

"The art of leadership and governance is fundamentally about judgment and decision-making.....So, while the events of the recent past have made a strong case for revisiting how risk is conventionally understood and managed, the best way forward remains unclear for many, beginning with who has the authority and who is responsible." – DELOITTE

Highly Risk Intelligent Local Governments



Why Risk Intelligence matters for stakeholder confidence in Local Government and what today's leaders are doing.

Before Getting Started:

Does the success of local government leadership, governance and administration depend upon sound judgment in the face of uncertainty and turbulent conditions?

Does risk intelligence have far-reaching positive consequences?

Is a risk intelligent mindset considered essential to personal and organizational readiness, reliability and resilience

Is it possible to broadly advance the skills of risk intelligence at a low cost?

When is it *un*acceptable to *not* know your local government's level of risk intelligence?

Are most or all of these terms part of the definition of R-I-S-K in your local government?

- Peril, hazard, condition; loss exposure;
- Fear, anger, adverse results;
- Opportunity, chance;
- The effect of uncertainty on objectives.

Which of the terms above best expresses both the positive and negative value of R-I-S-K?

Is there a definition of R-I-S-K that best helps sustain efforts to improve engagement, decision-making, and public service outcomes?



In their 2019 book *Agility: How to Navigate the Unknown and Seize Opportunity in a World of Disruption*, financial executive Leo Tilman and retired General Charles H. Jacoby Jr., describe *risk intelligence* as “a cornerstone of organizational agility.”

Table of Contents

Highly Risk Intelligent: Decision-making Mindsets, Skills and Systems Integration are Essential	3
Open, Dynamic, Distributed Activities are Difficult to Improve.	4
Coming Out of 2020 and 2021: Quick Take on Risk Intelligence	4
Emergence of Ten Skills of Risk Intelligence	5
Risk Intelligence: A New Approach.	9
Highly Risk Intelligent is the Way Forward	10
Five Levels of Risk Intelligence Maturity	11
Establishing Your Risk Intelligence Growth Program	14
Putting It All Together	15

Highly Risk Intelligent:

Decision-making Mindsets, Skills and Systems Integration are Essential

Movies tend to bring us closer together in shared experiences. Sometimes the lessons imparted through the cinematic arts are obvious. All too often the lessons are obscured or lost in the drama and special effects.

What would your take-a-ways be if you experienced the following four movies with the mindset of a risk intelligent administrator?

- Moneyball
- The Blindside
- Hidden Figures
- Ford v. Ferrari

At first, your focus might be on the uphill battles faced by the characters in these movies and the thrill of winning. Here's why a closer look is warranted:

From *Moneyball*, you can gain a greater appreciation for an *elegant solution* – the idea that a better approach is one that accomplishes the desired outcome with a different process that uses fewer resources. The General Manager of the Oakland Athletics demonstrated this repeatedly in his methods of selecting players with discipline at the plate.

The Blindside can reinforce the notion of being a “left tackle” for your entity – in this respect, you serve in the crucial role of protecting the highest-level signal caller(s) from making decision-making errors.

In addition to reminding you about challenges of computing in the early days of NASA, *Hidden Figures* can help you gain a holistic perspective on advancing in spite of adversity. The movie underscores the value of a strong supporting cast in order to deal with distractions, pulling together all the facts, and delivering results right on time.

Even though *Ford v. Ferrari* is a great story about high performance and endurance, it also highlights the importance of good braking, steering, and well-planned time-outs. Embedded within *Ford v. Ferrari* is the story of Shelby Motors that proved to be the decisive additive ingredient in winning the 1964 LeMans auto race. The movie dramatically illustrates the importance of “*thinking fast and slow*” – a reminder that every decision-maker must understand System 1 and System 2 thinking.

Together, these four movies underscore why the “people side of risk” matters as much as a “probabilities side of risk” to the advancement of individual and entity-wide risk intelligence mindsets.

Risk intelligence is... shared knowledge about the effects of uncertainty, combined with the essential language, skills, and tools it chooses to help achieve better outcomes.

Risk Intelligence is sometimes boiled down to the simple notion of “looking both ways” or to use the baseball analogy, “being a switch hitter.” In the pages that follow,

System 1 – Our reflexive thinking.

