Nonprofit Risk Management Center

The Optimism Bias

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Are you a Tigger (i.e., an unfailingly cheerful and bouncy tiger)? Or are you an Eeyore (i.e., a pronouncedly pessimistic and gloomy donkey)? Whether or not you fit neatly into one of those categories, you've likely met people who do. My own partner is a die-hard Tigger who always tells me to 'look on the bright side,' especially when I naturally drift to the Eeyore extreme. Sometimes it's refreshing to be cheered up by a person who is exploding with joy, or to be grounded by a true cynic; in some cases, endless optimism inspires a drastic roll of the eyes. Of course since such radical personalities can clash in our personal lives, they are likely to clash in the workplace, too. And we frequently witness the Tigger and Eeyore traits during Risk Assessments for our nonprofit clients.

The optimism bias is a cognitive bias that causes people to assume they are less likely to experience a negative event than other people are. The 'that will never happen to me' attitude naturally springs up when we see a coworker get fired, when a friend is diagnosed with a disease, or when we read about a brutal crime in the newspaper. Apparently the bias holds true for positive events as well, such as believing we will be richer and more popular than other people around us.

These cognitive phenomena are ever-present in the world of risk management. During interviews for a Risk Assessments, we have come to expect that one or more interviewees will paint a far too rosy picture of the risks facing their organizations. The rosy picture could be an underestimate of the significant consequences that a potential risk event could have on the organization, or a low-ball estimate of the likelihood a risk will materialize. The optimism bias may cause a nonprofit leader to feel and convey to others:

- a false sense of security because 'this could never happen to us,' or
- an inflated sense of preparedness, essentially that 'we have got this under our control.'

On the other end of the continuum, our Eeyore clients tend to grossly overestimate the potential impact of risks they identify on the horizon or overestimate the likelihood of disaster landing on the nonprofit's doorstep. For example, a risk heat map drawn by an Eeyore might show that every risk lies within the upper right-hand quadrant (i.e., the extremely likely and extremely severe category). These cynics may paint an overly frightful picture of risk because they'd rather overdo it than be wrong. Imagine if you estimated that your nonprofit had a very low risk of being affected by a natural disaster, and the next day your building was demolished by a hurricane. Now I've got you wondering… is it better to overestimate or underestimate when it comes to risk management? Do I want to be like Tigger or Eeyore?

The answer is that neither character has the perfect outlook on risk. Risk management is certainly a practice that can and should bolster the confidence of your stakeholders, and in that way it acts as a counterbalance to cynicism and stress. Perhaps it's best to sway slightly to the side of Tigger-using optimism to inspire proactive risk management, but being careful not to fall victim to a false sense of security or overly optimistic view of your preparation to address threats or seize opportunities. Maybe the best solution is to invite both Tiggers and Eeyores to join the risk management conversation at your nonprofit.

To learn more about the Optimism Bias, watch cognitive neuroscientist Tali Sharot's TED talk, which explains why our brains might be hardwired to look on the bright side.

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