

CORPORATE STRUCTURE AND PREVENTION: THE THREE LINES MODEL APPLIED TO LATIN AMERICAN COMPANIES

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Abstract

How to cite this paper: Lizarzaburu, E., Burneo Farfan, K., Camacho, M., & García-Gómez, C. D. (2024). Corporate structure and prevention: The three lines model applied to Latin American companies. *Corporate & Business Strategy Review*, 5(1), 226–240.
<https://doi.org/10.22495/cbsrv5i1art21>

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ISSN Online: 2708-4965

ISSN Print: 2708-9924

Received: 07.08.2023

Accepted: 06.02.2024

JEL Classification: G1, M14, M16

DOI: 10.22495/cbsrv5i1art21

The economic environment in which enterprises operate is increasingly harsh and complex, making business more complex, volatile and uncertain. This context requires a change in the management model based on the three fundamental pillars of governance, risk management and regulatory compliance. In this sense, the presentation of the three-line model is considered particularly useful, as it has become one of the most recognized management tools internationally due to its flexibility and adaptability. Therefore, the purpose of this study is to examine the current literature on this management model and then analyze its applicability in business practice through a case study. In particular, the analysis of four companies in the Ibero-American energy sector (Petrobras, Codelco, Ecopetrol, and Iberdrola) reveals that, although the adaptation of the model is generally comprehensive and universal in all aspects, its flexibility is very large allows adaptation to any organization's needs and structure. Finally, the study draws some conclusions weighing the theoretical development of the three-line model and its applicability and usefulness to managers as well as researchers and legislators who want to strengthen national business structures.

Keywords: Corporate Governance, Risk, Audit, Quality, Compliance, Business Management, Ibero-America, Case Study

Authors' individual contribution: Conceptualization — E.L.; Formal Analysis — C.D.G.-G.; Investigation — E.L.; Resources — M.C.; Writing — Original Draft — E.L.; Writing — Review & Editing — K.B.F. and M.C.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

Organizations face a range of internal negative situations that undermine their performance and effectiveness, including bribery and fraud (Shepherd & Button, 2019). The Spanish Association for Standardization and Certification (AENOR) points out that bribery is one of the most commonly

employed corrupt practices in the business world. In addition, Ayala Reyes (2020) highlights that practices such as influence peddling and bribery are not a recent phenomenon; instead, they have been impacting our societies' economic systems since ancient times.

Which are the main factors that have an influence on this phenomenon? There are

external factors that impact organizations and according to the document published on Global Perspectives and Perceptions of the Institute of Internal Auditors Global (IIA), climate change, technological changes, the COVID-19 pandemic, economic disparity, among others, are factors that hinder the actions of organizations (Bantleon et al., 2021). Consequently, the management and governing bodies of organizations face difficulties such as changing markets, declining revenues and disruption of work environments. Recapitulating all of the above, Lizaraburu et al. (2017) refer that the workings of an organization encompass risks that must be managed. Therefore, the risk management process adds decision making taking into account uncertainty and considering the possibility of future events and circumstances and their impacts on the proposed objectives.

In order to achieve their objectives successfully, organizations must establish effective processes and structures (Wieland & Wallenburg, 2012). This should be complemented by robust risk management and corporate governance practices (IIA, 2020). The experience of the global pandemic, as highlighted by Tone at The Top (2021), has revealed that efficiency-focused models may lack the necessary adaptability to respond effectively to disruptions. Therefore, organizations should prioritize flexibility, which, according to Mendoza (2021), refers to the willingness and ability to change, allowing the organization to navigate in various directions. The first one is the corporate governance, comprehensive risk management, and compliance (GRC) program, enabling organizations to achieve their objectives and measure their performance results. The second model, gaining increasing importance, is the three lines model (M3L), previously known as the three lines of defense model (Davies & Zhivitskaya, 2018). This comprehensive approach helps organizations identify processes that facilitate performance improvement and goal attainment due to its holistic nature. Moreover, the M3L model can be implemented in various types of entities, including government agencies, for-profit companies, and not-for-profit organizations.

Finally, Martínez Gómez (2019) contends that the M3L is an efficient and straightforward approach to enhance control and communication in risk management by delineating responsibilities and related functions. This paper's primary objective is to elucidate the implementation of the M3L model and present the updated version, considering it as the foremost corporate practice in the global arena. The study accomplishes this by examining how the M3L model has been adapted and successfully implemented in four distinct organizations. To provide a comprehensive understanding, the paper employs figures and graphical summaries to illustrate the model's practical application and its impact on these organizations. This research concluded that when implementing the set of rules and processes, it is crucial to define the distinctions and boundaries in the functions of each agent participating in the three lines.

The rest of this paper is structured as follows. Section 2 reviews the relevant literature, focusing on corporate governance, risk and compliance, as well

as the structure and aspects of the three lines model. Section 3 analyses the methodology that has been used to conduct research on the importance of the tree lines model. Section 4 explains the application of the three lines model through the presentation of case studies. Finally, Section 5 exposes the conclusions of the present research.

2. LITERATURE REVIEW

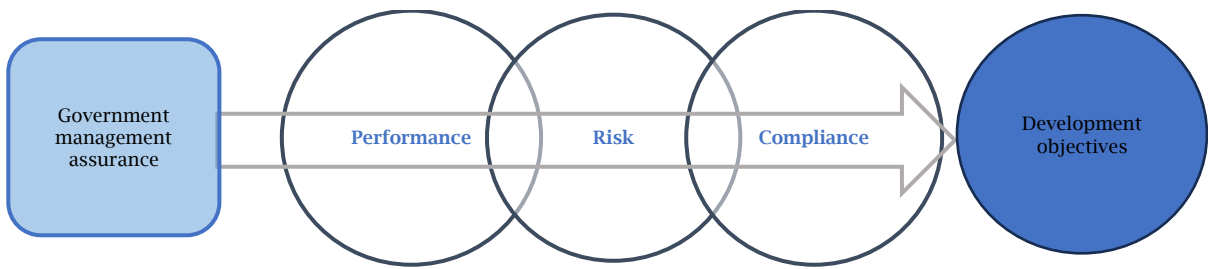
2.1. Corporate governance, risk and compliance

De la Peña Zarzuelo (2021) highlights that the corporate governance, risk and compliance (GRC) model encompasses a range of strategies and techniques that organizations should employ to effectively manage business risks and direct their corporate governance efforts. On the other hand, the responsibility of directing and managing an institution is immense, not only in terms of achieving stakeholder objectives but also in ensuring adherence to ethical, regulatory, and legal standards while navigating internal and external uncertainties (Shahim et al., 2012). In today's era of globalization, Ísmodes Cascón (2021) points out that organizations confront heightened challenges, complexity, and uncertainty, making comprehensive risk management an essential aspect of good corporate governance.

