation's assets and operations. Motivation, leadership, communication, involvement and group dynamics are the central core of this approach.

This approach suggests how knowledge of human behaviour can be used in making people more involved in the development and implementation the organization's loss management strategy. An individual's behaviour is not determined by organization factors alone but also by his attitude, pressure, conflicts of cultural environment, perceptions etc. Hence these factors must be taken into account.

2.1.2. Limitations of the approach

Loss managers can be better placed by understanding human behaviour but basing the effectiveness of loss management system on human behaviour is untenable.

2.2. SOCIAL SYSTEMS APPROACH

The real pioneer of this approach is Wilfred Pareto, a sociologist and later Chester Barnard a medical practitioner.

2.2.1. Theme

Organization is essentially a cultural system composed of people who work in cooperation. For achieving organization goals, a cooperative system of management can be developed only by understanding the behaviour of people as individuals and in groups.

2.2.1. Features

An Organization is a social system, a system of cultural relationships. Relationships exist among the external as well as internal environment of the organization. Cooperation among group members is necessary for the achievement of organization objectives. For its effective, loss management efforts should be made in establishing harmony between goals of the organization and the various groups therein.

2.2.2. Application

Application of the social system approach has real significance to loss management in the sense that managers operate in social systems and the organization is likely to succeed if the demands of the society in which it operates and behaviour of individual employees are fully recognized.

2.2.3. Limitations

It spreads the boundary and application of loss management systems beyond the true concept of organization loss management. For example, there may be many groups which may not be truly called organizations and hence the context of loss management may differ. This approach is broader than what loss management may require and in practice it tends to overlook many concepts, principles and techniques that are important to the loss manager. It overlooks exception of dealing with people regarded as social deviance as in the case of criminals

2.3. SOCIO TECHNICAL SYSTEMS APPROACH

The approach owes its contribution to Saddam khan and Bamforth of Tavistock Institute of Human Relations, England and Emery

2.3.1. Features

The systems approach of management views an organization as a combination of 2 systems – a social system and a technical system. The argument of this approach is that the real pattern of behaviour in the organization is determined by the interaction of the two. Social systems of an organization are governed by social laws as well as psychological forces. Technical systems consist of technological forces operating in the organization like physical setting of work, rules, procedures etc.

Due to interaction of social and technical systems, technical aspects of the work are modified by social aspects. Thus organization of an organization situation within the framework of socio-technical system involves scrutinizing specific technology used, the way in which they are organized, the formal structuring of interpersonal interactions and the informal patterns emerging in the work group.

2.3.2. Application

Loss managers should give adequate consideration to technology as well as informal interactions of people. Loss management systems are operated by people and make use of technology.

2.3.3. Limitation

While the system may appear effective on design it may be rendered ineffective if people think its employment will have a negative effect on their informal way of life.

2.4. DECISION THEORY APPROACH

The decision theory approach, as the title reflects, is based on decision making as a process that determines the direction of the organisation and its systems. The essential elements of the decision theory approach are:

2.4.1. Theme

Loss management is essentially decision-making process and all employees of an organization are essentially decision-makers and problems solvers. Organizations can be treated as a combination of various decision centres. The level and importance of organization members are determined on the basis of importance of decisions, which they make.

2.4.2. Application

It demonstrates how loss managers can discharge their functions effectively and for this approach it provides various tools and allows for the participation of all key members of the organisation in the development of loss management strategy.

2.4.3. Features

Quality of decisions affects the organization effectiveness. All factors affecting decision-making have implication on loss management.

2.4.4. Limitations

This approach does not take the total view of management. Decision-making is vital in every school of management. This vital aspect cannot be denied but management is more than mere decision-making. Besides processes and techniques in decision making, there are other factors affecting decisions are information systems, social and psychological aspects of decision-makers the nature of the problem. It does not take the external sources of threats to organisations assets and processes.

Decision theorists have grappled with decisions pertaining to diagnosis and the resulting prescriptions for improving communication, incentives, reactions of the individuals to group and analysis of human values and stated objectives.

2.5. MANAGEMENT SCIENCE APPROACH

It is known as Mathematical or Quantitative Approach.

2.5.1. Features

Management is regarded as the problem-solving mechanism which can be enhanced with the help of mathematical tools and techniques. Management problems can be described in terms of mathematical symbols and data. Thus every managerial activity can be quantified. This approach covers decision-making, systems analysis and some aspects of human behaviour. Operations research, simulation, models etc. are the basic methodologies recommended to solve managerial problems.

2.5.2. Application

It has contributed significantly in developing orderly thinking in loss management which has provided exactness when applied to risk management and investigations. Various mathematical tools like sampling, distribution analysis, forecasting, probability, games theory, time series analysis, simulation, waiting line theory etc. have provided more exactness in solving loss management problems. This approach is a fast developing area in analysing and understanding loss management.

2.5.3. Limitations

It is very difficult to call it a separate school of management because it does not provide the answer to total loss management problems.

Some loss management activities and problems are not always really capable of being quantified because of involvement of human beings who are also governed by many irrational factors.

More expertise and technical skills are required to formulate mathematical models

2.6. SYSTEMS APPROACH

A System is defined as "An organized or complex whole; an assemblage or combination of things or parts forming a complex unitary functioning whole".

2.6.1. Features

A system is basically a combination of parts, subsystems. Each part may have various sub-parts.

An organization is a system of mutually dependent parts, each of which may include many subsystems. In this regard loss management department is a system of its own and a subsystem of the organisation. Loss management system comprises of risk management, occupational safety and health and security as sub-systems all of which work together as one system of loss management. From the organisation perspective loss management is a sub-system which works together as a whole unit with other sub-systems like Audit, Human Resources, Finance, Production, marketing and etc.

2.6.2. Limitations

It is considered as an Abstract Approach and lacks of Universality.

2.7. CONTINGENCY OR SITUATIONAL APPROACH (BASED ON CONDITIONS)

Contingent or situational approach is the most recent development in the field of management. This approach attempts to integrate all the management approaches in dealing with organisation problems. It is more relevant in handling emergences.

2.7.1. Features

Management action is contingent on certain variables outside the system or subsystem as the case may be. Organizational action should be based on the behaviour of internal and external variables which are outside its normal operating system. It demands that the organization should always be integrated with the environment.

Because of the specificity of organization – environment relationship, no single action can be predictable and be universal applicable. Each situation has its own solution

2.7.2. Application

It is more applicable to emergency situations such as disaster planning and management

2.7.3. Limitations

a. Because it is new development it has inadequate literature.
b. It is complex working with situation that are imaginary
c. It has difficult empirical testing capability
d. It offers reactive consideration and no proactive solutions.

2.8. OPERATIONAL APPROACHES

It is also known as Management Process Approach

2.8.1. Features

Management is the study of what managers do. It emphasises on management functions and various concepts and principles involved in performing these functions. Management functions are universal irrespective of the type of organizational or level of management in an organization, though there may be differences on emphasis on a particular function in a particular organization or at particular level.

The conceptual framework of management can be constructed on the basis of analysis of management processes and identification of management principles.

The central core of managing revolves around planning, organizing, staffing, directing and controlling. This central core of management is unique and is not found in other activities.

2.8.2. Limitations

The basic tenet of operational management that various managerial functions are universal is not universally accepted. Management functions differ from organisation to organisation. Various terms used in this approach are not commonly shared. For example, People substitute leading for directing.

It claims universality of management principles while management differs from organization to organization and from level to level. Operational Approach emphasises static conditions whereas the organizations have to function in dynamic conditions

3. ORGANISATION SYSTEMS & DESIGNS

3.1. DEFINITION

Organisation design is process for improving the probability that an organization successfully achieves its objectives.

More specifically, organization design is a formal, guided process of designing and developing a structure that integrates people, information and technology of an organization into a coordinated functional system. It is used to match the form of the organization as closely as possible to the purpose(s) the organization seeks to achieve. Through the design process, organizations act to improve the probability that the collective efforts of members, including those managing the loss management sub-system, will be successful.

Typically, design is mostly approached as an internal change under the guidance of an external facilitator. Managers and members work together to define the needs of the organization then create systems to meet those needs most effectively. The facilitator assures that a systematic process is followed and encourages creative thinking. The loss manager, being one of the members of management, should take an active role in the design or redesign of the organisation, and to ensure all loss management related factors are taken into consideration. The nature of organisations designs depend on objectives and nature of business.

