TEİD
Etik ve İtibar Derneği
Ethics & Reputation Society

RESEARCH REPORT ON THE EFFECT OF BUSINESS ETHICS AND ESG ON REPUTATION

DECEMBER 2022

TEİD
Etik ve İtibar Derneği
Ethics & Reputation Society

RESEARCH REPORT ON THE EFFECT OF BUSINESS ETHICS AND ESG ON REPUTATION 2022

TABLE OF CONTENTS

ABBREVIATION	FULL FORM
BIST	Borsa İstanbul A.Ş.
UN	United Nations
ESG	Environmental, Social and Governance
OECD	Organisation for Economic Co-operation and Development
SDGs	Sustainable Development Goals
TEID	Turkish Ethics & Reputation Society
UNGC	United Nations Global Compact

DISCLAIMER

The information provided in this report contains no professional advice, nor should one take any action based on the information provided in this report. Although it is thought that the information and views provided in this report are reliable and accurate, no guarantee is given that such information is accurate, complete, and reliable as of the date of reception or that such information will always continue to be accurate in the future for institutions and organisations operating in Türkiye. Any information shared in this document may be changed without any prior notification in such a way that it may be different from or in conflict with the views expressed by stakeholders. The quantitative results presented in the report were obtained from a survey conducted as part of this study and quantitatively represent the relationship between ESG, Ethics, and Reputation; however, they should not be used in any calculation.

The information and data collected for this report were obtained from a comprehensive research study conducted in cooperation with the Turkish Ethics & Reputation Society (TEID), ZENNA Consulting and KPMG Türkiye, and resources are included after being filtered to ensure that they are reliable and fit-for-purpose to the extent possible. Nonetheless, TEID, ZENNA Consulting, KPMG Türkiye and other contributing organisations bear no responsibility or liability for errors and incompleteness regarding such information and data or the results obtained based on using such information and data. The information and survey results in this report are provided 'as is', based on the current conditions in Türkiye, without any guarantee for their usefulness or up-to-dateness. Readers should assume responsibility if they want to benefit from the information extracted from this report.

TEID, ZENNA Consulting and KPMG Türkiye bear no responsibility to update or keep up-to-date the information included in this report. KPMG Türkiye and its partners, managers and employees assume no responsibility for any losses or damages resulting from the use of all or a part of the information herein or for results of actions taken or avoided or of decisions given by you or another person based on the information included in this publication.

ABOUT TEID

The Turkish Ethics & Reputation Society (TEID) was established in 2010 for the effective management of risks related to ethics and compliance, raising awareness of integrity, accountability, and transparency, and ensuring that business ethics become an integral part of the culture of companies operating in our country. Today, TEID has 200 corporate members that generate 15% of the GDP in Türkiye and provide employment opportunities for more than 800,000 employees. Acting on the fact that when defining the success of a company, the important factors apart from financial data are responsible citizenship across the world, the effectiveness of sustainable production policies, innovation policies, compliance with codes of conduct and reputation, TEID continues to perform its duty regarding the coordination of the private sector in the implementation of anti-corruption compacts of the UN and OECD, to which the Republic of Türkiye is a signatory. However, TEID plays an effective role in bringing global values regarding the management of ethics-related risks to Türkiye and accordingly discharges its following duties: Global Ethics Network Regional Representative; Member of the European Business Ethics Network; Member of the Basel Institute on Governance Working Group; Member of the OECD Anti-Corruption Working Group and Regional Advisory Board.

FOREWORD

We, as TEID, working to promote an ethical culture in the business world and raise public awareness in this regard, consider sharing with our stakeholders the most up-to-date data in the field of the management of risks related to ethics, compliance, and reputation, which has become one of the most significant requirements of an efficient economic life, as one of our main working subjects. We accordingly aim that the data analysed by respective experts as part of our studies reveal the socio-economic structure of our country and consequently assist companies in the spheres of ethics, compliance, and reputation.