The GRC is the ideal model, since it enables an organization to achieve its objectives, combating uncertainty and promoting performance with integrity (Open Compliance and Ethics Group [OCEG], 2015; Celada López et al., 2016). Through this model, according to Ísmodes Cascón (2021) is intended to optimize corporate governance and management, ensure good performance, minimize risk and ensure compliance and control of operations, through a better use of resources and internal capabilities. So, the GRC model as an acronym involves, firstly, governance which is defined as a guide or governance translated into policies and procedures based on organizational vision, mission, culture, and objectives (Agarwal & Kallapur, 2018). Second, risk involves the application of procedures and structures that aid in the prediction, identification, analysis, and avoidance or transfer of risk to reduce the likelihood of unanticipated events occurring and provide more strategic decision-making (Bantleon et al., 2021). Finally, compliance refers to the way in which legal and voluntary requirements are inspected and proven to be adhered to and the way in which they are operated within the limits defined therein.

Nery Kameta et al. (2019) developed the concept of GRC, indicating that it is the ability to harmonize different activities for the purpose of securing, managing and governing various factors such as risk, compliance and performance to achieve organizational objectives. Also, the added value of the potential of GRC is standardization through a uniformization, alignment or instrumentation of ideas, depending on the degree of maturity of the concepts in action. The OCEG presents the framework for a GRC structure that provides an organization with a reliable method for achieving its objectives, acting with integrity and addressing uncertainty, as shown in Figure 1.

Figure 1. GRC general structure



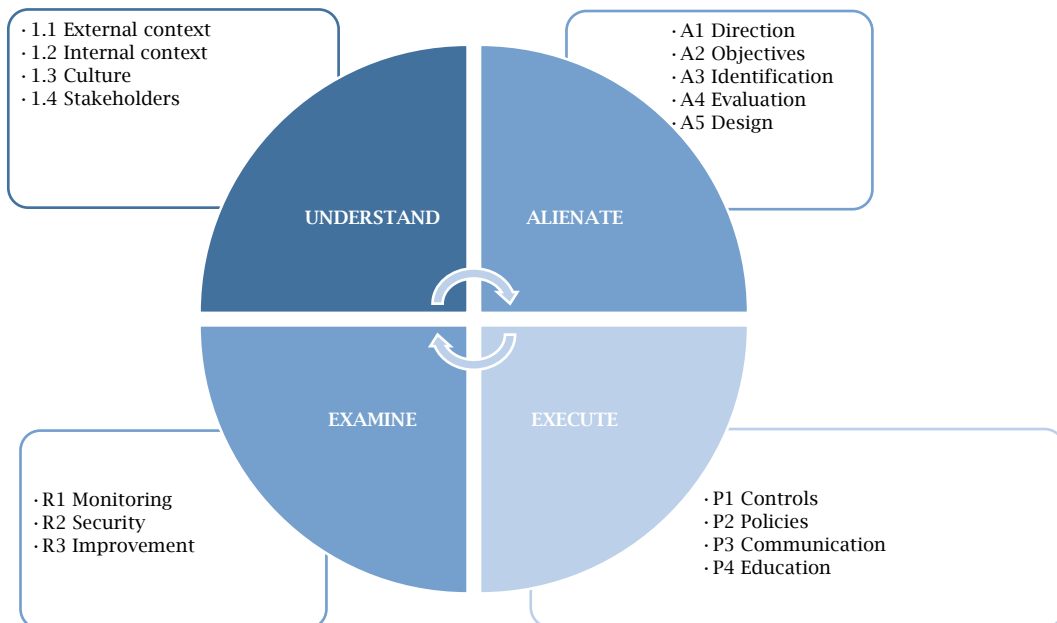
Source: OCEG (2015).

This scheme considers that the institution is systemic in nature and introduces complex and multiple correlations and interrelationships with management, governance, risk and compliance. De la Peña Zarzuelo (2021) states that in modern organizations risk management, management control and regulatory compliance have been modified towards an integral approach addressing

three fundamental elements: 1) governance, 2) risk and 3) compliance.

In that sense, the GRC capability model version 3.0, developed by the OCEG (2015), is the most comprehensive and widely used system, which helps to plan, evaluate and improve GRC capabilities.

Figure 2. GRC capability model



Source: OCEG (2015, p. 18).

In light of the above, Ísmodes Cascón (2021) emphasizes that the GRC model encompasses a set of functions that support the identification and implementation of solutions to achieve specific objectives. On the other hand, authors such as Vicente and Mira da Silva (2011) developed a conceptual model of GRC that provides further contributions to the GRC concept. They identify four main functions that are vital in GRC: 1) policy management, 2) audit management, 3) risk management, and 4) problem management (Racz et al., 2010). It also highlights the importance of internal controls as a crucial factor for the activities derived from the GRC model.

Finally, the implementation of GRC as a practical model in an organization has been attempted to be facilitated by different means (Aghabegloo, et al., 2022), among which OCEG through formalized documentation and processes,

freely available in its respective document on the subject, and also SAP software that addresses GRC functions integrally with automated tools.

2.2. The three lines model and structure of the model

Martínez Gómez (2019) states that the three lines of defence (3LD) model is an option to the systems and methods used by companies for organizational risk management that are implemented erroneously. According to IIA (2020), the three lines model is a fairly simple scheme, easy to understand and expose. Supported by six key criteria that drive entities to consider the functions necessary for effective corporate governance to help drive success (Bantleon et al., 2021; Iskak & Muslih, 2022).

The three lines model allows to establish more precisely the mechanisms and pathways for the realization of objectives that incentivize sound governance and appropriate risk management and compliance (Turner, 2022), by:

1. Adopting a standards-based strategy and adapting the model to the business context.
2. Understand the responsibilities and roles outlined in the Model and the linkages between them.
3. Develop and implement measures to ensure activities and objectives are aligned with stakeholder benefits.

According to Hernández (2017), founder of GRC Latin America, the three lines model is considered the best practice in the international environment and part of the GRC concept, being related because the first line of defence contemplates the governance initiatives proposed by the shareholders' meeting and the board of directors; the second line of defence contemplates the operational initiatives of the integral management related to risk and to those initiatives of regulatory compliance; finally, the third line of defence (today called only line) is in charge of the continuous control of the second line of defence (Davies & Zhivitskaya, 2018).