System 2 – Our reflective thinking.

As Daniel Kahneman explained in his book, Thinking, Fast and Slow, we use both systems all the time.

How well we manage them and recognize the traps of cognitive biases makes all the difference in decision-making.

we explore how an entire local government can turn on and power up the capacity, skills and support to become highly risk intelligent.

Open, Dynamic, Distributed Activities are Difficult to Improve

The complexity of managing public service settings is evident to most people. Every size entity faces challenges from waves of growth and change in regulations, velocity in emerging issues, disruptive innovations, and unprecedented digital and A.I. challenges. Keeping every change in strategy, policy, operations, and processes aligned is a significant challenge for governing bodies and management professionals throughout all levels of the local government.

Even the seemingly simple task of transporting waste now takes constant re-adjustment and agility. Making all the right connections between homes and recycling centers is a sophisticated logistics activity made even more demanding by a declining pool of eligible drivers and almost no incentive for the upwardly mobile to participate in safely delivering valuable cargo.

A lot of energy can be expended in creating an office of risk management administration within a local government in order to perform routines related to insurance procurement, asset inventory, and claims management. This evolution typically occurs when there are too many tasks for a single administrator in HR or Finance to handle efficiently. The reality of the modern local government enterprise combined with the interconnected effects of uncertainty on objectives requires that top administrators join organizational thought leaders in their approach to risk intelligence.

Coming Out of 2020 and 2021 and a Quick Take on Risk Intelligence

While a few outright failures have surfaced from the aftermath of two years of pandemic, the majority of local governments managed to keep things on a fairly even keel. Diving deeper, one finds within entities many individual departments struggling to overcome barriers to high achievement and administrators weighed down, carrying human capital and deferred improvement burdens never experienced before. Exceptional entities navigated the Covid-19 pandemic with agility and continue to thrive.

A rapid exodus of employees and administrators is perpetuating the worst impact of the pandemic. What started with a disease crisis has mushroomed into a mental health meltdown for a large number of employees, and the broader citizenry. Psychological – emotional safety is under siege by the

forces of super-heated political rhetoric and the elusive nemesis generously referred to as “social media.” Safety initiatives are often attempted in isolation from the outside community. Local Governments face an environment of volatility, uncertainty, complexity, and ambiguity, commonly known as V.U.C.A.

Success going forward requires incorporating time-tested organizational development lessons from Deming on productivity, Drucker on effectiveness, and Senge on learning organizations, together with contributors in the realm of prevention science. Ultimately, administrators must find new ways to keep public outrage from being instantly turned into hardening incivility. Today's leaders need the traits of calm activists, steady statesmen, and generous sherpas to move things forward. A few Gandhis, Mandelas, Mother Teresas, and Nightingales to support them would also help.

Emergence of Ten Skills of Risk Intelligence

Some contributors to our current understanding of risk intelligence were originally convinced that the underlying concepts and skills could only be learned through experience. This helps explain the scarcity of reference books on the subject and why the development of a professional education curriculum has been slow in coming. One of the first complete skillsets for risk intelligence was devised sometime

In Simple Terms: The Concept of Risk Intelligence From Different Views

Risk intelligence is an emerging concept concern in the educational arena. This is how prominent thought leaders try to promote understanding:

- Dylan Evans, UK philosopher and psychologist, views risk intelligence as “a special kind of intelligence for thinking about risk and uncertainty.” It’s his belief that the core element of risk intelligence is the ability to estimate probabilities accurately.
- In contrast, David Apgar, US business writer, defines risk intelligence “as the capacity to learn about risk from experience.”
- According to author, educator and capital asset manager Leo Tilman, risk intelligence has three key elements: “(1) The organizational ability to think holistically about risk and uncertainty, (2) speak a common risk language, and (3) effectively use forward-looking risk concepts and tools in making better decisions, alleviating threats, capitalizing on opportunities, and creating lasting value.”
- Deloitte consulting practice leaders Rick Funston and Stephen Wagner explain risk intelligence as a dynamic approach to protect and create value amid uncertainty. For them, it is an enterprise wide process for integrating people, processes (systems), and tools to increase information available for improved decision-making.

between 2005-2010 by Frederick Funston and Stephen Wagner, veteran C-suite consultants with Deloitte, LLP.