3.1.1. Hierarchical design

a. Approach

Organizations designers have been heavily influenced by the command and control structure of military organizations and at the turn of the century by the influence of Scientific Management. Most organizations today are designed as a bureaucracy where authority and responsibility are arranged in a hierarchy. Within the hierarchy rules, policies, and procedures are uniformly and impersonally applied to exert control over the behaviour of members. Activity is organised within sub-units (bureaus, or departments) in which people perform specialised functions such as manufacturing, sales, or accounting. People who perform similar tasks are clustered together.

b. Assumption

The same basic organisational form is assumed to be appropriate for any organization, be it a government, school, business, church, or fraternity. It is familiar, predictable, and rational. It is what comes immediately to mind when we discover that ...we really have to get organised!

c. Limitation

As familiar and rational as the functional hierarchy may be, there are distinct disadvantages to blindly applying the same form of organisation to all purposeful groups. To understand the problem;

- Begin by observing that different groups wish to achieve different outcomes.
- Second, observe that different groups have different members, and that each group possesses a different culture.

These differences in desired outcomes, and in people, should alert us to the danger of assuming there is any single best way of organising. To be complete, however, also observe that different groups will likely choose different methods through which they will achieve their purpose. Service groups will choose different methods than manufacturing groups, and both will choose different methods than groups whose purpose is primarily social. One structure cannot possibly fit all.

3.1.2. Organising on purpose

The purpose for which a group exists should be the foundation for everything its members do — including the choice of an appropriate way to organise. The idea is to create a way of organising that best suits the purpose to be accomplished, regardless of the way in which other, dissimilar groups are organized.

Only when there are close similarities in desired outcomes, culture, and methods should the basic form of one organisation be applied to another, and even then, only with careful fine tuning. The danger is that the patterns of activity that help one group to be successful may be dysfunctional for another group, and actually inhibit group effectiveness. To optimise effectiveness, the form of organisation must be matched to the purpose it seeks to achieve. Loss managers should learn, the fact behind the concept is that the loss management function is unique and not in any way similar to other sub-systems of the organisation. For that reason loss managers are expected to take a leading role in determining the design and form the loss management department structure takes and to ensure that it is capable of delivering desired primary objective and making its contribution to the achievement of the overall objectives of the organisation.

3.2. THE DESIGN PROCESS

Organisation design begins with the creation of a strategy — a set of decision guidelines by which members will choose appropriate actions. The strategy is derived from clear, concise statements of purpose, and vision, and from the organization's basic philosophy. Strategy unifies the intent of the organization and focuses members toward actions designed to accomplish desired outcomes. The strategy encourages actions that support the purpose and discourages those that do not.

Creating a strategy is planning, not organising. The process of organise must connect people with each other and establish inter-department roles in meaningful and purposeful ways. Further, it must connect people with the information and technology necessary for them to be successful. Organisation structure defines the formal relationships among people and specifies of both their roles and their responsibilities. Administrative systems govern the organization through guidelines, procedures and policies. Information and technology define the process (es) through which members achieve outcomes. All departments of the organisation and people within them must support each other and together they must support the organisation's purpose.

3.3. EXERCISING DESIGN CHOICE

Organisations are an invention of man. They are contrived social systems through which groups seek to exert influence or achieve a stated purpose. People choose to organise when they recognise that by acting alone they are limited in their ability to achieve. They sense that by acting in concert they may overcome their individual limitations.

When people organise they seek to direct, or pattern, their activities toward a common outcome. How this pattern is designed and implemented greatly influences effectiveness. Patterns of activity that are complementary and interdependent are more likely to result in the achievement of intended outcomes. In contrast, activity patterns that are unrelated and independent of each other are more likely to produce unpredictable and often unintended results.

The process of organisation design should match people, information, and technology to the purpose, vision, and strategy of the organisation. Structure is designed to enhance information communication and work flow among people and organisation work processes. Systems are designed to encourage individual responsibility and decision making and group coordination. Technology is used to enhance human capabilities to accomplish meaningful work. The end product is an integrated system of people and resources, tailored to the specific direction of the organisation. *(Roy H. Autry, MBA, Ph.D.)*

4. ORGANISATION DESIGNS AND STRUCTURES

4.1. INTRODUCTION

Organisation structures deal with the present while design is about the future.

Everyone and every department need to know what they are doing. Organisational structure and design help companies to understand themselves and ideally to work together to accomplish all the tasks and achieve all the goals of an organisation. Often when a company is small and starting up, it neglects both of these concepts while it figures out its identity, tasks, functions and all the things organisation structures and designs help put in order. While structures and designs are two parts of the same whole, they have some differences that managers must understand in order to competently create appropriate departments' best shape their businesses. ***(Eric Feigenbaum, Demand Media)***

4.2. DEFINITION

Organisational structure is the skeleton of an organization. It is an expression of who is performing the various functions and tasks of the organisation and how these people relate to one another. Organisational structure encompasses a list of the various job positions, titles and duties of a business, and the reporting structure or chain of command among them. Structure is a diagrammatic statement of the current state of affairs, not the ideals, intentions or betterment of the organisations. Organisational structure does not include "should."

4.3. ORGANISATION STRUCTURE

Design in an organisation is much the same as for buildings, clothing and vehicles -- it's a plan. When an organisation's leaders develop plans for how their organisation should function or would perform better, they undertake the business of organisational design. Good design takes inventory of all the tasks, functions and goals of a business, and then develops groupings and orderings of job the positions, departments and individuals to best and most efficiently achieve those ends. Usually, designs are expressed through an organisational chart, which helps players throughout the organisation to understand functions and power relationships.

4.3.1. Design and structure alignment

Typically, how an organisation is organised and the design managers create differs. Organisations rarely come up with a solid, lasting and forever viable organisational structure right off the bat. The goal of organisational design is to eventually align the present reality of organisational structure with organisation's future. That means work on the part of business leadership to implement changes, including hiring and laying off of staff to realise an appropriate organisational design.

4.3.2. Redesign

Businesses are living, breathing entities. Even when an organizational design becomes a reality, the resulting organisational structure is not likely a permanent solution to a company's needs. Once designed organisation structures may not always prove fit for the purpose, as they may immediately fail to function effectively. Also, eventually, growth, decline, changes in how a company does business or in its environment make organisational structures obsolete. As a result, organisations undertake redesigns, sometimes called restructuring.

4.4. ORGANIZATIONAL CHARTS

Because of design and redesign, organisations keep organisation charts which they usually update and make sure they are distributed to all employees. Some organisations keep the most updated copies on intranets or bulletin boards. Sometimes charts change without major redesign. Simply adding a position, promoting someone or shuffling duties and responsibilities change an organisational structure and thereby alter the organisational chart. Charts help everyone understand what's going on and how things work at any given time.

5. TYPES OF ORGANISATION STRUCTURES

Organisation structures do not come just of the calf. There a number of approaches which have been found to work in designing of organisations. Managers must make choices about how to group people together to perform their work. The five common approaches to structuring organisations are functional, divisional, matrix, team, and networking and these determine departmental groupings (grouping of positions into departments). The five approaches determine basic organisational relationships, which are then adapted to an organisation's needs.

All five approaches combine varying elements of mechanistic and organic structures. For example, the organisational design trend today incorporates a minimum of bureaucratic features and displays more features of the organic design with a decentralized authority structure, fewer rules and procedures, and so on.

5.1. FUNCTIONAL STRUCTURE

The functional structure classifies positions into work units based on similar activities, skills, expertise, and resources (see Figure 1 for a functional organisation chart). Production, marketing, finance, and human resources are common groupings within a functional structure.