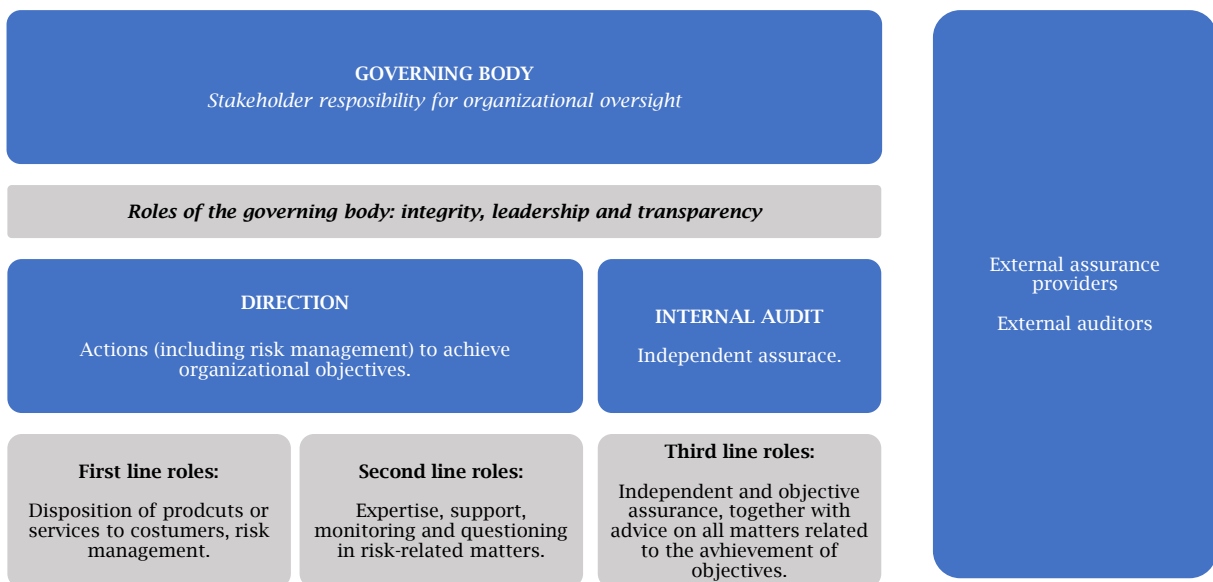
It should be noted that this model according to Rodríguez Galindo (2019) is viable for all types of organizations regardless of their complexity or size; since, its focus on the assignment of specific roles, among professionals, leverages the existing resources of the organization without falling into increased costs, which reinforces business security to the extent that it brings an improvement in

the control of business risks and compliance (Luburić, 2017; Vaughan, 2022).

Martínez Gómez (2019) expresses that the first line of defence is made up of management supervision and internal control measures, considering ethics. Likewise, operational managers, within the global context, can be identified as the management cell responsible for the production of quality tangible or intangible goods at the lowest possible cost, taking into account the established objectives, plans and strategies, through the efficient and effective use of existing resources. For all the above, Barrio Carvajal (2019) argues that these operational controls should be developed by senior management and the operational management, in order to incorporate corrective and preventive actions to minimize or eliminate the first line risk in the operation.

Next, the third line of defence is related to internal control and independent safeguarding. According to the IIA (2020), the internal control function provides a guarantee of independence and objectivity. According to Hernández (2017) can count on the independent cooperation of external auditors and other auditing organizations, in coordination with internal auditors, all of them can fulfil this task quite accurately and also as a fourth line of defence even. In summary, Cunha Araújo et al. (2019) consider that it can be concluded through the analysis of the three lines model that the objective of this model is to contribute to solve the problems that hinder the achievement of organizational objectives and that prevent the good performance of organizations.

Figure 3. The three lines model



Source: IIA (2020).

2.3. Relevant aspects of the three lines model

2.3.1. Governance

Hidalgo (2020) affirms that, for the improvement, achievement of goals and survival of the different organizations, appropriate corporate governance in risk management is needed, especially now, in

the current situation, where the main and most important concern is uncertainty. In other words, the term corporate governance refers to a set of rules and principles that regulate the design, integration and functioning of the organization's governance members, such as the three powers within a company: 1) shareholders, 2) board of directors and 3) senior management (Bantleon

et al., 2021). Adequate corporate governance, in turn, can provide the necessary incentives to safeguard the interests of the company and shareholders by ensuring the clarity of information to monitor the creation of value and the efficient use of resources.

2.3.2. Direction

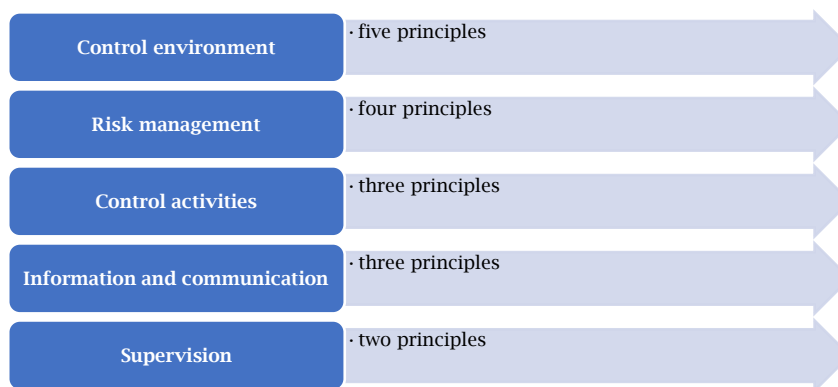
In his text, Munar Bautista (2019) states that the management is the one who makes decisions, measures effectiveness, efficiency, optimizes controls and introduces the necessary improvements to achieve the planned objectives. Likewise, the governing body is the one who will delegate the obligation of executing the organizational strategy to the management, assigning the appropriate resources for this function. In this way, the separation between governance and strategic execution is made clear. Management is an overall process that is responsible for managing productive resources and making decisions in order to achieve organizational objectives efficiently and effectively. Likewise, management is in charge of planning, organizing, coordinating and controlling all activities within the entity. In other words, it is the management, which transversally in the organization estimates a control and reports the result (Martínez Gómez, 2019).

2.3.3. Risk, quality, control and monitoring

Risk assessment has become a fundamental issue for all organizations. The management of “new” risks requires a holistic perspective and a panoramic insertion of risk management from different points of view. Within this management, it is necessary to assess two fundamental attributes: 1) the possibility of occurrence of risk events, and 2) the impact that such risk events could cause. While the Federal Supreme Audit Office (ASF) adds one more element which is 3) the nature of the risk occurrence (Bantleon et al., 2021). Therefore, the company is responsible for assessing the effectiveness of its internal control, once the most important risks have been detected.

