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THE BASIC PRINCIPLES OF BEHAVIORAL RISK MANAGEMENT IMPROVEMENT

The definition of the concept "behavioral risk management" has been specified. It was emphasized that identifying and responding to behavioral risks at a workplace is central to the mechanism of its implementation through the appropriate combination of behavioral psychology and predictive analytics to reduce costs on prevention of mental health and behavioral problems at a workplace. It has been reasoned that improvements in behavioral risk management should be based on certain principles that can increase the efficiency of problem solving in managing direct and indirect costs associated with human error.

Keywords: *behavioral risk; behavioral economics; workplace; human resource management.*

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ОСНОВНІ ПРИНЦИПИ ВДОСКОНАЛЕННЯ ПОВЕДІНКОВОГО РИЗИК-МЕНЕДЖМЕНТУ

У статті представлено уточнене визначення поняття «поведінковий ризик-менеджмент». Підкреслено, що виявлення та адекватне реагування на поведінкові ризики на робочому місці є центральним елементом механізму його реалізації на основі відповідного використання методів поведінкової економіки та прогнозного аналізу з метою забезпечення зниження витрат, пов'язаних з проблемами здоров'я та поведінкою персоналу на робочому місті. Доведено, що процес удосконалення поведінкового ризик-менеджменту доцільно здійснювати на основі певних принципів, дотримання яких дозволятиме підвищити ефективність вирішення завдань обґрунтування та прийняття управлінських рішень щодо зниження витрат, пов'язаних з поведінкою персоналу, в умовах невизначеності.

Ключові слова: *поведінкові ризики; поведінкова економіка; робоче місце; управління персоналом.*

Табл. 1. Літ. 19.

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ОСНОВНЫЕ ПРИНЦИПЫ УСОВЕРШЕНСТВОВАНИЯ ПОВЕДЕНЧЕСКОГО РИСК-МЕНЕДЖМЕНТА

В статье представлено уточненное определение понятия «поведенческий риск-менеджмент». Подчеркнуто, что выявление и адекватное реагирование на поведенческие риски на рабочем месте является центральным элементом механизма его реализации на основе соответствующего использования методов поведенческой экономики и прогнозного анализа с целью обеспечения снижения затрат, связанных с проблемами здоровья и поведением персонала на рабочем месте. Доказано, что процесс совершенствования поведенческого риск-менеджмента целесообразно осуществлять на основе определенных принципов, что позволит повысить эффективность решения задач обоснования и принятия управленческих решений по снижению затрат, связанных с поведением персонала, в условиях неопределенности.

Ключевые слова: *поведенческие риски; поведенческая экономика; рабочее место; управление персоналом.*

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Introduction. The focus in business has shifted from physical capital to the value of human capital – employees and the people involved in business processes. Business leaders, consultants and healthcare providers are working together to manage human capital proactively for organizational success. The issues of employee health and welfare, diversity, organizational trust and support have huge implications for productivity and overall corporate success. Industries demand a sophisticated tool and a methodology for managing direct and indirect costs associated with human error. Identifying and preventing behavioral risks at work may become one of the most effective strategies in creating and maintaining human capital success.

Literature review. The results of complex analysis of the literature on the issue suggest that many scholars and authors have given their own interpretation and definition of behavioral risk management (BRM). The works of the researchers who have begun to examine the issue of BRM include R. Yandrick (1996), Th. Plattner et al. (2006), B.H. Morrow (2009), N.J. Cantle and B.M. Smith (2009), M. Carruthers (2013), D. Ariely (2013), C.J. Pitzer (2001), J.E. Barnette (2001), E.S. Geller (2005) and others. However, the concepts of BRM as used now are relatively new and the basic principles providing loss prevention from human errors, mental health problems in a workplace are absent so far.

The research objective is in summarizing the basic principles of the BRM improvement to help executives reduce the destructive effects on both workers and workplaces through a smart combination of behavioral psychology and predictive analytics.

Key research findings. Dealing with hazards has always been part of human activity. Risk management refers to all the tools that decision-makers have to adjust to risk. It includes obvious tools such as portfolio management, financial derivatives and insurance.

Risk is defined and studied differently across disciplines. The simple definition of risk implies that if decision-makers are provided with adequate information on hazard itself, correct information on their level of exposure, and estimations of the probability of being impacted at that location, they can make reasonable estimations of personal risks (Plattner et al., 2006). However, providing reliable data is only part of the process (Morrow, 2009).

BRM goes beyond the traditional enterprise risk management framework and focuses on understanding what drives people's behavior and actions, what determines their decision-making and how that impacts workplace safety (Hiester, no date). BRM is addressing the human factor behind how risk emerges. These tools will allow firms and regulators manage behavioral risks by catching and averting it as it is created. By contrast, traditional models of risk management tend to oversimplify the groupings of risk outcomes into homogeneous categories, where the chances of good and bad outcomes are known, and simply react to the possibility of risk. The difference between the two approaches is the difference between chasing bad outcomes and trying to prevent them before they occur (Cantle and Smith, 2009).