The first-ever framework of risk intelligence skills for an entire workforce was introduced in 2017. It closely follows the example of Funston and Wagner. The ten skills are arranged in a manner intended to make them easy to learn and apply to every day decisions at all levels in the **local government** arena. The developer envisioned participants in a formal process of learning, wherein they acquire the skills in a particular order, visualized as a “home plate” and a “radar screen.” Additionally, participants would learn how to use another visualization technique to “trace ten points in a diamond” as a means of recalling and connecting all the skills.

The paragraphs that follow briefly describe each of the first five skills. The first two skills are:

1. **Define Reality:** The skill of defining reality is the necessary starting point in considering value and risks and ways of addressing them. Leaders grasp the changing conditions, the state of operating systems, and the condition of their relationships with all stakeholders. They check assumptions about their environment and business model, and examine the contrasting alternatives to better foresee the characteristics of major shifts and assess whether they are beneficial or adverse to the **local government**.
2. **Fine Tune Systems:** The skill of tuning systems is concerned with making critical adjustments and managing key connections. Leaders grasp the complexity and interconnectedness of the global and local business environment and see how one set of events can affect another. They use corresponding tools to understand critical dependencies, how long the organization can go without them, and how it can improve its chances of thriving in the face of profound disruption or opportunity for the **local government**..

The next three skills are:

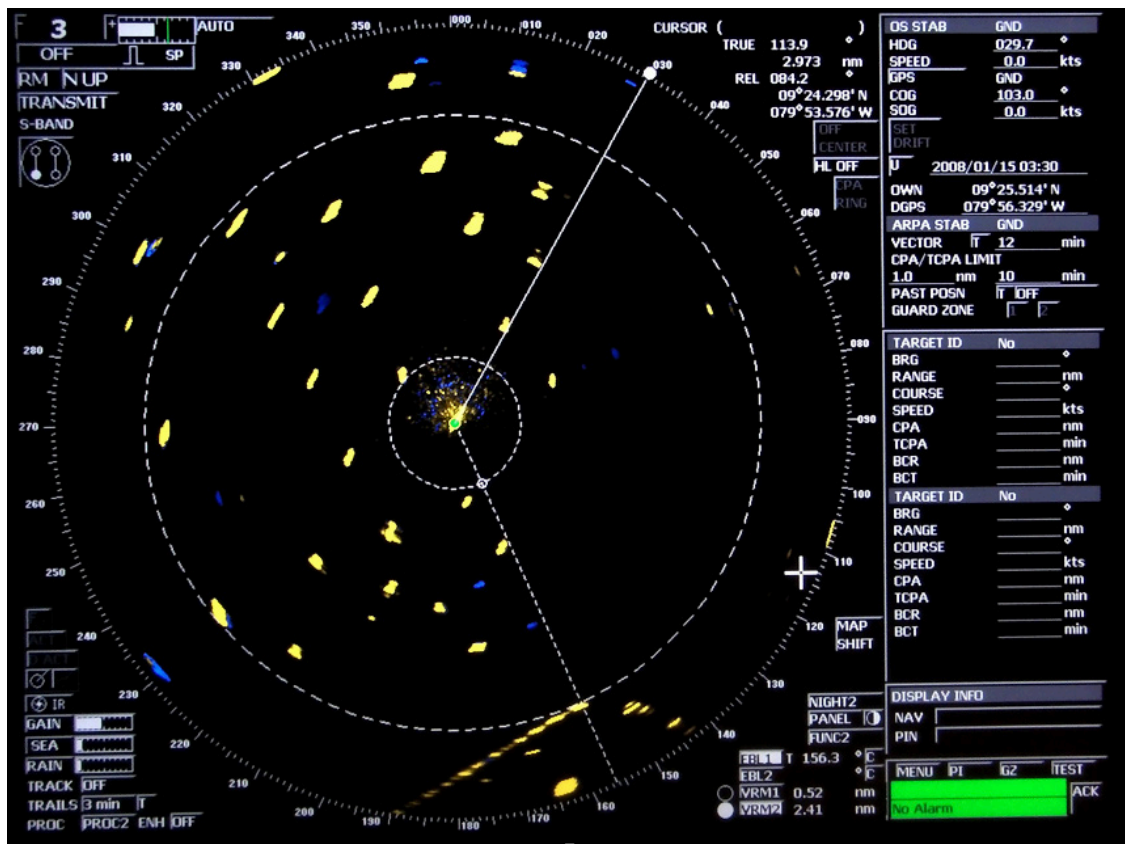
3. **Boost Confidence:** The skill of boosting confidence focuses on creating a margin of safety, avoiding over leverage and low performance to give the organization room for error. Leaders use approaches that enhance current abilities, while also knowing the limitations of new people, processes and equipment. They galvanize support for initiatives and programs that foster better decisions and improved practices, while installing evidence-based approaches that generate enthusiasm for the vision, mission and goals of the **local government**..

