Traditionally, companies have used a concept known as “Three Lines of Defence” (3LoD) to ensure actions and decisions were compliant with defined rules and regulations. The approach is still widely used and based on validation of compliance.

1. The line manager responsible for the decision/action is the first line of defence and responsible for operating within the frames provided.

2. An (semi)independent controlling function is responsible for validating the decisions and actions to ensure these are compliant with company rules and legislation.

3. An (often external) independent audit is responsible for making a last validation of compliance.

This approach works well in many cases, and hence the statistical likelihood that actions/decisions are non-compliant is vastly reduced.

That said – deliberate fraud and collaboration between a line manager and his/her controller can hide inappropriate actions to the extent the spot checks made by auditors will not lead to disclosure. When subsequently discovered, this leads to the scandals of ENRON, VW and many many others, where even high-level executives were proven to be fully aware of and thereby tolerated wrongful behaviour. The 3LoD is not effectively ensuring good decisions.

Furthermore, the process is inherently slow, reactive, laborious and is not adding value to the company when imposed on the many decisions/actions which are fully compliant with company frames and legislation.

Today, and in the business environment of tomorrow, this is no longer viable for a number of reasons:

- With the ever-increasing speed of change there will not be time to have a separate process that validates decisions and actions. Bear in mind that the world will never in future change as slowly as it is today.

- In an ever-increasing competition companies will not be able to afford spending resources on validating decisions/actions that should be within some set of rules and frames – it is a process consumers and customers will not pay for.

- With an ever-increasing globalization companies operate in and serve multiple countries and cultures – and validating decisions/actions becomes complicated to the extent it will be next to unbearable.

I am not suggesting that we eliminate validation and aspects of what is essential quality control on decisions and actions. Leveraging and building on the developments of the 4th Industrial Revolution, I am suggesting that enhanced data capture systems and artificial intelligence (AI) will replace human processing and be able to turn on warning lights when decisions are borderline or outside defined frames and legislation.

Today, we see Google, Facebook and probably an abundance of others capture, look into and scrutinise social media data, and whatever else they can get hold of – to direct advertisement as well as sell the data to whoever wishes to buy them, for whatever purpose they may have, political or otherwise. Cambridge Analytics and alleged Russian influence on US elections are the latest cases in point. Something similar can be done by companies to ensure that decisions and actions are compliant – which opposed to secret data capture, is not unethical – and can be done in real-time and is hence not prolonging a decision process or an action. In fact, a real-time AI based frame and legal validation can serve as a decision support for the active manager as it may help direct the decision or action.

The Preplacement – Three Levers of Decision

Managers on all levels still need support when making decisions in a complex and changing world, but this has to be value adding, proactive, simple, and seamlessly embedded into the decision process to allow adequate dynamics and speed.

Based on this, I suggest the 3LoD are replaced by three levers of decision– formulated in terms of questions the manager can ask himself whilst making a decision or taking an action:

1. How does this support the company mission?
2. Is this ethically/morally sound?
3. How certain is it, that this will be value adding to the company?

Below, I will elaborate further on each of these.

1 Supporting Company Mission

In short, actions and decisions have to be focused to drive the company fast enough to sustain its competitiveness in the world of the future. Hence, there are no time, nor money or resources to bother with anything else.

Warren Buffet work with this as his 5/25 rule. He asks people to define the 25 most important things to do. Then to rank/prioritize these in groups of five based on importance. Then simply discard all those, which are not in the highest priority group to ensure attention to and execution of these top five priorities – before attending to anything else.

In this context, it is important to note, that very few companies (and none that I have seen), have the mission of enhancing shareholder wealth. To list a few randomly selected:

Google *To organize the world's information and make it universally accessible and useful.*

Nestlé	*"Good Food, Good Life" is to provide consumers with the best tasting, most nutritious choices in a wide range of food and beverage categories and eating occasions, from morning to night.*
Amazon	*To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online, and endeavours to offer its customers the lowest possible prices.*
Volvo	*Driving prosperity through transport solutions*.
LEGO Group	*Inspire and develop the builders of tomorrow*.

All of these mission statements communicate that the company wishes to do something positive for their customers and consumers. Creating and enhancing shareholder wealth is not mentioned in the mission statement. Even mission statements of financial institutions focuse on their service/value to their customers rather than executives and shareholders.

So … how does your current decision or action support the mission of your company. If you cannot explain that in simple terms, you probably should direct your attention to something that does support your company mission.