We, as TEID, identified that one of the studies that should be conducted in this field was to research to ascertain the correlation between business ethics and the Environmental, Social and Governance (ESG) performance of our companies and corporate reputation. ESG criteria that provide a more comprehensive analysis to potential investors by evaluating not only conventional financial analyses but also non-financial potential risks and opportunities are considered one of the rising values in today's business world, where business ethics unquestionably establish a foundation. We, as TEID, setting out with the goal of ensuring that business ethics become the cornerstone of the written cultures of all companies operating in Türkiye, thought that the connection between these two concepts, which would in our opinion shape the future business world, should be evaluated using accurate and elaborate data.

Accordingly, we conducted such a study, which we started enthusiastically as it was the first international study in this regard, in cooperation with two highly valuable institutions: ZENNA Consulting and KPMG Türkiye. With this study, in which we used the views of the business world in Türkiye as the data source, we tried to reveal the connection between business ethics and ESG and the characteristics of such connection. In line with the overall objective of the research, interviews were held with 145 representatives of the business world who were engaged in the spheres of ethics, compliance, reputation, and ESG in more than 44 sectors. These interviews made it possible to measure companies' performance in ESG, business ethics practices, and reputation management and the strength of the relationship between these three spheres.

We present for your information this research report that was prepared for the abovementioned reasons and would like to thank once again all esteemed respondents who responded to our survey and thus supported the enrichment of our results and to our colleagues from ZENNA Consulting and KPMG Türkiye, who made a great effort in completing this study.

Turkish Ethics & Reputation Society

EXECUTIVE SUMMARY

Prepared in cooperation with TEID, ZENNA Consulting and KPMG Türkiye, the Research Report on the Effect of Business Ethics and ESG on Reputation aims to find out the effect of business ethics and ESG practices in the Turkish business world on corporate reputation. As part of this research report, a survey was conducted to ask respondents, who were representatives from various sectors of the business world, to evaluate the business ethics and ESG practices of both their companies and other companies in the private sector. The aim was to quantitatively measure the business ethics and ESG performance of companies that were evaluated through the survey conducted with the participation of 145 representatives at various levels from 44 sectors in the business world, the factors that gave rise to or frustrated such performance, and the effect of these issues on companies' reputation.

Considering the survey results, it is understood that the performance in business ethics and ESG practices have a significant effect on the reputation of both the respondents' own companies and other companies they evaluated. Respondents think that companies that do not include ESG (89%) and business ethics and compliance processes (91%) in their prioritised work areas will lose their reputation. Concordantly, it is seen that there is a common perception that companies' business ethics and ESG performance will affect not only their reputation but also their financial performance. Respondents think that companies that do not consider ESG (74%) and business ethics and compliance processes (79%) among their prioritised issues will lose both their reputation and market shares in the future. On the other hand, given the evaluations made by top, middle and line managers for their own companies and other companies operating in the private sector, it is seen that there are significant differences between their current performance in business ethics and ESG practices. According to the analysis results, most of the respondents consider that the performance of their own companies in business ethics and ESG is partially satisfactory. On the other hand, middle- and top-level managers consider that the performance in business ethics practices is quite satisfactory, whereas line managers consider this performance to be unsatisfactory.

Most of the respondents express that there is a significant gap, in terms of business ethics and ESG practices, between the companies in which they work and the companies that they consider most successful. In this regard, most of the respondents consider the ESG performance of their own companies relatively unsatisfactory compared to the companies that they consider most successful in this field. Looking at the responses of respondents, it is seen that to close this gap between companies, awareness of both management staff and employees of companies about business ethics and ESG should be raised, and these issues should be included in the prioritised business areas by companies. Among other significant factors that may cause companies to perform unsatisfactorily is failure to include companies' key stakeholders, such as suppliers, dealers, employees, etc., in ESG processes and pressure on companies due to financial targets, preventing them from allocating sufficient budget for this issue.

The gap in business ethics and ESG observed between the companies in which respondents work and the companies they consider most successful also affects their reputation management performance. As is the case for companies' business ethics and ESG performance, unlike middle- and top-level managers, line managers consider their own companies' reputation management performance relatively poor. Nevertheless, respondents consider that the reputation management performance of their own companies is better than their performance in business ethics and ESG.