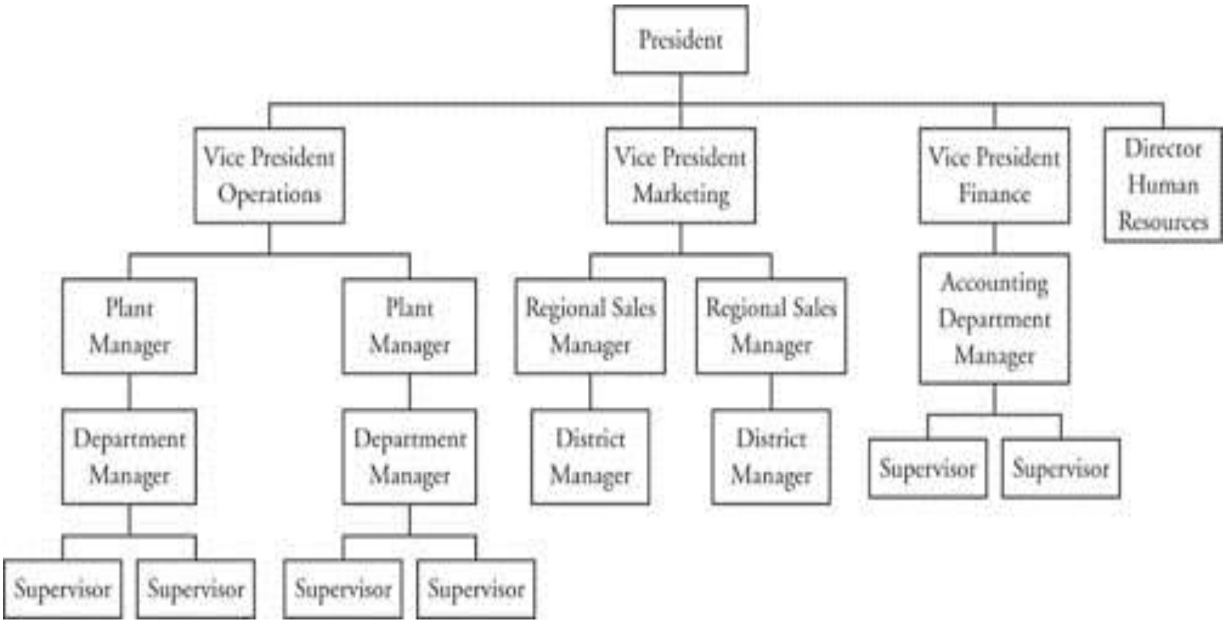

Figure 1 The functional structure.

Probably the simplest approach, the functional structure features well-defined channels of communication and authority/responsibility relationships. Not only can this structure improve productivity by minimising duplication of personnel and equipment, but it also makes employees comfortable and simplifies training as well.

5.1.1. Limitation

But the functional structure has many downsides that may make it inappropriate for some organisations. Here are a few examples:

a. The functional structure can result in narrowed perspectives because of the separateness of different departmental work groups. Managers may have a hard time relating to other departments, for example, Finance may have difficulties relating with marketing which is often in an entirely different group. As a result, anticipating or reacting to changing consumer needs may be difficult. In addition, reduced cooperation and communication may occur.
b. Decisions and communication are slow to take place because of the many layers of hierarchy. Authority is more centralised.
c. The functional structure gives managers experience in only one field, their own. Managers do not have the opportunity to see how all the firm's departments work together and understand their interrelationships and interdependence. In the long run, this specialisation may result in executives with narrow backgrounds and little training handling top management duties. In such situations such managers may influence the organisation to make investments biased on one function to the detriment of the organisation's overall objectives.

5.2. DIVISIONAL STRUCTURE

Because managers in large companies may have difficulty keeping track of all their company's products and activities, specialized departments may develop. These departments are divided according to their organizational outputs. Examples include departments created to distinguish among production, customer service, and geographical categories. This grouping of departments is called divisional structure (***see Figure 2Wikipedia internet down load***). These departments allow managers to better focus their resources and results. Divisional structure also makes performance easier to monitor. As a result, this structure is flexible and responsive to change.

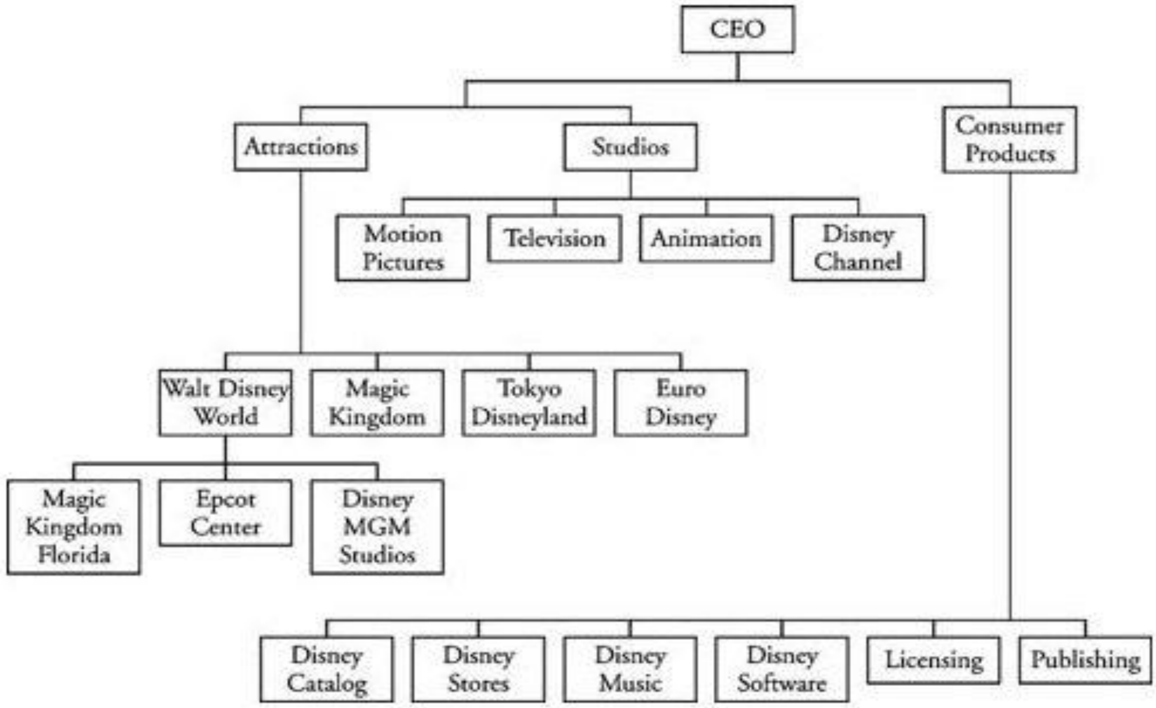

Figure 2 The divisional structure—Disney in the early 1990s.

5.2.1. Limitation

The divisional structure does have its drawbacks. Because managers are so specialised, they may waste time duplicating each other's activities and resources. In addition, competition among divisions may develop due to limited resources.

5.3. MATRIX STRUCTURE

The matrix structure combines functional specialisation with the focus of divisional structure (see Figure 3). The structure uses permanent cross-functional teams to integrate functional expertise with a divisional focus.

Employees in a matrix structure belong to at least two formal groups at the same time—a functional group and a product, program, or project team. They also report to two bosses—one within the functional group and the other within the team. This structure not only increases employee motivation, but it also allows technical and general management training across functional areas as well.

5.3.1. Advantages

Potential advantages include:

a. Better cooperation and problem solving.
b. Increased flexibility.
c. Better customer service.
d. Better performance accountability.
e. Improved strategic management.

5.3.2. Disadvantages

Predictably, the matrix structure also has potential disadvantages. Here are a few of this structure's drawbacks:

a. The two-boss system is susceptible to power struggles, as functional supervisors and team leaders vie with one another to exercise authority. It defeats the unit of command theory.
b. Members of the matrix may suffer task confusion when taking orders from more than one boss.
d. Teams may develop strong team loyalties that cause a loss of focus on larger organisation goals.
e. Adding the team leaders, a crucial component, to a matrix structure can result in increased costs.

5.4. TEAM STRUCTURE

Team structure organises separate functions into a group based on one overall objective (see Figure 4). These cross-functional teams are composed of members from different departments who work together as needed to solve problems and explore opportunities. The intent is to break down functional barriers among departments and create a more effective relationship for solving on-going problems.

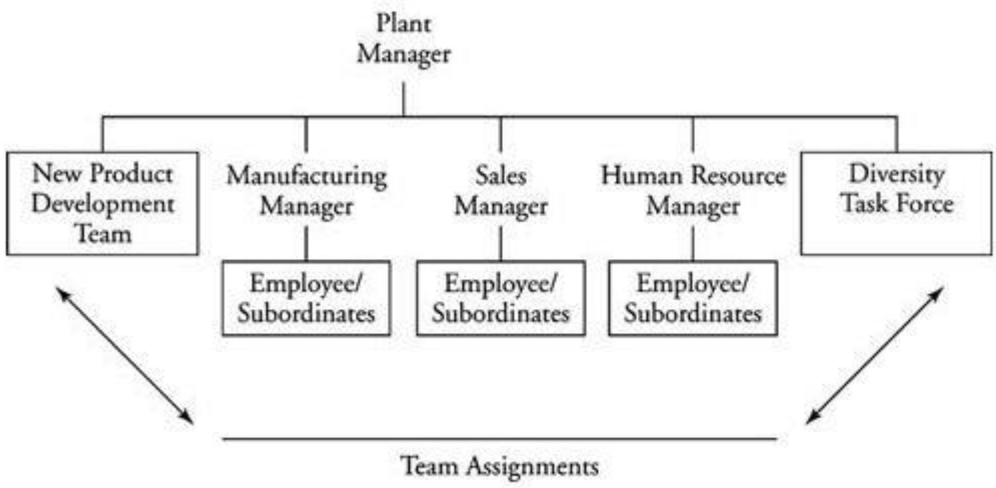

Figure 4 The team structure.