Numerous research studies have borne out the fact that underlying mental health issues significantly affect employees' performance, health, and well-being. They point to the fact that underlying mental health issues add to costs, productivity and time losses. Health illnesses (including substance abuse disorders) increase healthcare

costs. Employers recognize the value they provide in improving the overall employee experience as well as containing high costs that can be incurred as a result of behavioral risk conditions.

BRM is a term that has been around since the mid-1990s. One of the first introductions to the subject was by R. Yandrick, who suggested BRM as a detailed audit of organization's behavioral risks. This assessment enables quantifying risk exposures and establish the degree of risk from 4 sources: personnel files, healthcare costs, employee interviews and management surveys. It applies to the risks connected with employees' workplace behavior that negatively impact the productivity of an organization; behavioral healthcare episodes and the cost of treating these episodes; and lifestyle behavior that leads to preventable healthcare conditions and the cost of treating these conditions (Yandrick, 1996). While the focus is on behavioral issues, BRM is ideally preventative by its nature.

"Disability Management Employer Coalition" defines BRM in the context of the emerging role of integrated disability and absence management, including this important behavioral component (Carruthers, 2013). It is now seen as a new and emerging best practice area of workforce risk, wellness, and healthcare cost containment to better understand the underlying behavioral aspects of claims, productivity, and performance including: psychosocial and psychosomatic factors; comorbidity; productivity losses and presenteeism; psychiatric and high-profile claims management; high-profile human resource and labor relations cases (Carruthers, 2013).

BRM is based on observation: employees are making decisions of consequence at every moment, and they may be doing it imperfectly. These decisions are based on and create interactions with other employees and their decisions (Cantle, 2009).

The 20th century was the era of optimization. It was the age of Homo economicus, the fabled rational economic agent who makes decisions based on what would maximize some ethereal benefit function. These methods have sometimes provided useful approximations; however, the drawbacks of classical economics are attracting increasing attention from social scientists and practitioners a like (Serafim, 2011). There are many reasons why the broad assumptions of classical analysis have often failed (Cantle, 2009).

Human behavior is far more complex, and this is particularly true when choices are made under risky conditions (Plattner et al., 2006). Knowledge is important, but our "experiential system" also comes into play (Ariely, 2013). Feelings, emotions and values we have gained through experience, including the experiences of social networking, have a major effect on our decisions. This is particularly true in a democratic, individualistic society where people depend heavily on their personal assessment of situations, including risks. They have differing values and priorities, circumstances and experiences on which to base their decisions. They receive information from a variety of sources in addition to experts (Plattner et al., 2006; Pitzer, 2001).

The incentives of managers or employees are not exactly aligned with what's best for organization. Realistic optimization of day-to-day decisions may be deceptively complicated. If external environment is changing quickly, yesterday's optimal decision may be redundant today.

Also, human brain is not very good at evaluating risks subjectively. Individual subjective experience with risky situations biases the response to new situations. To

complicate matters, risk preferences change over time at different rates with different individuals (Ariely, 2013; Barnette, 2001; Cantle and Smith, 2009; Darnton, 2008; Shigeyuki, 2009).

Even when individuals have well-defined roles and try to do their jobs in good faith, risk can arise when, in the multiplicity of interactions, slight miscommunications and mistakes are amplified. Human error is primarily the result of an individual state of awareness, it is influenced by personal, interpersonal, cognitive and cultural factors in a workplace.

Each employee interacts with corporate environment and forms his/her own personal understanding of it. Often this combination of perspectives reveals missing or misaligned elements in the implementation of strategic objectives (Cantle and Smith, 2009; Lysenko, 2008).

BRM is the psychology-based theory of risk, not all of its tools rely on peeking inside human mind to tell the story of complex interactions. Some of the tools developed in the complexity sciences are also effective in describing the stability of social and economic systems.

The new approach to risk offers a conceptual framework that puts the existing methods in context, rather than scrapping them entirely, and evaluates risk from its in the past and assume the world will behave similarly in the future, we can form an expectation about how risky events will unfold. Employers can identify potential mental health and behavioral problems and thereby control or minimize future risks (Cantle and Smith, 2009; Yandrick, 1996; Shvets, 2009).

Measures can be constructed to offer "a barometer of organizational stability", much like financial market metrics but unique to your company. Data sources might include premiums, liabilities on individual businesses or assets, expenses, commissions, or any data publicly available for review (Kotlyar and Ariely, 2013). By using the data that are internal to the organization, risk managers can better identify the source of complexity and, hence, the source of risk. Operational performance, work flow statistics, sales by region, and other more detailed business operations data can help getting the full picture.