In the process of establishing internal control, it is essential to determine whether the criteria considered are appropriate or sufficient for compliance, defence of integrity and precaution in acts of corruption within the different activities carried out by the organization. For this, it is necessary to take into account the nature, size and legal provision presented by the institution for the fulfilment of objectives, thereby the implementation of procedures and other standards will be adjusted to its specific circumstances (Anderson & Eubanks, 2015). The ASF establishes a scheme for internal control through a hierarchical structure of five components and 17 principles (corresponding to COSO’s Internal Control-Integrated Framework):

Figure 4. Internal control hierarchical structure



Source: Authors’ elaboration based on ASF.

2.3.4. Independent internal audit

The Institute of Internal Auditors (2017, as cited in Martínez Gómez, 2019), states that the independent internal audit is an activity of assurance and objective advice designed to add value and enhance the operations of an organization, helping the entity to achieve its objectives by providing a systematic and disciplined approach in order to examine and improve the effectiveness of risk management, control and governance processes.

Munar Bautista (2019) states that the role of Internal Audit in modern times necessitates a team of auditors who possess an in-depth understanding of the organization they work for, its processes, and risks. Key attributes for effective internal auditors include critical reasoning, excellent communication skills, emotional intelligence, negotiation abilities, and strong teamwork capabilities. Therefore, it is

stated that this activity should be a requirement of corporate governance in all organizations. Such activity is determined through accountability to the appropriate governing body; unrestricted availability to the people, data and resources essential to complete its work; and the omission of bias or interference in the planning and execution of audit services (IIA, 2020).

2.3.5. Compliance officer

D’Onofrio (2020) states that the figure of the compliance officer is exercised by a department or individual, whose purpose is to establish procedures to ensure both external and internal compliance with rules and values. In other words, it is not only interested in compliance with the law but also in compliance with organizational values (Turner, 2022). Therefore, it is an independent work

that detects, advises, warns, controls and reports compliance risks. Navas Mondaca (2021) considers it possible to clearly highlight a special duty on the part of the Compliance Officer corresponding to safeguarding the proper functioning of the prevention model that goes as far as the need to inform the organization's top management body of its functioning and status (Bantleon et al., 2021).

3. METHODOLOGY

Qualitative case study methods focus on understanding complex phenomena through the collection and analysis of non-numeric data such as observations, interviews, and documents. Case studies in qualitative research are important to thoroughly understand a specific case, such as in clinical fields, education, psychology, etc. This approach allows for a detailed and in-depth understanding of the case under study, resulting in new insights and theoretical insight (Hyett et al., 2014; Rashid et al., 2019).

Apart from this method, it could also be used quantitative research that will involve the collection and analysis of numerical data. This approach employs statistical methods to draw generalizable conclusions from a large sample. It should be done through surveys, experiments, and statistical analysis of existing data.

3.1. The three lines model: First line

This line could be defined as operational management because it is oriented to define the responsibility of process leaders and their teams as they are owners of the risk, so it is necessary to exercise self-control that involves the effective maintenance of internal controls. Likewise, it is important that this self-control is carried out effectively, so it is necessary a frequent assessment of the administration and thus comply with the objective of verifying whether the activities comply with the established criteria. In summary, according to Martínez Gómez (2019) the first line of defense is composed of management supervision and internal control guidelines.

Similarly, Cunha Araújo et al. (2019) state that the first line of defence of the model is represented by senior management and this should indicate the functions to reduce the risk of intentional activities, manage risks and execute corrective actions to remedy shortcomings in processes and controls, so that they are in harmony with the objectives and, finally, ensure optimal performance.

3.2. The three lines model: Second line

It is stated that the importance of this line lies in the fact that it is in charge of risk and compliance

management tasks and is oriented to Senior and Middle Management. Therefore, the duty of the second line is to ensure that the management procedures of the first line function correctly. Accordingly, in his text, Blanco-Mesa et al. (2019) argues that the second line helps to establish risk management and control processes. According to IIA (2020), second-line functions provide assistance in risk management. However, risk management accountability remains part of the first-line functions and within the management area. On the other hand, Martínez Gómez (2019) states that those in charge of this line, are the managers or heads of top or middle management who transversally in the organization evaluate and report results. In short, second-line functions provide expertise, questioning, monitoring and added scrutiny.

3.3. The three lines model: Third line

According to IIA (2020), the third line roles are provided by internal audit which is responsible for independent and objective assurance and guidance on the adequacy and effectiveness of governance and risk management. It reports its findings to the governing body and management to drive and support continuous improvement. Through these actions, the assurance of other internal and external suppliers can be considered. It is also essential that the contribution of the governing body together with the first, second- and third line functions are in harmony with each other and with the priority interests of the stakeholders. In summary, the third line is responsible for detecting areas of interest within its scope of control and also for providing the organization with the highest level of assurance (Blanco-Mesa et al., 2019).

4. CASE STUDIES: APPLICATION OF THE THREE LINES MODEL

The cases presented below represent the good practices carried out by leading companies in their sector in different Latin American countries and by a European company that is also a leader in its sector. The consideration of these cases in neighbouring and non-neighbouring countries obeys a common symptom in the Ibero-American region and could well model in some way the problems of corporate transparency and corruption that have damaged the institutional image of state-owned companies in different countries and that these, in turn, have taken on the challenge of mitigating and combating in a professional, methodological and committed manner (Martinez, 2020). The three lines model can be adapted to the cybersecurity risk in organizations as stated, in his text, by Barrio Carvajal (2019). Table 1 presents the summary and key indicators of the companies under study.

Table 1. Hierarchical structure of internal control

Company	Country of operations	GDP (% var.)			Inflation (% var.)			Commodity	Ranking corruption 2020-2021
		2019	2020	2021	2019	2020	2021		
Petrobras	Brazil	1.4%	-4.1%	4.5%	4.3%	4.5%	10.06%	Petroleum	38
Codelco	Chile	0.9%	-5.8%	4.9%	3.0%	3.0%	7.2%	Copper	67
Ecopetrol	Colombia	3.3%	-6.8%	9.5%	3.8%	1.6%	5.62%	Petroleum	39
Iberdola	Spain	2.1%	-10.8%	7.2%	0.8%	-0.5%	6.5%	Energy	62