5.4.1. Advantages

The team structure has many potential advantages, including the following:

a. Intradepartmental barriers break down.
b. Decision-making and response times speed up.

c. Employees are motivated.
d. Levels of managers are eliminated.
e. Administrative costs are lowered.
f. The disadvantages include:
g. Conflicting loyalties among team members.
h. Time-management issues.
i. Increased time spent in meetings.

Managers must be aware that how well team members work together often depends on the quality of interpersonal relations, group dynamics, and their team management abilities.

5.5. NETWORK STRUCTURE

The network structure relies on other organizations to perform critical functions on a contractual basis (see Figure 5). In other words, managers can contract out specific work to specialists.

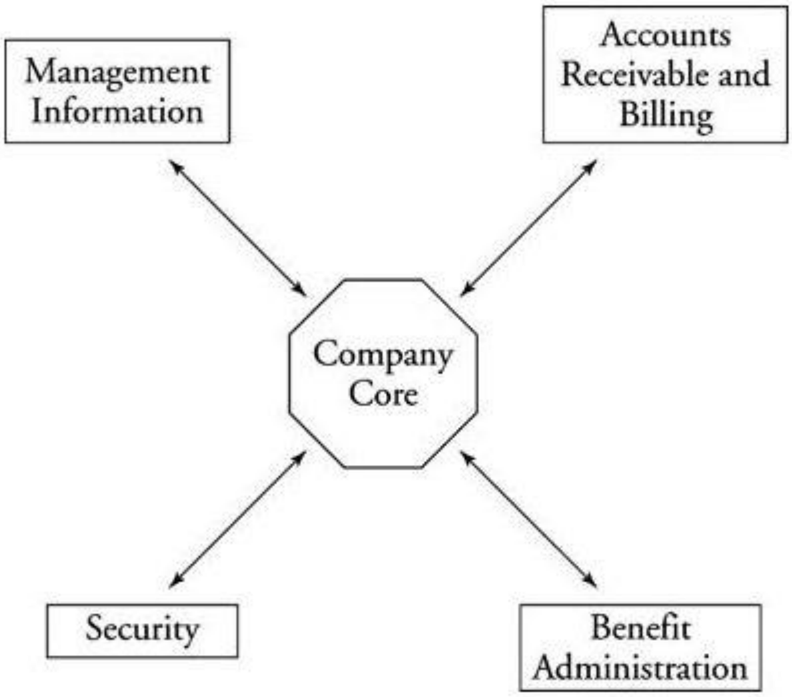

Figure 5 The network structure.

This approach provides flexibility and reduces overheads because the size of staff and operations can be reduced. On the other hand, the network structure may result in unpredictability of supply and lack of control because managers are relying on contract workers to perform important work.

END OF UNIT EXERCISE

1. *Define organisation management?*
2. *Management use many to enhance operations efficiency and effectiveness.*
3. *Describe these approaches?*
4. *Describe organisation design approaches?*
5. *Evaluate the appropriateness of each approach?*
6. *What is organisation systems design?*
7. *The nature of organisation design depends on objectives and types of business.*
8. *Identify and describe the basis upon which organisations are designed?*
9. *Describe design process?*
10. *What is an organisation structure?*
11. *Describe the basis and steps upon which organisation structures are framed?*
12. *Identify the types of organisation structures and evaluate how they facilitate business efficiency and effectiveness?*

UNIT 5: POWER POLITICS AND CORPORATE GOVERNANCE

1. INTRODUCTION

Power is defined as the ability for one person to influence the behaviour of another or others. Managers use power to determine the direction of the organisations. Shareholders, Management and employees have different interests which at times affect organisation performance and achievement of objectives. Stake holders, management and employees all have some degree of power which they may use to advance their own interests. Conflict of interest usually organisation power politics and cause corporate governance challenges.

2. POWER AND POWER RELATIONS

In social science and politics, power is the ability of a person or group of people to influence or control the behaviour of others. The term authority is often used for power which is perceived as legitimate by the social structure. Power can be seen as evil or unjust, but the exercise of power is accepted as endemic to humans as social beings. In the corporate environment, power is often exercised and expressed as upward or downward. With downward power, an organisation's superior exercises power and influence the behaviour of subordinates. When an organisation exerts upward power, it is the subordinates who influence the decisions of the leader.

The use of power may need not involve coercion (force or the threat of force). At one extreme, it more closely resembles what every day English-speakers call influence, although some authors make a distinction between power and influence – the means by which power is used.

Much of the recent sociological debate on power revolves around the issue of the enabling nature of power. That is, while power can be seen as constraining human action, it also makes action possible. French philosopher Michel Foucault (1926–1984) saw power as "a complex strategic situation in a given social setting”. Being deeply structural, his concept involves both constraint and enablement.

3. SOURCES OF POWER

Power may be held through:

- Authority
- Delegated authority (for example in the democratic process)
- Social class (material wealth can equal power)
- Resource currency (material items such as money, property, food)
- Personal or group charisma (including public opinion)
- Ascribed power (acting on perceived or assumed abilities, whether these bear testing or not)
- Expertise (ability, skills) (the power of medicine to bring about health)
- Persuasion (direct, indirect, or subliminal)
- Knowledge (granted or withheld, shared or kept secret)
- Force (law) (violence, military might, coercion).
- Moral persuasion (including religion)
- Operation of group dynamics (such as public relations)
- Social influence of tradition (compare ascribed power)

JK Galbraith summarizes the types of power as being "Condign" (based on force), "Compensatory" (through the use of various resources) or "Conditioned" (the result of persuasion), and their sources as "Personality" (individuals), "Property" (their material resources) and "Organisational" (whoever sits at the top of an organisational power structure).

4. POWER CATEGORIES

Erica Grier, a professor of Psychology at Harvard University, categorized power into the following possible sub-headings:

4.1. Aggressive (forceful)
4.2. Manipulative (persuasion)

5. POWER TACTICS

In everyday situations people use a variety of power tactics to push or prompt people into particular action. There are plenty of examples of power tactics that are quite common and employed every day. Some of these tactics include bullying, collaboration, complaining, criticising, demanding, disengaging, evading, humour, inspiring, manipulating, negotiating, socialising, and supplicating. These power tactics can be classified along three different dimensions: softness, rationality, and laterality.

5.1. *Soft and hard tactics*

Soft tactics take advantage of the relationship between persons. They are more indirect and interpersonal (e.g., collaboration, socializing). Conversely, hard tactics are harsh, forceful, direct, and rely on concrete outcomes. However, they are not more powerful than soft tactics. In many circumstances, fear of social exclusion can be a much stronger motivator than some kind of physical punishment.

5.2. *Rational and non-rational tactics*

Rational tactics of influence make use of reasoning, logic, and sound judgment, whereas non-rational tactics rely on emotionality and misinformation. Examples of each include bargaining and persuasion, and evasion and put downs, respectively.

5.3. *Unilateral and bilateral tactics*

Bilateral tactics, such as collaboration and negotiation, involve reciprocity on the part of both the person influencing and their target. Unilateral tactics, on the other hand, are enacted without any participation on the part of the target. These tactics include disengagement and fait accompli.

People tend to vary in their use of power tactics, with different types of people opting for different tactics. For instance, interpersonally oriented people tend to use soft and rational tactics. Machiavellians, however, tend to use non-rational tactics. Moreover, extroverts use a greater variety of power tactics than do introverts. Further, men tend to use bilateral and direct tactics, whereas women tend to use unilateral and indirect tactics. People will also choose different tactics based on the group situation, and based on who they are trying to influence. People also tend to shift from soft to hard tactics when they face resistance.

6. BALANCE OF POWER RELATIONS

Because power operates both relationally and reciprocally, sociologists speak of the balance of power between parties to a relationship: all parties to all relationships have some power: the sociological examination of power concerns itself with discovering and describing the relative strengths: equal or unequal, stable or subject to periodic change. Sociologists usually analyse relationships in which the parties have relatively equal or nearly equal power in terms of constraint rather than of power. Thus 'power' has a connotation of unilateralism. If this were not so, then all relationships could be described in terms of 'power', and its meaning would be lost. Given that power is not innate and can be granted to others, to acquire power you must possess or control a form of power currency.