4. **Balance Exposures:** The skill of balancing exposures entails distinguishing between risks that are acceptable, better and best for current organizational capabilities. Leaders define the types of risk and tolerance for various outcomes according to the type of exposure under consideration. They take enough of the right risks, **and** create sustainable advantage with calculated risk sharing, **while** understanding that all risks cannot be eliminated and not all decisions produce optimal results for the **local government**.

5. **Perpetuate Ownership:** The skill of perpetuating ownership is about producing sustained commitment to operational discipline and preservation of institutional knowledge and responsibility. Leaders understand the positive aspects of organizational culture and employ practices that “do more of what works.” They foster an ownership mindset so that every individual accepts personal responsibility and cooperates for long-term benefit, with high standards of performance and integrity over the course of challenges as well as extraordinary success for the **local government**.

And, the last five skills create competency for moving forward in continuously changing conditions. Together, they may bring to mind the image of a commercial ship's radar screen or a similar one used by air traffic controllers. For each of these general skills, there will almost always be specific refinements for different operating spaces, functional responsibilities, specific disciplines and the **local government** as a whole. The paragraphs that follow briefly describe these skills:

6. **Set Perimeter:** The skill of setting perimeters entails judging the relevance of events that shape the environment, weighing news and divergent insights, and imagining the vulnerabilities of the **local governments's** physical and digital secure zone. It calls for establishing the time horizons of possible breakdowns, program run times, shelf-life expirations, system life-spans, and possible intrusions. Rapid adoption of cloud and mobile data adds to the challenge of security technology decisions. Accurate conception of secondary operating perimeters is increasingly necessary.



7. **Scrub Data:** The skill of scrubbing data is foremost about verifying sources and corroborating information. The extent of this skill is not confined to simply removing errors in computer/digital system data files. More broadly it entails checking assumptions and taking measures to address the whole range of cognitive biases. Leaders must ensure that assessments of threats and opportunities are accurate and avoid mindset traps, blindspots, fallacies, and group think. Information management is vital. As people and systems change, information volume and recall changes make it ever more important to identify patterns, inaccuracies and cascading errors.
8. **Place Sensors:** The skill of placing sensors is about “risk sensing,” signal detection, and anticipating causes of failure. It entails appointment of trusty sentinels, defining their roles and responsibilities, and optimizing the types and locations of notifications and alarms. Once alerted to a possible issue, the “risk owner” must activate the appropriate response to contain the impact. Sensor placing skill includes use of relevant news and subject matter sources, as well as routine maintenance of enterprise level alerts and the fundamental task of battery checks. Prudent sensor placing routinely tests sentinel awareness and sensor placement to ensure the human-technology system is intact and fully connected.

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9. **Clock Movements:** The skill of clocking movements entails factoring in the velocity and momentum of change from on-coming events and duration of lingering effects of recent events. It is recognition of time horizons, milestones, planning cycles, and setting the length of time for results or a decision to exit, sunset or discontinue a program or ownership of a physical asset, investment, or intangible. Applying the clock is fundamentally about adequate preparation and attention to the direction, speed and pace of change in the operating environment.
 10. **Monitor Disruptors:** The skill of monitoring disruptors is about maintaining constant vigilance and grasping the full picture in every situation. It entails unscrambling mixed messages and keeping sight of objectives when the prevailing tendency may lean toward playing whack-a-mole. It is the energy and enthusiasm to stay on point at all times, to check for nearsightedness, maintain peripheral vision, and to sort distracting and meaningless minutia from nuggets of priceless insight.