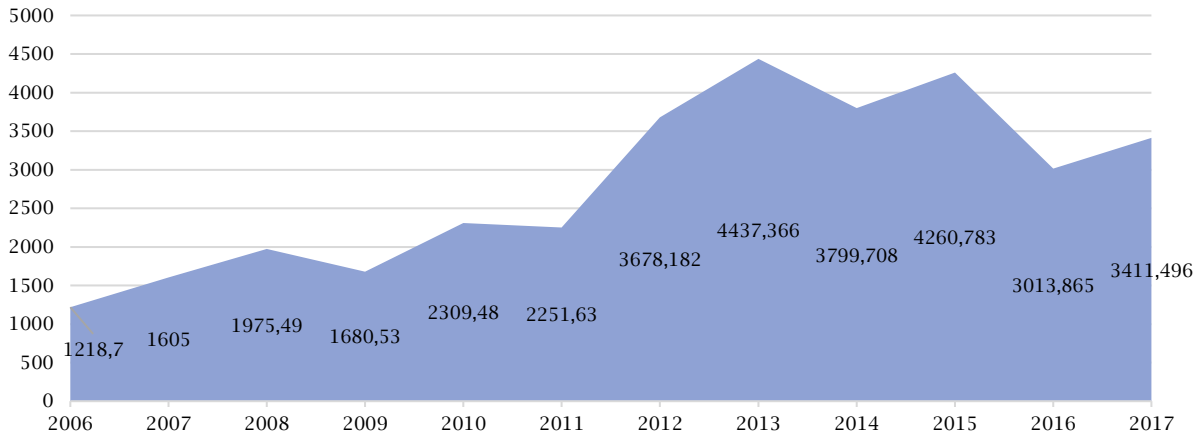
Source: Authors' elaboration based on World Bank data.

4.1. Codelco case: Chile

Codelco is a company belonging to the Chilean State, which is a leader in the global production of copper, where its core business is the exploration, development and exploitation of mining resources

to produce refined copper and by-products for subsequent marketing (Castañeda et al., 2016). Regarding its corporate business model, this originated in Law No. 20392 published in November 2009, and effective as of March 1, 2010.

Figure 5. Codelco: Financial investment

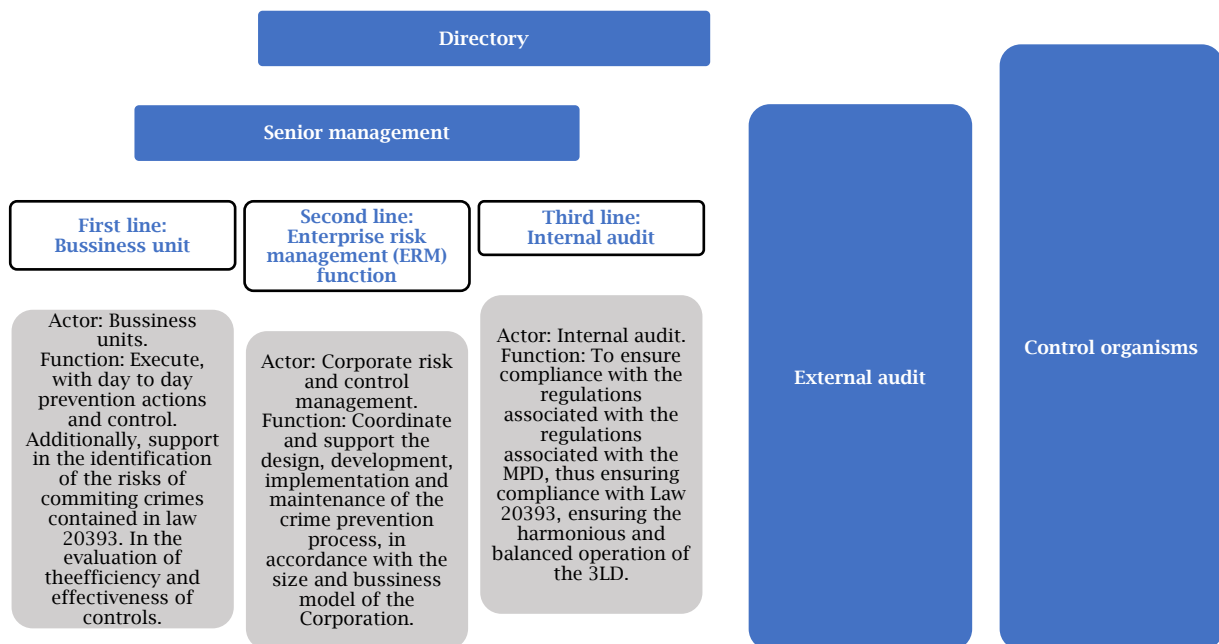


Source: www.ceicdata.com.

Codelco has stipulated and established a group of control instruments and operations that operate in the processes or activities exposed to the risks of crime, with the purpose of anticipating their materialization. The Codelco model is based on a set

of practices and formal tasks, which are grouped into the following three dimensions: 1) governance, 2) prevention processes and 3) compliance. Figure 6 presents a summary of the application of Codelco's three lines model.

Figure 6. Codelco: Three lines model



Source: Authors' elaboration.

As can be seen in Figure 6, the three lines model developed by Codelco, the first line represents the areas in charge of each process, who are responsible for determining, analyzing, evaluating and managing the threats that may harm the achievement of the objectives and goals of their

respective areas, processes or projects. According to Codelco's (2019) report, risk management is part of the organization's identity, which represents a point in favour of its management.

The second line is in charge of the corporate risk and control management and its divisional

directors, responsible for administering and managing the comprehensive risk management and control model. They are responsible for providing guidelines and directives to the first line, as well as overseeing the administration of the management system and supervising the action plans. This line is also responsible for monitoring and reporting

results to senior management and the board of directors. The three lines model accomplish to establish with greater precision the mechanisms and pathways to achieve the objectives that promote effective governance, as well as adequate risk management and compliance.

Table 2. Summary table

Company	Three lines model	First line	Second line	Third line
Codelco	Based on three dimensions: - governance, - prevention processes; - compliance.	Represents the areas responsible for each process, who are in charge of identifying, analyzing, evaluating and managing the risks that may affect the objectives and goals of their respective areas, processes or projects.	Responsible for administering and managing the comprehensive risk management and control model, as well as monitoring and reporting results to senior management and the board of directors. There are areas specialized in specific areas such as occupational health and safety, environment, communities, among others, which play a supporting role to the first line and follow up the action plans.	Composed of internal and external audits, among other control agencies. It is responsible for verifying the model and compliance with standards and procedures.

Source: Authors' elaboration.