6.1. THE PSYCHOLOGY OF POWER

Recent experimental psychology suggests that the more power one has, the less one takes on the perspective of others, implying that the powerful have less empathy. Adam Galinsky, along with several co-authors, found that when those who are reminded of their powerlessness are instructed to draw Es on their forehead, they are 3 times more likely to draw them such that they are legible to others than those who are reminded of their power. Powerful people are also more likely to take action. In one example, powerful people turned off an irritatingly close fan twice as much as less powerful people. Researchers have documented the “bystander effect”: they found that powerful people are three times as likely to first offer help to a "stranger in distress".

A study involving over 50 college students suggested that those primed to feel powerful through stating 'power words' were less susceptible to external pressure, more willing to give honest feedback, and more creative.

6.1.1. *Empathy gap*

"Power is defined as a possibility to influence others."

The use of power has evolved from centuries. Gaining prestige, honour and reputation is one of the central motives of gaining power in human nature. Power also relates with empathy gap because it limits the interpersonal relationship and compares the power differences. Having power and not having power can affect a number of psychological consequences. It leads to strategic versus social responsibilities. Research experiments were done in the past, as early as 1968, to explore power conflict.

6.1.2. Research

Early researches on power proposed that increased power is related to increased rewards and leads one to approach things more frequently. In contrast, decreased power is related to more constraint, threat and punishment which lead one to inhibitions. It was concluded that being powerful leads one to successful outcome, develop negotiation strategies and make more self-serving offers.

Later, research proposed that differences in power lead to strategic considerations. Being strategic can also mean to defend when one is opposed or to hurt the decision maker. It was concluded that facing one with more power leads to strategic consideration whereas facing one with less power leads to a social responsibility.

6.1.2. *Power games*

Bargaining games were explored in year 2003 and year 2004. These studies compared behaviour done in different power situations.

a. Ultimatum game

In an ultimatum game, the person in given power offers an ultimatum and the recipient would have to accept that offer or else both the proposer and the recipient will receive no reward.

b. **Dictator game**

In a dictator game, the person in given power offers a proposal and the recipient would have to accept that offer. The recipient has no choice of rejecting the offer.

c. Bargaining games

The dictator game gives no power to the recipient whereas the ultimatum game gives some power to the recipient. The behaviour observed was that the person offering the proposal would act less strategically than would the one offering in the ultimatum game. Self-serving also occurred and a lot of pro-social behaviour was observed.

When the counterpart recipient is completely powerless, lack of strategy, social responsibility and moral consideration is often observed from the behaviour of the proposal given (the one with the power).

7. POWER AND CONTROL

Power and control is always reflected in abusive relationships, violence is posited to arise out of a need for power and control of one partner over the other. An abuser will use various tactics of abuse (e.g., physical, verbal, emotional, sexual or financial) in order to establish and maintain control over the partner.

7.1. POWER BASE THEORIES

The theory suggests there are five bases of power. Social psychologists John R. P. French and Bertram Raven, in a now-classic study (1959), developed a schema of sources of power by which to analyse how power plays work (or fail to work) in a specific relationship.

According to French and Raven, power must be distinguished from influence in

the following way: power is that state of affairs which holds in a given relationship, A-B, such that a given influence attempt by A over B makes A's desired change in B more likely. Conceived this way, power is fundamentally relative – it depends on the specific understandings A and B each apply to their relationship, and, interestingly, requires B's recognition of a quality in A which would motivate B to change in the way A intends. A must draw on the 'base' or combination of bases of power appropriate to the relationship, to effect the desired outcome. Drawing on the wrong power base can have unintended effects, including a reduction in A's own power.

French and Raven argue that there are five significant categories of such qualities, while not excluding other minor categories. Further bases have since been adduced – in particular by Gareth Morgan in his 1986 book, Images of Organization.

7.1.2. Legitimate power

Also called "Positional power," it is the power of an individual because of the relative position and duties of the holder of the position within an organization. Legitimate power is formal authority delegated to the holder of the position. It is usually accompanied by various attributes of power such as uniforms, offices etc.

7.1.3. Referent power

Referent power is the power or ability of individuals to attract others and build loyalty. It is based on the charisma and interpersonal skills of the power holder. A person may be admired because of specific personal trait, and this admiration creates the opportunity for interpersonal influence.

Here the person under power desires to identify with these personal qualities, and gains satisfaction from being an accepted follower. Nationalism and patriotism count towards an intangible sort of referent power. For example, soldiers fight in wars to defend the honour of the country. This is the second least obvious power, but the most effective. Advertisers have long used the referent power of sports figures for products endorsements, for example. The charismatic appeal of the sports star supposedly leads to an acceptance of the endorsement, although the individual may have little real credibility outside the sports arena. Abuse is possible when someone that is likable, yet lacks integrity and honesty, rises to power, placing them in a situation to gain personal advantage at the cost of the group's position. Referent power is unstable alone, and is not enough for a leader who wants longevity and respect. When combined with other sources of power, however, it can help you achieve great success.

7.1.4. Expert power

Expert power is an individual's power deriving from the skills or expertise of the person and the organization's needs for those skills and expertise. Unlike the others, this type of power is usually highly specific and limited to the particular area in which the expert is trained and qualified. When you have knowledge and skills that enable you to understand a situation, suggest solutions, use solid judgment, and generally outperform others, people will have reason to listen to you. When you demonstrate expertise, people tend to trust you and respect what you say. As a subject matter expert, your ideas will have more value, and others will look to you for leadership in that area.

7.1.5. Reward power

Reward power depends on the ability of the power wielder to confer valued material rewards; it refers to the degree to which the individual can give others a reward of some kind such as benefits, time off, desired gifts, promotions or increases in pay or responsibility. This power is obvious but also ineffective if abused. People who abuse reward power can become pushy or be reprimanded for being too forthcoming or 'moving things too quickly'. If others expect that you'll reward them for doing what you want, there's a high probability that they'll do it. The problem with this basis of power is that you may not have as much control over rewards as you need. Supervisors probably don't have complete control over salary increases, and managers often can't control promotions all by themselves. And even a CEO needs permission from the board of directors for some actions. So when you use up available rewards, or the rewards don't have enough perceived value to others, your power weakens. (One of the frustrations of using rewards is that they often need to be bigger each time if they're to have the same motivational impact. Even then, if rewards are given frequently, people can become satiated by the reward, such that it loses its effectiveness).

7.1.6. Coercive power

Coercive power is the application of negative influences. It includes the ability to demote or to withhold other rewards. The desire for valued rewards or the fear of having them withheld that ensures the obedience of those under power. Coercive power tends to be the most obvious but least effective form of power as it builds resentment and resistance from the people who experience it. Threats and punishment are common tools of coercion. Implying or threatening that someone will be fired, demoted, denied privileges, or given undesirable assignments – these are examples of using coercive power. Extensive use of coercive power is rarely appropriate in an organizational setting, and relying on these forms of power alone will result in a very cold, impoverished style of leadership.

7.2. POWER PRINCIPLES

It is one thing to have power and another to have the ability to apply it. Cetsin principles are relevant in the application of power while other may not be effective or irrelevant.

7.2.1. *Power as a Perception*

Power is a perception in a sense that some people can have objective power, but still have trouble influencing others. People who use power cues and act powerfully and proactively tend to be perceived as powerful by others. Some people become influential even though they don't overtly use powerful behaviour.

7.2.2. *Power as a Relational Concept*

Power exists in relationships. The issue here is often how much relative power a person has in comparison to his partner. Partners in close and satisfying relationships often influence each other at different times in various arenas.

7.2.3. *Power as Resource Based*:

Power usually represents a struggle over resources. The more scarce and valued resources are, the more intense and protracted are power struggles. The scarcity hypothesis indicates that people have the most power when the resources they possess are hard to come by or are in high demand. However, scarce resource leads to power only if it's valued within a relationship.

7.2.4. *The Principle of Least Interest and Dependence Power:*

The person with less to lose has greater power in the relationship. Dependence power indicates that those who are dependent on their relationship or partner are less powerful, especially if they know their partner is uncommitted and might leave them. According to interdependence theory, quality of alternatives refers to the types of relationships and opportunities people could have if they were not in their current relationship. The principle of least interest suggests that if a difference exists in the intensity of positive feelings between partners, the partner who feels the most positive is at a power disadvantage. There's an inverse relationship between interest in relationship and the degree of relational power.

7.2.5. *Power as Enabling or Disabling:*

Power can be enabling or disabling. Research has been shown that people are more likely to have an enduring influence on others when they engage in dominant behaviour that reflects social skill rather than intimidation. Personal power is protective against pressure and excessive influence by others and/or situational stress. People who communicate through self-confidence and expressive, composed behaviour tend to be successful in achieving their goals and maintaining good relationships. Power can be disabling when it leads to destructive patterns of communication. This can lead to the chilling effect where the less powerful person often hesitates to communicate dissatisfaction, and the demand withdrawal pattern which is when one person makes demands and the other becomes defensive and withdraws. Both effects have negative consequences for relational satisfaction.