Risk intelligence: A new approach

The concept of risk intelligence can be understood as practices that go before, along with, and beyond risk management. Whenever there is a concern for safety and security, there is also the necessity of risk intelligence. Conventional risk management usually falls short in advancing better decision-making processes related to local government operations and service strategies. When risk is defined only as the failure to adequately protect existing assets and prevent loss, the rewards of reasoned, calculated risk taking are often neglected at potentially high cost to the local government's future success.

Risk intelligence is an antidote for excessive fear and doubt. While the protection of existing assets is necessary, it is not sufficient for student achievement. Nor is crisis management a desirable means for creating opportunities for today's students as they grow to

become tomorrow's citizens.

Organizational strategists apply risk intelligence when discussing integrative systems. It belongs in any conversation about improving readiness, reliability, resilience, agility, governance, compliance, strategy, value creation, well-being and leadership. Ultimately, everyone in the local government has a role to play, because risk-related decisions are made daily at every level of the enterprise.

Risk intelligence equips boards and leadership teams with new ways of seeing, out of which emerge new ways of thinking about strategy, communication, and organizational design.

- Deloitte

Highly Risk Intelligent is the Way Forward

Improving consequential decision making in order to meet the expectations of stakeholders is an imperative for K12 leaders.

Best practice models for thinking and acting are frequently depicted as three-dimensional and operational at the same time on multiple levels. Using the analogy of a cooking team, teaching cohort, or mechanic crew can help highlight the importance of shared mindset and smooth interplay necessary for reaching a state of high risk intelligence.

A 3-D framework for risk intelligence is suggested in this case, and it should operate at four levels as follows:

- At the first level - the base of outcomes - the three dimensions of risk intelligence are readiness, reliability and resilience.
- At the second level - the means of activation- the three dimensions of risk intelligence are holistic thinking, common language about risk, and predictive tools.
- At the third level - core of learning - the three dimensions of risk intelligence are concepts, supports and skills.
- At the fourth level - structure of agency - the three dimensions of risk intelligence are personal, team and enterprise.

As shown below, the use of a tetrahedron helps illustrate the 3-D framework.

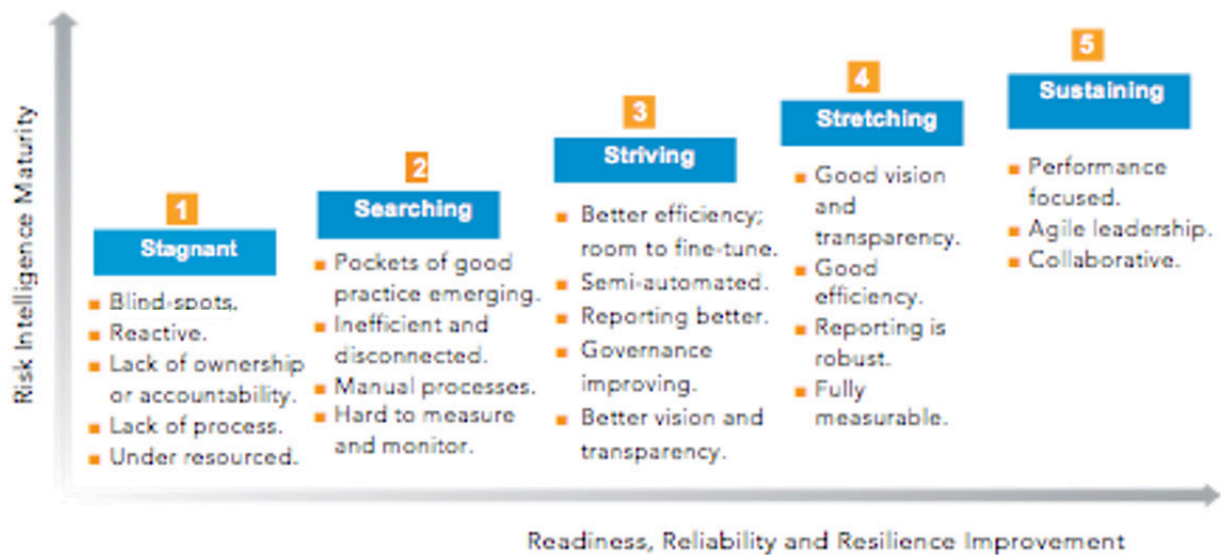


Five Levels of Risk Intelligence Maturity

Local governments should understand how to monitor the growth and application of risk intelligence. A sound measurement process will help ensure that assessments are performed to properly gauge whether exposures exist in the right mix, consistent with thoughtful reflection on a reasonable “risk appetite.” Ultimately, Risk Intelligence should be treated as a component of the public service and fiscal health balanced scorecard.