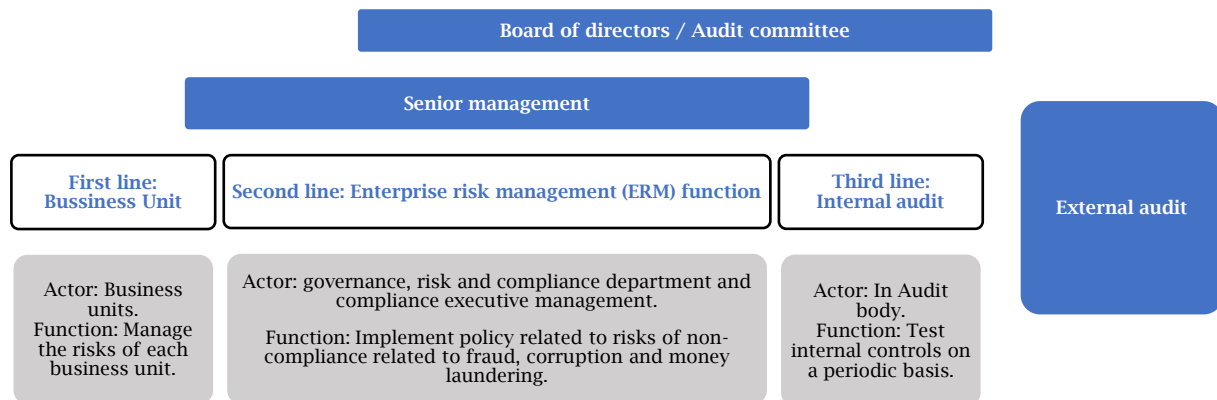
4.2. Petrobras case: Brazil

Petrobras is a Brazilian company dedicated to carry out operations related to the oil sector in Brazil on behalf of the nation. However, in 2014, the largest corruption scheme was found in this oil company, mobilizing between 2006 and 2014 around 3.85 billion dollars in terms of money laundering and overbilling, this through tenders in the application of the "Buy National" program (Ribeiro & Furtado, 2014). Although there is no consensus on the figures, it is estimated that, for about a decade, approximately twenty engineering and construction companies were illicitly assigned contracts with Petrobras for \$25 billion, of which between 8% and 10% would be illegal commissions. A portion of the money was laundered in Brazil through very different mechanisms, using gasoline stations, "lava jatos", which in Spanish means laundering of cars,

precious stones, works of art, properties or yachts. The other portion left the country using sophisticated "ghost" networks that "billed" for fictitious services (Chen & Soltes 2018). The company also implemented the Petrobras Corruption Prevention Program (PPPC) as an anti-corruption initiative. This program seeks to prevent personnel deviations towards illicit acts. It has a Code of Ethics, a Guide of Conduct and a Disciplinary Regime, in addition to a whistleblower channel available to both internal and external audiences (Windsor, 2022).

Petrobras' risk management is conducted at the corporate level, considering five major dimensions: 1) strategic, 2) operational, 3) business, 4) financial and 5) compliance. Thus, Petrobras adapts the three lines model for risk and compliance management. Figure 7 shows the application of Petrobras' three lines model.

Figure 7. Petrobras: Three lines model



Source: Authors' elaboration.

As can be seen in Figure 7, the board of directors, assisted by the Audit committee, is responsible for defining the level of risk to be assumed by the company and for monitoring corporate risk management. The first line is composed of the business units, where each unit is

responsible for managing the risks inherent to its area. The second line comprises the governance, risk and compliance department which, through the Compliance Executive Management, is responsible for implementing the policy related to non-compliance risks related to fraud, corruption

and money laundering. At the same time, the compliance executive management monitors and consolidates the actions mentioned in this program for subsequent presentation to senior management. The third line, composed of internal control, is responsible for carrying out internal controls and

subjecting the program to periodic evaluation. The three lines model achieved their objectives established at the beginning of the process and prevented future risk situations. Table 3 presents the summary table of the company under study.

Table 3. Summary table

Company	Three lines model	First line	Second line	Third line
Petrobras	Adapts the three-line model for risk and compliance management, considering five dimensions: - strategic; - operational; - business; - financial; - compliance.	Composed of the business units, responsible for managing the risks inherent to their unit.	Responsible for implementing, monitoring and consolidating the policy related to fraud, corruption and money laundering, for subsequent presentation to senior management.	Composed of internal audit, in charge of performing internal controls and subjecting the program to periodic evaluation in order to verify its effectiveness, compliance and identify opportunities for improvement.

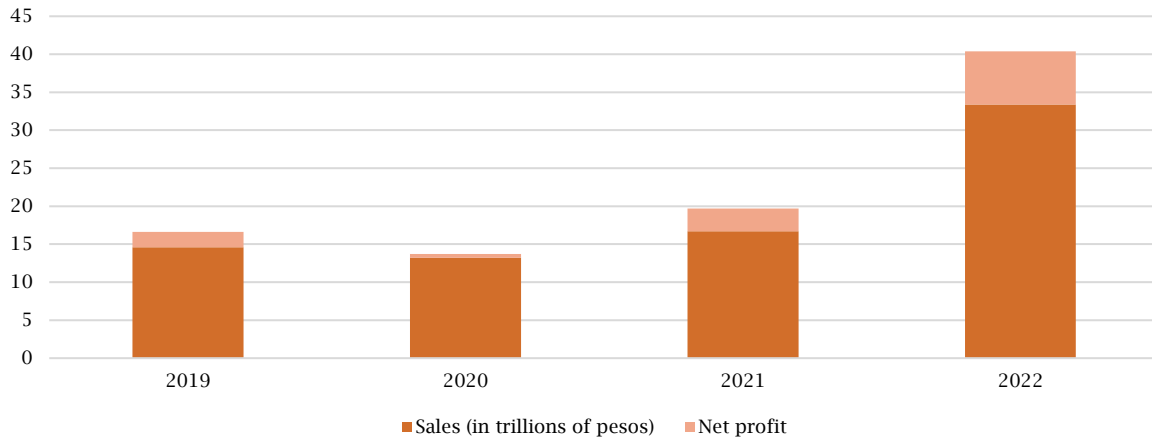
Source: Authors' elaboration.

4.3. Ecopetrol case: Colombia

Ecopetrol is a mixed economy company, structured under the modality of a corporation linked to the Ministry of Mines and Energy in accordance with Law No. 1118 of 2006. Currently, it is the main oil company in Colombia, which means that six out of every 10 barrels of oil generated in October 2020 were contributed by Ecopetrol. It is ranked among the 39 most relevant oil companies in the world and among the five most relevant in Latin America. Ecopetrol's good corporate governance is governed by three pillars: 1) transparency, 2) governance and 3) control, as described in its Code of Good Governance, Code of Ethics and Internal Control System, respectively (Acosta-Prado & Valencia, 2015;

Corrales et al., 2020). This company has had a comprehensive risk management system in place since 2003, where responsibilities are shared: on the one hand, risk management and the execution of audits is the responsibility of the business units (Corrales et al., 2020), while the monitoring of risk management is the task of the Corporate Internal Control Assurance Management. Ecopetrol considers three fundamental pillars within risk management: 1) organizational structure, 2) culture and 3) regulations, while the risk management cycle is composed of the following stages: 1) plan, 2) identify, 3) evaluate, 4) treat and 5) monitor risks, in addition to incurring in a transversal stage of communication (Núñez & Oneto, 2015).