7.2.6. *Power as a Prerogative*:

The prerogative principle states that the partner with more power can make and break the rules. Powerful people can violate norms, break relational rules, and manage interactions without as much penalty as powerless people. These actions may reinforce the powerful person's dependence power. In addition, the more powerful person has the prerogative to manage both verbal and nonverbal interactions. They can initiate conversations, change topics, interrupt others, initiate touch, and end discussions more easily than less powerful people.

*7.2.7. **Lessons for the loss manager***

It is important to appreciate how power operates so as to understand how to navigate in an organisation where power is distributed and held in different forms. The loss manager's success in implementing systems depends on his understanding of power dynamics and his ability to manipulate power situations to his favour and manoeuvre his way so that he secures the power he needs to influence others to accept his proposals.

8. POWER POLITICS

As indicated in our earlier discussion politics pays a very significant role in determining how people relate and live as organised entities. In families, clubs, associations, schools etc. power politics is always seen at play. There are so many theories that have been advanced to explain the power politics and relationships between people in groups and in organisations.

8.1. **THE RATIONAL CHOICE THEORY (FRAMEWORK)**

Game theory, with its foundations in the Walrasian theory of rational choice, is increasingly used in various disciplines to help analyse power relationships. One rational choice definition of power is given by Keith Dowding in his book "Power".

In rational choice theory, human individuals or groups can be modelled as 'actors' who choose from a 'choice set' of possible actions in order to try to achieve desired outcomes. An actor's 'incentive structure' comprises (its beliefs about) the costs associated with different actions in the choice set, and the likelihoods that different actions will lead to desired outcomes.

In this setting we can differentiate between:

8.1.1. ***Outcome power*** – the ability of an actor to bring about or help bring about outcomes;
8.1.2. ***Social power*** – the ability of an actor to change the incentive structures of other actors in order to bring about outcomes.

This theory can be used to model a wide range of social interactions where actors have the ability to exert power over others. For example a 'powerful' actor can take options away from another's choice set; can change the relative costs of actions; can change the likelihood that a given action will lead to a given outcome; or might simply change the other's beliefs about its incentive structure.

As with other models of power, this theory is neutral as to the use of 'coercion'. For example: a threat of violence can change the likely costs and benefits of different actions; so can a financial penalty in a 'voluntarily agreed' contract, or indeed a friendly offer.

8.2. **MARXISM THEORY**

In the Marxist tradition, the Italian writer Antonio Gramsci elaborated the role of ideology in creating a cultural hegemony, which becomes a means of bolstering the power of capitalism and of the nation-state. Drawing on Niccolò Machiavelli in The Prince, and trying to understand why there had been no Communist revolution in Western Europe, while it was claimed there had been one in Russia, Gramsci conceptualised this hegemony as a centaur, consisting of two halves. The back end, the beast, represented the more classic, material image of power, power through coercion, through brute force, be it physical or economic. But the capitalist hegemony, he argued, depended even more strongly on the front end, the human face, which projected power through 'consent'. In Russia, this power was lacking, allowing for a revolution. However, in Western Europe, specifically in Italy, capitalism had succeeded in exercising consensual power, convincing the working classes that their interests were the same as those of capitalists. In this way revolution had been avoided.

While Gramsci stresses the significance of ideology in power structures, Marxist-feminist writers such as Michele Barrett stress the role of ideologies in extolling the virtues of family life. The classic argument to illustrate this point of view is the use of women as a 'reserve army of labour'. In wartime it is accepted that women perform masculine tasks, while after the war the roles are easily reversed. Therefore, according to Barrett, the destruction of capitalist economic relations is necessary but not sufficient for the liberation of women.

8.3. TARNOW'S THEORY

Tarnow considers what power hijackers have over air plane passengers and draws similarities with power in the military. He shows that power over an individual can be amplified by the presence of a group. If the group conforms to the leader's commands, the leader's power over an individual is greatly enhanced while if the group DOES not conform the leader's power over an individual is nil.

4.4. CLEGG'S THEORY

Stewart Clegg proposes another three-dimensional model with his "circuits of power" theory. This model likens the production and organising of power to an electric circuit board consisting of three distinct interacting circuits: episodic, dispositional, and facilitative. These circuits operate at three levels, two are macro and one is micro. The episodic circuit is the micro level and is constituted of irregular exercise of power as agents address feelings, communication, conflict, and resistance in day-to-day interrelations. The outcomes of the episodic circuit are both positive and negative. The dispositional circuit is constituted of macro level rules of practice and socially constructed meanings that inform member relations and legitimate authority. The facilitative circuit is constituted of macro level technology, environmental contingencies, job design, and networks, which empower or disempowers and thus punish or reward, agency in the episodic circuit. All three independent circuits interact at "obligatory passage points" which are channels for empowerment or disempowerment.

8.4. ALVIN TOFFLER'S THEORY

Alvin Toffler's Power-shift argues that the three main kinds of power are violence, wealth, and knowledge with other kinds of power being variations of these three (typically knowledge). Each successive kind of power represents a more flexible kind of power. Violence can only be used negatively, to punish. Wealth can be used both negatively (by withholding money) and positively (by advancing/spending money). Knowledge can be used in these ways but, additionally, can be used in a transformative way. Such examples are, sharing knowledge on agriculture to ensure that everyone is capable of supplying himself and his family of food; Allied nations with a shared identity forming with the spread of religious or political philosophies, or one can use knowledge as a tactical/strategic superiority in Intelligence (information gathering).

Toffler argues that the very nature of power is currently shifting. Throughout history, power has often shifted from one group to another; however, at this time, the dominant form of power is changing. During the Industrial Revolution, power shifted from nobility acting primarily through violence to industrialists and financiers acting through wealth. Of course, the nobility used wealth just as the industrial elite used violence, but the dominant form of power shifted from violence to wealth. Today, a The Third Wave (Toffler) of shifting power is taking place with wealth being overtaken by knowledge.

8.5. BENE SHARP'S THEORY

Gene Sharp, an American professor of political science, believes that power depends ultimately on its bases. Thus a political regime maintains power because people accept and obey its dictates, laws and policies. Sharp cites the insight of Étienne de La Boétie.

Sharp's key theme is that power is not monolithic; that is, it does not derive from some intrinsic quality of those who are in power. For Sharp, political power, the power of any state – regardless of its particular structural organization – ultimately derives from the subjects of the state. His fundamental belief is that any power structure relies upon the subjects' obedience to the orders of the ruler(s). If subjects do not obey, leaders have no power.

His work is thought to have been influential in the overthrow of Slobodan Milosevic, in the 2011 Arab Spring, and other nonviolent revolutions.

8.6. BJÖRN KRAUS' THEORY

Bjorn Kraus deals with the epistemological perspective upon power regarding the question about possibilities of interpersonal influence by developing a special form of constructivism ("MachtanalytischerKonstruktivismus"). Instead of focussing on the valuation and distribution of power, he asks first and foremost what the term can describe at all. Coming from Max Weber's definition of power, he realizes that the term of power has to be split into "instructive power" and "destructive power". More precisely, instructive power means the chance to determine the actions and thoughts of another person, whereas destructive power means the chance to diminish the opportunities of another person. How significant this distinction really is, becomes evident by looking at the possibilities of rejecting power attempts: Rejecting instructive power is possible – rejecting destructive power is not. By using this distinction, proportions of power can be analysed in a more sophisticated way, helping to sufficiently reflect on matters of responsibility. This perspective permits to get over an "either-or-position" (either there is power, or there isn't), which is common especially in epistemological discourses about power theories, and to introduce the possibility of an "as well as-position".

8.7. UNMARKED CATEGORIES

The idea of unmarked categories originated in feminism. The theory analyses the culture of the powerful. The powerful comprise those people in society with easy access to resources, those who can exercise power without considering their actions. For the powerful, their culture seems obvious; for the powerless, on the other hand, it remains out of reach, élite and expensive.

The unmarked category can form the identifying mark of the powerful. The unmarked category becomes the standard against which to measure everything else. For most Western readers, it is posited that if a protagonist's race is not indicated, it will be assumed by the reader that the protagonist is Caucasian; if a sexual identity is not indicated, it will be assumed by the reader that the protagonist is heterosexual; if the gender of a body is not indicated, it will be assumed by the reader that it is male; if a disability is not indicated, it will be assumed by the reader that the protagonist is able bodied, just as a set of examples.