INTRODUCTION

In an environment where natural and human-related risks that deeply affect the world shape stakeholders' expectations, the importance of sustainability and business ethics concepts is ever-increasing. Particularly, extreme weather events and epidemics that have occurred more often in recent years generate higher sensitivity for stakeholders regarding global warming and climate change. In addition, social and economic problems triggered by the COVID-19 pandemic impose great moral responsibility on the business world on a global scale. As a result of these developments, stakeholders began to closely monitor companies' actions on not only environmental but also social and governance issues. During this process, companies that highly valued human beings, environment, and business ethics differentiated themselves from other companies in terms of Environmental, Social and Governance (ESG) performance and business ethics, whereas they maintained or enhanced their reputation in front of the public.

Given the historical development of business ethics, it can be said that it is a concept that has developed around various philosophical, religious, and social approaches since humankind first started to engage in economic activities. In the academic literature, business ethics began to be studied in the 1970s in the context of the Civil Rights Movement, pacifism, and environmental activism in the United States and spread to other geographical regions with large economies, such as Europe and Japan. The first legal arrangements regarding business ethics were also made in the United States with an anti-corruption act enacted in 1977. These efforts accelerated in the following years, and with the adoption of the U.S. Federal Criminal Directives for Companies in 1991, business ethics rapidly became an important issue for the business world. Companies, according to these Directives, are held accountable for the actions of their managers and employees that are contrary to business ethics, while they are also encouraged to take necessary actions, such as providing business ethics training to managers and employees, developing a code of conduct, and establishing an ethics and compliance department.[1]

Due to such reasons as the fact that economies became more integrated with the effect of globalisation since the 1980s and that more companies were offered to the public, supervision and regulation mechanisms became important, and compliance with business ethics became a phenomenon for companies that directly affected their global reputation. The chain of scandals that started with the failure of certain large companies in the U.S. market to report their accounting records transparently and fairly to hide their losses was called the "collapse of business ethics"[2] by certain people and paved the way towards the enactment of the Sarbanes-Oxley Act. In this context, the Sarbanes-Oxley Act is a milestone regarding the inspection and corporate structuring of publicly traded companies, imposing various liabilities on companies such as ensuring the implementation and supervision of an ethics code and establishing a position for a corporate ethics officer.[3]

Another development that caused business ethics to become a prominent agenda item at the global scale was the preparation of the United Nations Global Compact (UNGC) upon the initiative of Kofi Annan, then UN Secretary-General.[4] This Global Compact consists of ten main principles listed under four titles: human rights, labour, environment, and anti-corruption. Today, more than 16,500

1- A History of Business Ethics, Richard T. De George
2- COFFEE Jr., John 2003 "What Caused Enron?:A Capsule Social and Economic History of the 1990's", Columbia Law School, The Center for Law and Economic Studies, Working Paper No:214, 20.01.2003, New York
3-https://www.spk.gov.tr/SiteApps/Yayin/YayinGoster/405#:~:text=ABD%20Senatosu%2025%20Temmuz%202002,kalitesinin%20art%C4%B1r%C4%B1lmas%C4%B1%20ve%20%C5%9Feffafl%C4%B1%C4%9F%C4%B1n%20sa%C4%9Flanmas%C4%B1d%C4%B1r
4- A History of Business Ethics, Richard T. De George

companies from 158 countries are a member of UNGC.[5] The UNGC developed an important framework for corporate sustainability and laid the groundwork for the ESG concept to become so important in the business world. According to a recent OECD report, a global investment portfolio[6] of more than 17.5 trillion USD included key ESG elements, while the volume of green investment instruments approached 2 trillion USD on a global scale.[7]

ESG performance and compliance with ethical values stand out as increasingly important indicators for companies, and they have an effective role in terms of reputation. Stakeholders attentively evaluate companies not only in economic terms but also based on the value they create in environmental and social spheres as well as their business ethics practices. Today, key performance indicators for a company include how it manages its relationship with and influence on the environment; how it approaches social and governance issues; to what extent it implements inclusion and diversity in terms of employment and management; and whether it manages its supply chain transparently and sustainably. Consumers tend to prefer companies with higher ESG performance and that adhere to business ethics when purchasing goods and services, whereas companies that focus on diversity and inclusion in terms of employment, as well as employee welfare, are considered preferable employers. When considered from the investor perspective, ESG criteria and the reputation of a company directly affect decision-making processes regarding funding that company and its investment grade.[8]