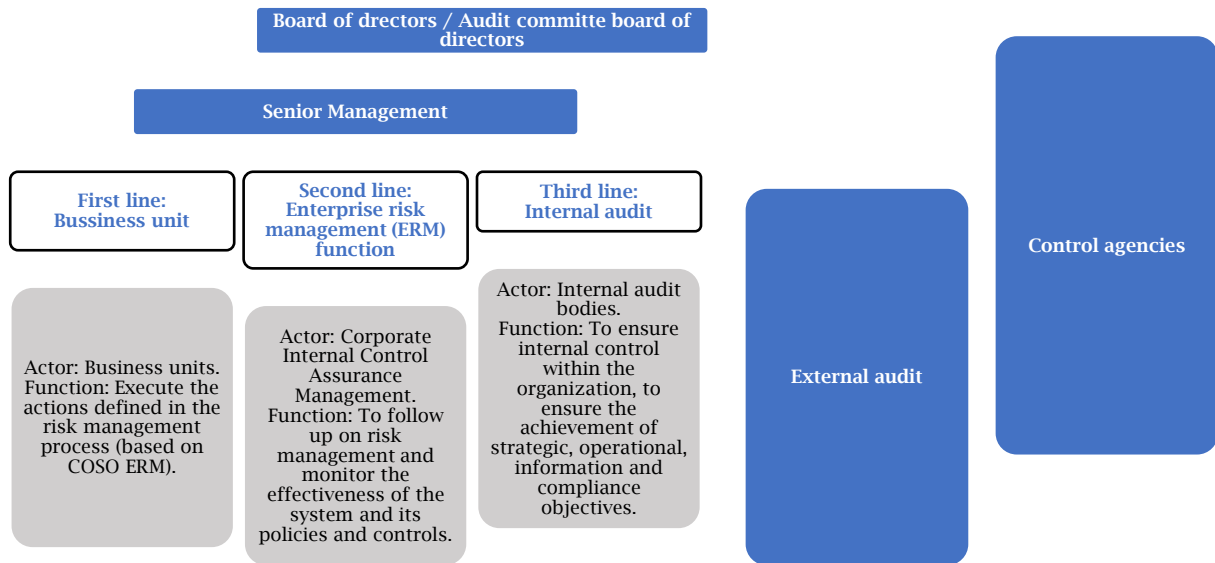
Figure 8. Earnings at Colombian oil firm Ecopetrol



Aware that in the process of organizational development and risks, biases can be generated within its objectives, Ecopetrol has implemented lines of control and maintenance of processes so as

not to deviate from its corporate strategy. Figure 9 presents a summary of the application of Ecopetrol's three lines model.

Figure 9. Ecopetrol: Three lines model



Source: Authors' elaboration.

As can be seen in Figure 9, Ecopetrol has correctly implemented the three lines model, where the first line falls on the business units, in charge of risk management based on COSO 2013, which processes such management into strategic risks, environmental risks and operational risks. The second line comprises the Corporate Internal Control Assurance Management, which is responsible for following up the risk management process, as well as monitoring the effectiveness of the system, its policies and controls. The third line is composed of the internal audit bodies, such as Corporate Internal Audit Management, Corporate Vice-Presidency of Compliance, General Secretariat

and Support to the Presidency, who are responsible for ensuring internal control within the organization in order to generate efficiency and achieve the purposes of the organization, also, they report to senior management and the board of directors. Ecopetrol's senior management plays the role of strategic controller, while the board of directors plays the role of strategic guide, defines the strategic direction of the entity and the reporting and follow-up points. The three lines model accomplished better organization inside Ecopetrol's company, in order to achieve their primary objectives. Table 4 presents the summary table of the company under study.

Table 4. Summary table

Company	Three lines model	First line	Second line	Third line
Ecopetrol	Based on three dimensions: - governance; - risk management; - compliance. It considers five stages for its application: - planning; - identifying; - assessing; - treating; - monitoring risks, as well as a cross-cutting communication stage.	Composed of the business units in charge of risk management based on COSO 2013, which processes such management into strategic risks, environmental risks and operational risks.	It comprises the Corporate Control Assurance Management, in charge of following up the management process, as well as monitoring the effectiveness of the system, its policies and controls.	Composed of the internal audit bodies, responsible for ensuring internal control within the organization in order to generate efficiency and achieve the objectives of the organization, reporting to senior management and the board of directors.

Source: Authors' elaboration.

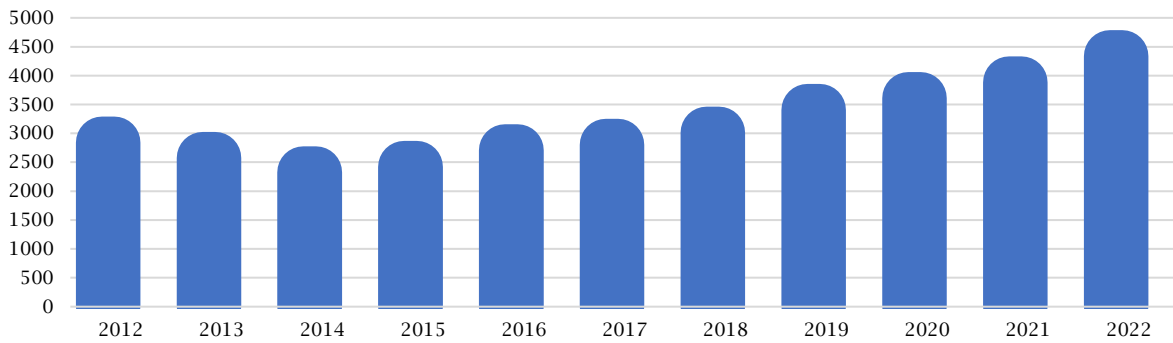
4.4. Iberdrola case: Spain

Iberdrola is a Spanish company headquartered in the Biscayan town of Bilbao, in the Basque Country, production, distribution and commercialization of energy. It has been 170 years since its foundation, today it is a global energy leader, the first wind power producer and one of the largest electricity companies by market capitalization in the world (Kowal & Kustra, 2016).

It is committed to ethics, transparency and good governance, paying special attention to the social dividend, which is why in 2018 it addressed

reforms in the corporate governance system with the aim of incorporating the Sustainable Development Goals (SDGs) into its strategy. In the area of corporate governance, Iberdrola takes as a reference the code of good corporate governance of companies listed on the stock market and those practices with international recognition (La Torre et al., 2020). In relation to risk management at the Iberdrola Group, it is based on anticipation, independence, commitment to the objectives of the Group's businesses, and the involvement of senior management and the board of directors (Pecina et al., 2022).