One can often overlook unmarked categories. Whiteness forms an unmarked category not commonly visible to the powerful, as they often fall within this category. The unmarked category becomes the norm, with the other categories relegated to deviant status. Social groups can apply this view of power to race, gender, and disability without modification: the able body is the neutral body.

8.8. COUNTER POWER

The term 'counter-power' (sometimes written 'counter power') is used in a range of situations to describe the countervailing force that can be utilised by the oppressed to counterbalance or erode the power of elites.

In the book counter power: Making Change Happen, a definition rooted in the political science literature is offered. Reflecting the categories of power presented by Mann (ideological, economic, and military), Toffler (knowledge, wealth, and violence), Gramsci and others, Gee asserts that movements can use 'Idea Counter power', 'Economic Counter power' and 'Physical Counter power' to challenge the power of ruling elites.

A more general definition has been provided by the anthropologist David Graeber as 'a collection of social institutions set in opposition to the state and capital: from self-governing communities to radical labour unions to popular militias'. Graeber also notes that counter-power can also be referred to as 'anti-power' and 'when institutions [of counter-power] maintain themselves in the face of the state, this is usually referred to as a 'dual power' situation'.

Although the term has come to prominence through its use by participants in the global justice/anti-globalization movement of the 1990s onwards, the word has been used for at least 60 years; for instance Martin Buber's 1949 book 'Paths in Utopia' includes the line 'Power abdicates only under the stress of counter-power'.

9. CORPORATE GOVERNANCE

9.1. DEFINITION

Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed. Governance structures identify the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and include the rules and procedures for making decisions in corporate affairs.

9.1.1. ***Governance of Rules and procedures for making decision***

Corporate governance includes the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. Governance mechanisms include monitoring the actions, policies and decisions of corporations and their agents. Corporate governance practices are affected by attempts to align the interests of stakeholders.

There has been renewed interest in the corporate governance practices of modern corporations, particularly in relation to accountability, since the high-profile collapses of a number of large corporations during 2001–2002, most of which involved accounting fraud; and then again after the recent financial crisis in 2008. Corporate scandals of various forms have maintained public and political interest in the regulation of corporate governance. In the U.S., these include Enron and MCI Inc. (formerly WorldCom). Their demise is associated with the U.S. federal government passing the Sarbanes-Oxley Act in 2002, intending to restore public confidence in corporate governance. Comparable failures in Australia (HIH, One Tel) are associated with the eventual passage of the CLERP 9reforms. Similar corporate failures in Zimbabwe e.g., Financial sector crisis, Premier medical Aid Society case, National Railways and many others, have stimulated increased regulatory interest.

9.1.2. ***Mitigation of conflict of stakeholder interests***

Corporate governance has also been defined as "a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby, mitigating agency risks which may stem from the misdeeds of corporate officers."

In contemporary business corporations, the main external stakeholder groups are shareholders, debt holders, trade creditors, suppliers, customers and communities affected by the corporation's activities. Internal stakeholders are the board of directors, executives, and other employees.

Much of the contemporary interest in corporate governance is concerned with mitigation of the conflicts of interests between stakeholders. Ways of mitigating or preventing these conflicts of interests include the processes, customs, policies, laws, and institutions which have an impact on the way a company is controlled. An important theme of governance is the nature and extent of corporate accountability.

A related but separate thread of discussions focuses on the impact of a corporate governance system on economic efficiency, with a strong emphasis on shareholders' welfare. In large firms where there is a separation of ownership and management and no controlling shareholder, the principal–agent issue arises between upper-management (the "agent") which may have very different interests, and by definition considerably more information, than shareholders (the "principals"). The danger arises that rather than overseeing management on behalf of shareholders, the board of directors may become insulated from shareholders and beholden to management. This aspect is particularly present in contemporary public debates and developments in regulatory policy.

Economic analysis has resulted in a literature on the subject. One source defines corporate governance as "the set of conditions that shapes the ex-post bargaining over the quasi-rents generated by a firm. “The firm itself is modelled as a governance structure acting through the mechanisms of contract. Here corporate governance may include its relation to corporate finance.

9.2. **PRINCIPLES**

Contemporary discussions of corporate governance tend to refer to principles raised in three documents released since 1990: The Cadbury Report (UK, 1992), the Principles of Corporate Governance (OECD, 1998 and 2004), the Sarbanes-Oxley Act of 2002 (US, 2002). The Cadbury and Organisation for Economic Co-operation and Development (OECD) reports present general principles around which businesses are expected to operate to assure proper governance. The Sarbanes-Oxley Act, informally referred to as Sarbox or Sox, is an attempt by the US federal government to legislate several of the principles recommended in the Cadbury and OECD reports.

9.2.1. ***Rights and equitable treatment of shareholders:***

Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.

Interests of other stakeholders: Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.

9.2.2. ***Role and responsibilities of the board:***

The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment.

9.2.3. *Integrity and ethical behaviour:*

Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.

9.2.4. *Disclosure and transparency:*

Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

9.3. **MODELS**

Different models of corporate governance differ according to the variety of in which they are embedded. The Anglo-American "model" tends to emphasize the interests of shareholders. The coordinated or Multi-stakeholder Model associated with Continental Europe and Japan also recognises the interests of workers, managers, suppliers, customers, and the community. A related distinction is between market-orientated and network-orientated models of corporate governance.

9.3.1. *Continental Europe models*

Some continental European countries, including Germany and the Netherlands, require a two-tiered Board of Directors as a means of improving corporate governance. In the two-tiered board, the Executive Board, made up of company executives, generally runs day-to-day operations while the supervisory board, made up entirely of non-executive directors who represent shareholders and employees, hires and fires the members of the executive board, determines their compensation, and reviews major business decisions.

10. CODES AND GUIDELINES

Corporate governance principles and codes have been developed in different countries and issued from stock exchanges, corporations, institutional investors, or associations (institutes) of directors and managers with the support of governments and international organizations. As a rule, compliance with these governance recommendations is not mandated by law, although the codes linked to stock exchange listing requirements may have a coercive effect.

10.1. **RESPONSIBILITIES OF THE BOARD OF DIRECTORS**

Former Chairman of the Board of General Motors John G. Smale wrote in 1995: "The board is responsible for the successful perpetuation of the corporation. That responsibility cannot be relegated to management." A board of directors is expected to play a key role in corporate governance. The board has responsibility for: CEO selection and succession; providing feedback to management on the organization's strategy; compensating senior executives; monitoring financial health, performance and risk; and ensuring accountability of the organization to its investors and authorities. Boards typically have several committees (e.g., Compensation, Nominating and Audit) to perform their work.

The OECD Principles of Corporate Governance (2004) describe the responsibilities of the board; some of these are summarized below:

10.1.1. Board members should be informed and act ethically and in good faith, with due diligence and care, in the best interest of the company and the shareholders.

10.1.2. Review and guide corporate strategy, objective setting, major plans of action, risk policy, capital plans, and annual budgets.

10.1.3. Oversee major acquisitions and divestitures.

10.1.4. Select, compensate, monitor and replace key executives and oversee succession planning.

10.1.5. Align key executive and board remuneration (pay) with the longer-term interests of the company and its shareholders.

10.1.6. Ensure a formal and transparent board member nomination and election process.

10.1.7. Ensure the integrity of the corporations accounting and financial reporting systems, including their independent audit.

10.1.8. Ensure appropriate systems of internal control are established.

10.1.9. Oversee the process of disclosure and communications.

10.1.10. Where committees of the board are established, their mandate, composition and working procedures should be well-defined and disclosed.

10.2. STATEHOLDER INTERESTS

All parties to corporate governance have an interest, whether direct or indirect, in the financial performance of the corporation. Directors, workers and management receive salaries, benefits and reputation, while investors expect to receive financial returns. For lenders, it is specified interest payments, while returns to equity investors arise from dividend distributions or capital gains on their stock. Customers are concerned with the certainty of the provision of goods and services of an appropriate quality; suppliers are concerned with compensation for their goods or services, and possible continued trading relationships. These parties provide value to the corporation in the form of financial, physical, human and other forms of capital. Many parties may also be concerned with corporate social performance.

A key factor in a party's decision to participate in or engage with a corporation is their confidence that the corporation will deliver the party's expected outcomes. When categories of parties (stakeholders) do not have sufficient confidence that a corporation is being controlled and directed in a manner consistent with their desired outcomes, they are less likely to engage with the corporation. When this becomes an endemic system feature, the loss of confidence and participation in markets may affect many other stakeholders, and increases the likelihood of political action. There is substantial interest in how external systems and institutions, including markets, influence corporate governance.