Mature risk intelligence is a function of sound risk governance and leadership. This requires a top-down view of **local government** wide strategies and programs, led by the **Administrator** and the Board. Maturity also means bottom-up engagement, where teams identify and monitor the growth of their risk intelligence. Risk intelligence should be embedded in the fiber and fabric of **local government** culture.

The **Local Government Insurance Trust** has begun designing a Risk Intelligence Maturity Model to serve as a roadmap for accelerating the journey from an existing baseline of risk intelligence to a position as a highly risk intelligent **local government**. Maturity in this context is the ability to fully understand the environment and advance consistently toward **local government** goals and objectives.



At the Sustaining Level of maturity, the local government has completely moved to an integrated approach to readiness, reliability and resilience that includes an understanding of exposures and risk treatment in the context of performance and objectives. Consistent risk intelligence processes span the entire organization and ecosystem. 80% or more of current employees can apply the ten skills of risk intelligence.

Each of the five levels of maturity is described briefly in the following paragraphs.

1: Stagnant

Districts at the Stagnant stage of maturity have reactive approaches to readiness, reliability and resilience, doing assessments only when mandated to do so. Administrator's commitment to growing their risk intelligence is limited and few if any resources are allocated to professional development that increases decision-making capacity. There is almost no ownership or formal monitoring of hazards integration of effort information and processes in context of objectives, strategy, performance, and business change.

2: Searching

At the Searching levels there are some departments with some focus on risk management and business continuity within respective areas, yet they remain disconnected and inconsistent. Information and processes are unnecessarily redundant and lack integration. The approaches to readiness, reliability and resilience are very compliance oriented and document-centric. Manual processes and absence of standardization is common.

3: Striving

At the Striving level there are some areas of readiness, reliability and resilience

Characteristics of the **Stagnant** level are:

- Ad hoc or chaotic responses to risk
- Possibly strong verbal traditions, but few clearly defined policies and procedures.
- Record of missed opportunities and inconsistent responses to recurring problems.
- Responses based on individual heroics, capabilities, and verbal traditions.
- Little or no learning captured from experience.
- Individual and/or specialist reactions to adverse events and opportunities.
- Discrete management roles established for a small set of risks.
- Lack of coordinated response.
- Lack of common language of risk and value.
- Learning occurs primarily within silos, with little knowledge sharing.
- Potential to experience multiple crises, often moving from one to the next

Characteristics of the **Searching** level are:

- Siloed approach to risk and continuity/resilience in different departments.
- Starting to determine a roadmap, with pockets of good practice emerging.
- Basic continuity plans and understanding of risk in place, and some standardization and qualification of risk.
- Risk Intelligence framework agreed on; not implemented.
- Risk Intelligence governance and processes not fully embedded.
- Processes are defined at the department level.
- Some aspects of Risk Intelligence; not in an integrated or structured way.
- No integration or sharing of continuity plans between functions.
- Reliance on fragmented technology and lots of documents.
- Measurement and trending are difficult.

that are managed well at a department level, but it lacks integration to address risk intelligence across departments. Districts at the Striving level will have defined processes in some departments or business functions, but there is no consistency. Risk intelligence processes have the beginning of an integrated information architecture supported by technology and ongoing reporting. Accountability and oversight for certain domains such as business continuity, disaster recovery, and/or enterprise and operational risk management are beginning to emerge.

4: Stretching

At the Stretching level there is some level of cross department strategy for managing readiness, reliability and resilience across departments and functions. Risk intelligence is aligned across several departments to provide consistent strategy, frameworks and processes supported by a common risk resilience information and technology architecture.

5: Sustaining

At the Sustaining level, the local government has completely moved to an integrated approach to risk and resilience management across the business that includes an understanding of risk and compliance in context of performance and objectives. Consistent risk intelligence processes span the entire entity and its ecosystem. Stakeholders benefit from consistent, relevant, and harmonized processes for risk intelligence with minimal overhead.