In addition, ESG Rating Agencies evaluate companies' ESG and sustainability performance based on certain metrics through indicators such as the Dow Jones Sustainability Index, MSCI Sustainability Index, FTSE4Good Index, and BIST Sustainability Index. Companies' stakeholders, particularly investors, also monitor the framework within which companies approach environmental and social issues in the medium and long term. In this context, among the factors that are of great importance in terms of meeting stakeholders' expectations and accessing affordable funding opportunities are identifying priority sustainability issues, establishing a governance structure that will implement these issues, and reporting the outputs within the framework of transparency and accountability principles and in compliance with international reporting standards. Some of the criteria that leading rating agencies take as the basis when evaluating the ESG performance of a company are outlined in the following table.

Table 2. ESG Criteria (Boffo and Patalano, 2020) [9]

Environmental Factors	Social Factors	Governance Factors
Climate change	Human capital	Corporate governance
Natural resource use	Human rights	Business ethics and compliance
Greenhouse gases	Workers' rights	Fight against bribery and corruption
Water and wastewater management	Diversity and inclusion	Independence
Waste management	Gender equality	Risk management
Energy efficiency	Occupational safety and health	Internal auditing
Biodiversity	Education	Board diversity
Environmental pollution	Supply chain	Shareholders rights

5- https://www.unglobalcompact.org/
6- Boffo, R., and R. Patalano (2020), "ESG Investing: Practices, Progress and Challenges", OECD Paris, www.oecd.org/finance/ESG-Investing-Practices-Progress-and-Challenges.pdf
7-https://www.climatebonds.net/
8- van Duuren, E., Plantinga, A. & Scholtens, B., ESG Integration and the Investment Management Process: Fundamental Investing Reinvented. J Bus Ethics 138, 525–533 (2016)
9-Boffo, R., and R. Patalano (2020), "ESG Investing: Practices, Progress and Challenges", OECD Paris, www.oecd.org/finance/ESG-Investing-Practices-Progress-and-Challenges.pdf

In recent years, stakeholders have become more sensitive to companies' business ethics-related compliance and performance, and the public has begun to closely monitor the consistency between companies' discourses and actions. The advancement of reporting and audit ecosystems and the effects of new media on corporate communications increased the significance of such concepts as transparency and accountability. Business ethics[10] issues (i.e., codes of conduct) of companies included the following topics: adopting effective corporate governance strategies; respecting human rights and international treaties; complying with national laws and regulations; combating bribery and corruption; standing up against child labour and forced labour, and adopting diversity and inclusion in employment and management. Globalization enabled business communities in various countries and cultures to become increasingly intertwined, resulting in local actions by a company having global ramifications. For example, in the past, certain world-famous clothing brands had suppliers that were involved in violations of human rights or environmental regulations in their supply chains, and one of the world's largest car manufacturers falsified their emission values through fraudulent software; these actions had serious adverse effects on the worldwide reputation and economic performance of these companies.

Today, since most assets of companies consist of intangible resources[11], reputation has become a matter of fact to which companies attach high importance. Therefore, key stakeholders such as consumers, employees and investors use the reputation of companies as a determining factor for their preferences. Today, the concept of reputation is of great importance for the business world, and it is therefore important for companies to analyse in detail the facts that affect reputation for their corporate management and decision-making processes. We, as the Ethics and Reputation Society (TEID), are pleased to complete a new, pioneering study in this field with valuable contributions from industry representatives and relevant stakeholders and present to your attention our evaluation report, which contains research on the effects of ESG performance and business ethics on reputation.