BRM is appealing because, with the entire scientific rigor that goes into its toolbox, the output tells a compelling story that gets to the source of risk. And it does this with robust, replicable results that can make regulators, ratings agencies, executives, and shareholders confident that strategic objectives are being pursued prudently (Cantle and Smith, 2009). BRM equips executives with a structural framework for analyzing how human and social, cognitive and emotional factors impact both market and operational risks on the basis of identifying specific psychological phenomena and the manner in which these phenomena apply to the practice of risk management.

R. Yandrick emphasizes, that cost saving ratio is estimated as 3:1 in taking a preventive vs. "late stage" intervention approach to dealing with behavioral risk issues at work. It is apparent to most HR professionals that a variety of social factors whether occurring in a workplace or outside it end up creating significant healthcare and productivity costs. A traditional approach has been for employers to deal with these behaviors at the last stage after healthcare and productivity problems have already taken root (Yandrick, 1996).

This is a powerful tool to help firms eliminate threats associated with human errors. BRM represents an opportunity to significantly and proactively reduce human errors in a workplace (Pitzer, 2001). Its methods can even help existing statistical models adapt to behavioral risk by continually updating assumptions and parameters based on the reality of behavior within the organization (Cantle and Smith, 2009).

Periodic behavioral risk assessment process designed to identify and prevent loss from behavioral risk factors, thereby enhancing organizational health and human capital. This process will create multiple results:

- cost savings from preventable loss;
- increased productivity and profitability by addressing human capital needs;
- enhanced strategic alignment with human resources and organizational leadership;
- measure and demonstrate successes in human capital management.

Addressing human capital needs through the behavioral risk assessment process will assist businesses in maximizing their competitive potential in the an overall total quality management approach.

Human resources management is increasingly charged with aligning with the cost reduction needs of the bottom line. Behavioral risk assessment helps align HR management strategically with organization's bottom line needs by early detection and prevention of significant costs. It is a clear win/win proposition for leadership to be in strategic line with human capital management to create the healthiest, most productive workplace (Carruthers, 2013).

Table 1. **The basic principles of behavioral risk management improvement,** *constructed by the authors*

Behavioral Risk Management		
Principles	Processes	Improvements, results
include a behavioral component in enterprise integrated and coordinated program	conduct training of leadership groups	cost savings from preventable loss
provide employee assistance program benefits, and promote their use	develop interventions	increased productivity and profitability by addressing human capital needs
employ early intervention, identification, and communication with employees and supervisors	conduct training of trainers and coaches	enhanced strategic alignment with human resources and organizational leadership
review performance as a key indicator to detect underlying behavioral health issues, using the supervisor as the first point of information	deploy risk tools and behavioral systems	measure and demonstrate successes in human capital management
initiate a three-point contact (company, provider, and employee) as part of the process. Encourage communication between employee and provider	conduct risk review workshops	
conduct interim touch-base meetings with employees	link critical risks and observation activities	
conduct depression screenings at intake		
apply predictive modelling from claims data		

Behavioral risk assessment indicates there are little or no areas of' "unacceptable risk exposure", organization can use this assessment to understand and demonstrate

its best practices and advertise its successes internally as well as externally. Clearly, if any business has low risk exposure potential, it is most likely to be competitive and successful in the marketplace (Hiester, no date).

BRM firstly aims to improve employees' skills to observe and understand risks in work environment and secondly to introduce tools or behavioral systems that would increase risk identification. It goes through the following processes: identify actual risk profiles of operations; conduct training of leadership groups; develop interventions; conduct training of trainers and coaches; deploy risk tools and behavioral systems; conduct risk review workshops; link critical risks and observation activities (Pitzer, 2001). Many best practices that employers have found effective involve little in terms of expenses and more in terms of changes in process, focus, and culture.

Raising awareness, defeating stigma, and taking the holistic approach underscore the effectiveness and success behavioral risk management complements traditional safety approaches by focusing on safe behavior and positive results. It is a proven, sustainable approach that identifies at-risk and safe behaviors, analyzes the factors that support risk-taking, introduces changes that support safe behaviors, provides a proactive safety measurement system, and incorporates program monitoring to ensure ongoing effectiveness. It equips employees with the skills to influence behavior of others, measure the effects, and sustain improvements.

Conclusions. The BRM realization decreases risks by encouraging safe behavior and creating a positive safety culture with lasting change in safety outcomes. BRM is a widely accepted program element and an important emerging area of concern; employers already have an embedded behavioral component and are leading the shift in thinking; involvement in employee assistance program is one of the most significant elements of a successful return-to-work program. There is a close relationship between behavior change and long-term results that can be obtained. Because there is a strong correlation between injury frequency and workers' compensation-related expenses, reductions in injury frequency can be expected to contribute to the reduction in workers' compensation spending. **Directions for further research** are in the development of specific guidelines for evaluating individual and organizational behavior and risk exposure based on the unification of efforts of risk and benefits managers for the future of workforce health with the emphasis on wellness to attain optimal productivity.

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