Characteristics of the **Striving** level are:

- Good tone set at the top and clear values.
- A well-defined and communicated framework for policies, procedures, and risk authorities.
- Defined business-function responsibilities for risk management.
- Primarily qualitative risk assessments.
- Largely reactive but some shared learning and proactive responses.
- Improved chances of surviving and thriving.

Characteristics of the **Stretching** level are:

- Integrated proactive responses to both adverse and opportunistic events. Performance-linked risk and value metrics. (qualitative and quantitative) Timely and rapid escalation of risks and opportunities to decision makers. Cultural transformation underway. Bottom-up as well as top-down communications.

Characteristics of the **Sustaining** level are:

- “Felt” leadership and the right tone at top, middle, and bottom.
- Key risk and value factors built into all key decision-making processes. (risk ownership is everyone’s job)
- Common adoption of risk intelligence skills and a resulting high state of vigilance and preparedness.
- Effective signal detection of potential shifts in the environment or local government activities.
- Decision interactions managed with incentives.
- Sustainable activities model and practices that improve chances of balanced scorecard success.

The Sustaining level is where highly risk intelligent local governments enjoy the greatest balance in collaborative readiness, reliability and resilience. Their maturity allows for some department/business functional autonomy where needed, and maintains a common governance model and architecture. The Sustaining level is characterized by agility and the capabilities to connect, understand, analyze, and monitor relationships and underlying patterns of impact on performance objectives.



Establishing Your Local Government Risk Intelligence Growth Program

To achieve the full benefits from risk intelligence, the following steps should be taken:

- **Gain internal support and sponsorship of the risk intelligence growth strategy.** local government leaders should work in harmony to advance readiness, reliability and resilience. Top administrator support is critical to align the strategy for raising risk intelligence.
- **Establish a dedicated cross-functional team focused on powering up professional development cohorts.** This team can identify strengths within existing functions and help champion an empowerment program that determines the baseline risk intelligence level. The goal of this team should be to develop learning processes and sharing information.
- **Adopt a Risk Intelligence framework.** Define who “owns the risk,” identify the subject matter experts for exposures, and which function or process monitors exposures. Policies, controls, and issues should be mapped back to the framework.
- **Anchor Risk Intelligence in the Culture.** While management can create robust risk management techniques and guidelines, it is usually the “unwritten” norms that govern behaviors. Open the lines of communication to help build promote holistic thinking, a common language about risk and greater use of forward-looking tools.

Putting It All Together

The importance of executive leadership – including setting the **local government's** ethical stance, voice, and culture – is essential to building and sustaining risk intelligence. Failure to adapt, flying blind, or “playing musical chairs” have all led to major setbacks for districts. Training, cameras, and seat belts provide a certain degree of security. Handrails and PPE are just a small part of a safety program. Without sufficient risk intelligence, unfortunately there will be more gaps, more disruptions, more oversights, and ultimately more missed goals, injuries, and added costs.

Risk intelligent administrators understand that conventional safety and risk management only go so far. They also recognize the opportunities interwoven in every challenge. A culture that recognizes well thought out ownership of risk is essential for dealing with the complexity in today's **local government** operations. Greater risk intelligence will help everyone define reality, appreciate limitations, and improve the culture and skills that keep **local governments** functioning at peak performance over the long run.

End Notes:

1. On the title page, "Deloitte" refers to Deloitte, LLP, an international accounting and auditing service firm that produced a white paper series on the subject of risk intelligence.
2. On p. 3, System 1 and System 2 are terms used by Dr. Daniel Kahneman in his book, Thinking, Fast and Slow.
3. On p.5, "Deming" refers to Dr. W. Edwards Deming, "Drucker" refers to Dr. Peter Drucker, and "Senge" refers to Dr. Peter Senge; all three are cited for contributions to organizational and learning systems improvement.
4. On p. 11, "risk appetite" refers to a local government's financial capacity and willingness to retain exposure to financial and operational loss. Usually this appetite is expressed in dollar terms on annual aggregate and/or specific basis; it can also be stated as downtime, delays, disruption and other measures of productivity loss.

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