5- https://www.unglobalcompact.org/
6- Boffo, R., and R. Patalano (2020), "ESG Investing: Practices, Progress and Challenges", OECD Paris, www.oecd.org/finance/ESG-Investing-Practices-Progress-and-Challenges.pdf
7- https://www.climatebonds.net/
8- van Duuren, E., Plantinga, A. & Scholtens, B., ESG Integration and the Investment Management Process: Fundamental Investing Reinvented. J Bus Ethics 138, 525-533 (2016)
9- Boffo, R., and R. Patalano (2020), "ESG Investing: Practices, Progress and Challenges", OECD Paris, www.oecd.org/finance/ESG-Investing-Practices-Progress-and-Challenges.pdf
10- Armstrong, Anona, Ethics and ESG, Australasian Accounting, Business and Finance Journal,14(3), 2020, 6-17. doi:10.14453/aabfj.v14i3.2
11- Horrigan, B. (2010) Corporate Social Responsibility in the 21st Century: Debates, Models, and Practices Across Government, Law, and Business. Edward Elgar, UK.

METHODOLOGY

The survey questionnaire on the impact of ESG and business ethics on reputation was administered online from August 4 through September 19, 2022. Among the survey respondents were 145 representatives of the business world from more than 44 sectors, representing various departments and age groups. As part of the survey, interviews were held with managers and experts working in various departments, including those of sustainability, ESG, ethics and compliance, and corporate communications. The survey was conducted by communicating survey forms to the managers and experts in the relevant units of companies that were either TEID members or served by KPMG.

The analysis conducted as part of the TEID Research on the "Impact of ESG and Business Ethics on Reputation" was designed to measure the three main indicators and their relationship:

- ESG
- Business Ethics
- Reputation Management Performance

In this context, defining performance criteria were determined for each main indicator.

The questionnaire contained questions regarding the company in which respondents work, the company they consider most reputable, the company they consider most successful in terms of ESG, and the company they consider most successful in terms of business ethics practices and consisted of questions focusing on overall performance and detailed criteria regarding ESG, business ethics practices, and reputation management; these questions also made it possible to estimate the correlation among these three fields. Accordingly, more than 120 criteria were determined as a result of the literature review, and 17 of these criteria were selected as appropriate to define the ESG performance after joint work carried out by the KPMG Sustainability Team and TEID. The criteria regarding business ethics and compliance consisted of 7 key performance indicators determined by TEID. Regarding the measurement of reputational performance, the RepMan (Reputation Management) model was used. This model is preferred by the business world and academic circles both in Türkiye and around the world.
The research was conducted based on a model through which the index scores (total performance score) of each key indicator for ESG, Business Ethics Practices, and Reputation Management Performance were calculated and the relationship between these basic scores was analysed.
ESG Performance was measured based on three main aspects of ESG and 17 defining performance criteria for these aspects:

I. Environmental Impact
II. Social Impact
III. Corporate Governance

The Performance of Business Ethics Practices was measured based on the performance regarding seven defining criteria selected for this main indicator:

I. Standards, Policies and Procedures
II. Governance
III. Education
IV. Program Effectiveness
V. Reporting and Enquiring
VI. Reward and Disciplinary Practices
VII. Reaction and Prevention

Reputation Management Performance was calculated based on seven explanatory criteria that refer to this main indicator:

I. Recognition
II. Management Quality
III. Product/Service Quality
IV. Employee Quality and Brand
V. Financial Soundness
VI. Corporate Responsibility
VII. Emotional Commitment

Since the companies in which survey respondents work operate in more than 44 sectors, it can be said that respondents well represent the Turkish business world. The distribution of respondents by sector was almost even, whereas the most represented sectors were management consultancy, energy, audit services, organized retail, construction, and textile sectors, respectively.

Most of the representatives from the business world with whom interviews were held were between 35 and 54 years old, while their average age was 42. Most of the respondents who declared their titles were top and middle-level managers. The distribution of respondents by title was as follows: top-level managers: 27%; middle-level managers: 37%; line managers: 8%; and other titles, including experts, assistant experts, analysts, etc.: 17%. It was observed that the average tenure of respondents was 17.5 years. More than half of the respondents had a tenure of 15 years or more, and less than 20% of them had a tenure of fewer than 10 years.