10.3. MONITORING AND CONTROL MECHANISMS

Corporate governance mechanisms and controls are designed to reduce the inefficiencies that arise from moral hazard and adverse selection. There are both internal monitoring systems and external monitoring systems. Internal monitoring can be done, for example, by one (or a few) large shareholder(s) in the case of privately held companies or a firm belonging to a business group. Furthermore, the various board mechanisms provide for internal monitoring. External monitoring of managers' behaviour occurs when an independent third party (e.g. the external auditor) attests the accuracy of information provided by management to investors. Stock analysts and debt holders may also conduct such external monitoring. An ideal monitoring and control system should regulate both motivation and ability, while providing incentive alignment toward corporate goals and objectives. Care should be taken that incentives are not so strong that some individuals are tempted to cross lines of ethical behaviour, for example by manipulating revenue and profit figures to drive the share price of the company up.

10.3.1. Internal controls

Internal corporate governance controls monitor activities and then take corrective action to accomplish organisational goals. Examples include:

a. Monitoring by the board of directors:

The board of directors with its legal authority to hire, fire and compensate top management, safeguards invested capital. Regular board meetings allow potential problems to be identified, discussed and avoided. Whilst non-executive directors are thought to be more independent, they may not always result in more effective corporate governance and may not increase performance. Different board structures are optimal for different firms. Moreover, the ability of the board to monitor the firm's executives is a function of its access to information. Executive directors possess superior knowledge of the decision-making process and therefore evaluate top management on the basis of the quality of its decisions that lead to financial performance outcomes, ex ante. It could be argued, therefore, that executive directors look beyond the financial criteria.

b. Internal control procedures and internal auditors:

Internal control procedures are policies implemented by an entity's board of directors, audit committee, management, and other personnel to provide reasonable assurance of the entity achieving its objectives related to reliable financial reporting, operating efficiency, and compliance with laws and regulations. Internal auditors are personnel within an organization who test the design and implementation of the entity's internal control procedures and the reliability of its financial reporting

c. **Balance of power:**

The simplest balance of power is very common; require that the President be a different person from the Treasurer. This application of separation of power is further developed in companies where separate divisions check and balance each other's actions. One group may propose company-wide administrative changes, another group review and can veto the changes, and a third group check that the interests of people (customers, shareholders, employees) outside the three groups are being met.

d. Remuneration:

Performance-based remuneration is designed to relate some proportion of salary to individual performance. It may be in the form of cash or non-cash payments such as shares and share options, superannuation or other benefits. Such incentive schemes, however, are reactive in the sense that they provide no mechanism for preventing mistakes or opportunistic behaviour, and can elicit myopic behaviour.

Monitoring by large shareholders and/or monitoring by banks and other large creditors: Given their large investment in the firm, these stakeholders have the incentives, combined with the right degree of control and power, to monitor the management.

In publicly traded U.S. corporations, boards of directors are largely chosen by the President/CEO and the President/CEO often takes the Chair of the Board position for him/herself (which makes it much more difficult for the institutional owners to "fire" him/her). The practice of the CEO also being the Chair of the Board is fairly common in large American corporations.

While this practice is common in the U.S., it is relatively rare elsewhere. In the U.K., successive codes of best practice have recommended against duality.

10.4. **IMPLICATIONS FOR LOSS ON MANAGEMENT**

That individuals, be it junior employees or management, have personal interests to satisfy and will always seek to derive maximum satisfaction from work is irrefutable. Power and politics play a huge role in business, from determining how decisions are made to how employees interact with one another and with others outside the organisation. In business, big or small, the impact of power and politics depends on whether individuals use positive or negative power to influence others in the workplace. Politics may directly influence who has the power, how he uses it and determine whether the overall culture of the workplace encourages productivity. The amount of power one yields in the organisation determines how he is positioned to play the organisation politics to his interest. It is essential for loss managers to appreciate the organisation power and politics game so that they gain knowledge of how, where and when to position themselves in the decision making processes.

Because organisational politics is so deeply linked to leadership and management professional relations, procedures and resolutions are directly impacted by it. Therefore, the loss manager's role as a leader is intricately connected to the company's political climate.

10.4.1. ***Application***

The connection of leadership to organisational politics can be understood by viewing leadership as a practice within groups. Your action as a leader influences subordinates to voluntarily cooperate to meet organisational goals. Organisation politics is detrimental to the organisation when an individual pursues her or his own agenda or interest without regard for how those interests or agendas affect the organisation as a whole. At the expense of the whole organisation a person may use power to manipulate the systems so as to advance his interests. Power and politics in organisations is generally inevitable and how authority is distributed and exercised reflects the power and political climate in the organisation. The loss manager should be able to read the organisation power and politics climate so that he can manipulate it to support the designing, recommending and implementation of loss management systems.

10.5. **MANAGING POWER AND POLITICS**

The decisions the loss manager makes, the agendas he establishes, and how the motivates and inspires employees and influence other managers are key in navigating the company's power and political games towards their acceptance of loss management systems. Understanding political behaviour and utilising the leadership styles necessary to influence employees and management towards organisation loss management objectives is critical to squashing power and politics driven resistance. This can be achieved through keen observation, maintaining a fair and objective viewpoint, leading by example and keeping everyone focused on the big picture and to work in the best interest of the organisation rather than self-interest. As part of the leadership, the loss manager yields a significant power balance and influence within the organisation; misuse of this power and influence can result in defeating the organisation's loss management objective. For example, constantly taking credit for your subordinates' ideas and contributions to advance your own career may result in resentful and retaliatory behaviour from them.

10.6. **CONCLUSION**

Organisational politics can cause low morale, and an unproductive and unpleasant work environment. As a loss manager, it is critical that one understands the reasons for political behaviour and use appropriate strategies to manage the environment so that the organisation remains focused and prevent any threats, such as work stoppages, that affect the organisation's productivity. Modern corporations have great influence on social, political and economic activities to the extent that their collapse may affect the entire national economic system. For this and other reasons most governments now make it a regulated requirement for companies to have formal corporate governance systems. Armed with corporate governance systems and with knowledge of the power and politics games the loss manager is in position to competently discharge his/her duties.

END OF UNIT EXERCISE

1. *Define power?*
2. *Distinguish between power and authority?*
3. *Power may be held through several ways. List at least 5 ways?*
4. *Describe the types of power according to JK Galbraith?*
5. *Compare and contrast JK Galbraith and Erica Grier's views on power?*
6. *Describe Erica Grier's classification of power tactics?*
7. *What is Empathy Gap in relation to power?*
8. *Describe power games?*
9. *Outline power base theories and evaluate their relevance in fostering organization efficiency and effectiveness?*
10. *Outline power principles in interpersonal relationships?*
11. *What is organization power and politics?*
12. *Differentiate between outcome and social power?*
13. *Compare and contrast the following theories of power?*
14. *Marxism and Tarnow*
15. *Clegg and Alvin Toffler*
16. *Berne Sharp and Bjorn Kraus*
17. *Identify and describe the unmarked power categories?*
18. *What is counter power?*
19. *Define corporate governance?*
20. *What is the importance of governance structures in organizations?*
21. *How can corporate governance systems be incorporated into organization structures?*
22. *What role does corporate governance play as an organization efficiency and effectiveness enhancement system? Discuss*
23. *Contemporary discussions on corporate governance tend to refer to principles raised in three documents released in 1990. Discuss?*
24. *Outline the different models of corporate governance?*
25. *What are corporate codes and guidelines? What purpose do they serve?*
26. *What is the implication of corporate governance theories on loss management?*

END OF MODULE EXERCISE

1. *Law is a discipline and profession in its own right. Illustrate with examples why loss managers should have appreciation of concepts, principles and theories of law?*
2. *Power and politics is a subject normally for politicians. Why is it necessary for loss managers to understand the application of power and politics in organizations?*
3. *Most Parastatals in Zimbabwe have had their chief executives relieved of their duties or their contracts terminated. What theories in loss management can help explain the causes of this problem?*
4. *Identify any one of the theories that explains power bases you thing is the most appropriate for consideration by loss managers and justify your choice?*
5. *Why do you thing loss management or any of its security management, occupational safety and health functions has up to now not been able to fully establish themselves as professions? What factors do you thing is now giving pressure for professionalization of loss management?*
6. *Evaluate how the status of the loss management profession in Zimbabwe is affected by its environment?*
7. *Identify elements of loss management function and how they help in militating against loss in organizations?*

8. *What contribution may loss managers make in organization design processes?*
9. *Give two examples of organization structures and evaluate how each can best accommodate the loss management department?*

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