Nonprofit Risk Management Center

The (Vivid) Red Car Syndrome

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This week I've been reading Rick Nason and Leslie Fleming's book, *Essentials of Enterprise Risk Management*. Nason and Fleming take the reader on an enjoyable and insightful tour of basic ERM concepts using a pull-no-punches style that is refreshing for a book on this topic. I especially like the sections of the book that led me to pause, re-read the passage and scribble notes and questions in the book's margins.

One of those memorable pauses happened when I reached "Chapter 6 – Measuring Risk." The authors write:

"The first reason for having a complete identification of risk is what we call the first law of risk management: the mere fact that you acknowledge that a risk exists automatically increases the probability and magnitude of it occurring if it is a good risk, or automatically decreases the probability and severity of it occurring if it is a bad risk. Basically by doing nothing more than identifying a risk you automatically improve outcomes."

I found this narrative interesting for two specific reasons. First, I question the idea that any risk champion or team can achieve a "complete identification of risk." Many nonprofit teams have certainly tried to do so, sometimes with lots of unintended negative consequences. In my experience, part of the reason risk management skills and identification of risk are becoming increasingly valued is that despite access to incalculable volumes of knowable information, events do not occur in the exact way we hoped or feared they would. It is impossible to identify or forecast all future risks.

The second thing that stopped me in my tracks (on the first page of Chapter 6) was a reminder to me of the tendency to be superstitious about risk. On more than a dozen occasions workshop attendees have asked me whether talking about a potential downside risk increases the likelihood that it will occur. I wrote about this tendency in a piece titled "Don't be Superstitious about Risk." Now Nason and Fleming have me rethinking my standard answer: "No, of course not!"

The authors' reference to the "first law of risk management" reminds me of a memorable line from another book: *Surviving and Thriving in Uncertainty: Creating the Risk Intelligent Enterprise* by Frederick Funston and Stephen Wagner. In that book Funston and Wagner write, "the crisis that you prepare for may not be the one you experience, but that preparation will improve your resilience, come what may." Or in the words of Dwight D. Eisenhower: ". . . I have always found that plans are useless, but planning is indispensable."

To explain how merely identifying risk "automatically" improves outcomes, Nason and Fleming refer to something I've always called "The Red Car Syndrome." The first car I purchased as a teen was a 1971 Fiat Spider convertible with an 850cc rear engine. My bold plan was to spend the winter months patching the rusted-out sections while my dad worked his magic on the engine block. Our collective labors paid off, although my dad still regrets lifting the engine out of the car and placing it on his workbench! We painted the car Vivid Red and with a few new panels securely attached with rivets and blemishes obscured with the contents of a small bucket of Bondo®, my first ride was roadworthy. As I admired the beautiful enamel finish, my dad explained that although Vivid Red wasn't an especially popular color and the Fiat 850 Spider wasn't a common car, now that I owned a Fiat 850 in Vivid Red I would start seeing a lot of other red cars and Fiats. And of course, he was right.

So what does the "The Red Car Syndrome" have to do with the benefit of identifying risk? Nason and Fleming write that after buying a car that you believe is unique or unusual, "it is still a fact that few people own that model of car, but what has changed is your level of awareness and your level of reaction to seeing people in that model of car. It's is the same with risk: if we are aware of a risk then we are quicker to perceive it if it does become a factor and thus more likely to exploit it if it is a good risk, or mitigate it if it is a negative risk."

Takeaways from this interesting passage in the book are:

- Risk identification has many potential benefits: some immediate and some a bit more subtle
- Remember that risk identification shouldn't be limited to what could go wrong; there are often surprising upsides to downside events, and many risks lead to bountiful rewards
- Don't be afraid to name the downside or upside risks facing your nonprofit: the first law of risk management makes the 'naming' and identification of risk worthwhile
- Leverage your investments in risk identification by taking the next steps: deciding what to do or not to do to exploit the named opportunity or reduce the likelihood or negative effects of the downside risks

"The Red Car Syndrome" goes by a number of names to describe similar phenomenon, aka: Baader-Meinhof Effect, Confirmation Bias, or consilience (a convergence of evidence). Some may call it serendipity. The important thing to remember is that acknowledgement of risk doesn't increase or decrease the manifest odds of a risk; however, recognition does lead to discovery and identification, which will improve your foresight.

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