Figure 10. Net profit of Iberdrola from 2012 to 2022

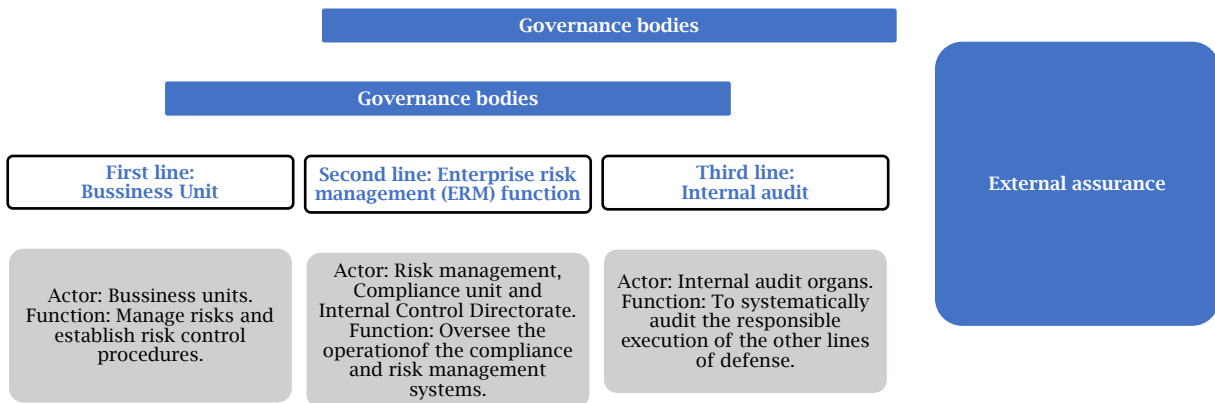


Source: www.statista.com.

The Iberdrola Group aims to have an orderly vision of how the different parts of the organization interact in order to be more efficient and coordinate the management and internal control processes of the entity's most significant risks. To this end,

the internal control system is based on the combined assurance proposed by the three lines, taking into consideration the best international practices. Figure 11 shows the model implemented by Iberdrola:

Figure 11. Iberdrola: Three lines model



Source: Authors' elaboration.

As shown in Figure 11, the company has adequately implemented the three lines model. Thus, the first line comprises the business units and their participants, whose function is to manage the risks inherent to the processes, projects and objectives in their areas.

The second line comprises as actors the risk management, the compliance unit and the Internal Control Management, whose responsibilities include ensuring the proper functioning of the compliance system and risk management in relation to the process of preparing financial information (Pozas, 2015; Alvarez-Meaza et al., 2020). The third

line is composed of the internal control area, which is responsible for ensuring the correct performance of the internal control, risk management and governance systems, as well as auditing the first and second lines in their respective responsibilities (Iberdrola, 2022a). Iberdrola's governing bodies and management team are strongly committed to and involved in the management of the Group's risks. The three lines model achieved to prevent risk situations in the company and create better organization to achieve their primary objectives. Table 5 presents the summary table of the company under study.

Table 5. Summary table

Company	Three lines model	First line	Second line	Third line
Iberdrola	Based on three dimensions: - governance; - risk management; - compliance. Adapts risk management based on: - anticipation, - independence - commitment to business objectives.	Represented by the business units, in charge of managing the risks inherent to the processes and objectives in their areas.	It comprises the Risk management department, the Compliance unit and the Internal Control Department, whose responsibilities include overseeing the functioning of the compliance system and risk management in relation to the financial reporting process.	Composed of the internal audit area, responsible for ensuring the proper functioning of the internal control, risk management and governance systems, as well as systematically auditing the first and second line of defense in their respective responsibilities.

Source: Authors' elaboration.

5. CONCLUSION

Peru is ranked 94th in the Corruption Perception Index (CPI) according to the transparency index published by the World Bank, so it is essential to require an evaluation of processes and comprehensive risk management, along with proper control of costs related to compliance, adopting good corporate governance practices.

The adoption of good corporate governance practices sends a good signal to the market of soundness, trust and transparency. On the other hand, international and local regulators have been increasing the requirement of legal accountability of shareholder and executive boards, as well as the administration of costs related to risk management and compliance, the scope of which continues to be a challenge.

The three-line model is one of the most internationally recognized models due to its simplicity and its fit within organizations. It requires a high level of coordination to ensure its successful operation and to avoid potential duplication of functions that could generate deficiencies. The indicators that will support its implementation will depend to a large extent on their capacity for quantification, accessibility and elaboration. In the case of the first line, a management balanced scorecard (BSC) can be considered as a first approximation, while in the second line, a control factor can be the frequency of events according to a certain probability of occurrence, and finally, for the third line, the impact of events on the business process.

In the process of implementing the set of rules and processes, it is essential to establish the differences and limits in the functions of each of the agents involved in the three lines. Failure to consider this as a prior basis could generate an eventual scenario of a vacuum in the controls by not having adequately established the profile, scope and responsibility of each of the agents. The establishment of functions, positions and even new Management must strictly respond to

an institutional objective set forth by the board of directors, translated through the determination of its risk tolerance.

The adaptation of new models does not automatically respond to the generation of new jobs and related areas, since this could result in an increase in the institution's bureaucratic process, therefore, it is advisable to better implement the adjustments based on the current scenario and in a progressive manner without altering the current protocols. The establishment of a model implies that the different areas are a gear within the process, therefore, not all of them have to satisfy a global need of the institution, as there is a risk that they do not have the specialization for the function entrusted. Thus, it is essential that the profiles fit the individual process entrusted and it is the management that will guide the fit of each of these pieces to achieve the institutional objective.

Regarding the establishment of sanctions that will go along with the model, it should be considered what are the competencies of the institution to sanction, considering its scope, nature and relationship with stakeholders, otherwise, it could be defining sterile regulations against what is sought to combat or control. The approach to indicators, risks to be considered, as well as the controls to be implemented, must be concrete and quickly developed, otherwise the capacity for prevention and even detection could be lost due to biases in their determination.

Finally, it is important to mention that the good practices adopted by leading companies in their sector in neighbouring countries such as Chile, Colombia and Brazil should be taken as an example so that finally a synergy can be established in the countries of the region and thus solve the transparency problems that over the years have been damaging the reputation of many companies in Peru and other countries. To execute in a professional way, effective plans and models is a challenge that must be taken if we want to fight corruption and the lack of corporate transparency.

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