2 Ethically/Morally Sound

With the expansion of social media and real-time global communication, transparency is unavoidable and uncontrollable. Abraham Lincoln is famed for stating that *"You can fool all the people some of the time and some of the people all the time, but you cannot fool all the people all the time"*. The quote may in fact not have been his and is suggested to stem from 17th century France.

Nevertheless, the days where companies or governments could control the flow of information are long gone, and where bad news formerly may be revealed "eventually", they will now be revealed fast and uncontrollably – in some cases exacerbated by untrue "facts".

As consumers and organisations are becoming increasingly aware of this, the risk of losing business due to a bad reputation – driven by disclosure of some bad behaviour – has increased significantly both in terms of likelihood, speed and impact.

The scandals surrounding British Petroleum and the Deep-Water Horizon accident, Union Carbide and the Bhopal accident, Volkswagen and the emission fraud and many others show, that unacceptable behaviour is, well, unacceptable – and will lead to substantial reduction of company/share value and hence deplete the value for shareholders. Bad behaviour is simply bad business.

When I entered corporate life decades ago, I was taught by an executive, that ethical decision making was not all that complex. *"If you would hate to see a journalist write about your decision in tomorrow's newspaper, you probably shouldn't make it"*. There are numerous other editions of this around – the essence is the same – if you are not willing to be transparent – you are possibly on a wrong track.

Now, I am not relating ethics/morals to legislation for two reasons:

- The links between legislation and sound ethics are often somewhat opaque and defies logic. Furthermore, following the (letter of the) law may not be good enough to be morally justifiable in the eyes of your partners, consumers and the general public.
- Deliberately and knowingly breaking the law is not presumed to be a viable and acceptable business solution.

So … is the decision/action I am about to make ethically sound? If not, I probably need to find another way of meeting whatever target I have set.

3 Adding/Creating Business Value

The last lever of decisions is related to value creation. This may/need not be fiscal value but may be improving on any performance metric defined by the company such as injury rate, employee retention, environmental impact, brand value, customer satisfaction … the list is endless and differs from company to company.

There are two important elements of this.

- One is related to company value added. Over the years, I have seen many decisions and actions which are aimed at promoting the individual deciding manager and/or his/her domain, irrespective of whether this adds value to the company. Such private “hobby horses” mis-directs attention and resources, which fewer and fewer companies can afford in a competitive world.

  To remedy this, managers should be required to explain and justify added value to the company when making a decision.

- The other element deals with the uncertainties inherently embedded in any decision made and action taken. The question becomes *“What is the certainty/likelihood this will add the targeted value to the company”.*

  This means that a planned/expected/targeted value of the decision/action is defined. I have seen multiple decisions made and actions taken, where there was not even an attempt to define what success looked like. When this is not defined, those involved cannot see, nor celebrate a success or be blamed for failing, and will be demotivated.

The latter also requires, that the decision includes **intelligent risk taking**, and hence that the risks and opportunities pertaining to the decision/action are identified, assessed and modelled in the business case, which is no longer a simple “income – cost = profit” statement, but includes e.g. Monte Carlo simulation of relevant uncertainties and hence shows that there is an e.g. a 60% likelihood this decision will deliver on or above target, and a 5% likelihood the outcome will impact the company negatively. Based on which the risk taking can be managed and decided.

This drive risk professionals being involved in decision and business case preparation. In my experience, this involvement often also leads to identifying additional opportunities to pursue in a project, and an actual performance above target.

It is important to remember that risk management is not about implementing risk aversity – but about intelligent risk taking. Being safe, when the boat is rocking is not enough to remain competitive – we have to be able to rock the boat ourselves from time to time.

So … how certain am I that this decision/action will add value to the company (and how do I know). If I cannot answer these questions, I still have some “homework” to do before the decision can be made intelligently.

Closing Comments

The concept of using three lines of defence to ensure that decisions and actions are compliant with a defined framework of company rules and legislation is becoming increasingly cumbersome, slow and obsolete.

In a future, where speed of change, competition and globalization is ever-increasing, a more active and effective approach is needed.

I suggest that the meaning of the 3LoD abbreviation is changed to be the “Three Levers of Decision” as an active and integrated decision process element where deciding managers address the “quality” of their decision by asking the three questions mentioned.

Clear positive responses to all three questions will provide a reasonable certainty the decision/action is “good”, whereas opacity and vagueness on one or more indicates a “bad” decision.

These elements can, as well as compliance issues, be validated, but in the world of the 4^{th} Industrial Revolution, I suggest we leave it to AI based systems to do the validation as we do not have the time, nor wish to spend the money to have human beings serve as reactive decision validators.

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