

Behavioral Economics and Its Implications for Enterprise Risk Management

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Abstract

The underlying premise of this paper is that enterprise risk management (ERM), as it continues to evolve as both a process and a collection of risk management techniques, can benefit from several different (but ultimately somewhat related) “megatrends.” The core of this paper concentrates on the impact on ERM of one of those megatrends: the emergence of a behavioral economics perspective, which is beginning to have a large impact on our understanding of the economy and on certain economic and business processes. The evolution and context of behavioral economics are described, and potential implications for the practice of ERM are discussed. The paper culminates with a variety of specific suggestions for ERM practice in response to findings from behavioral economics research, specifically a number of human cognitive dissonances inconsistent with traditional economic theory.