TIME SPENT IN BUSINESS LIFE

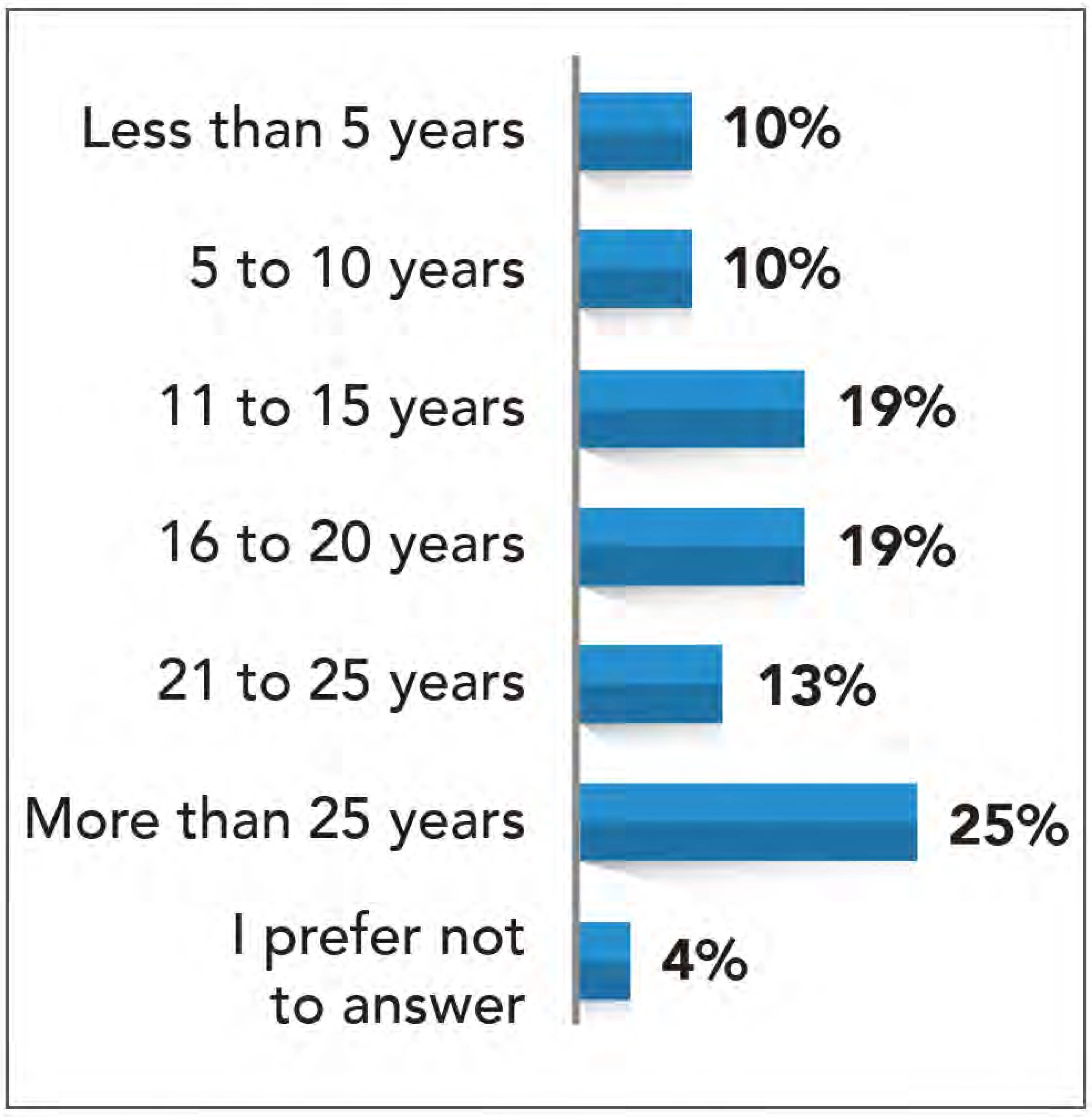


Figure 1. Time Spent in Business Life

JOB TITLES

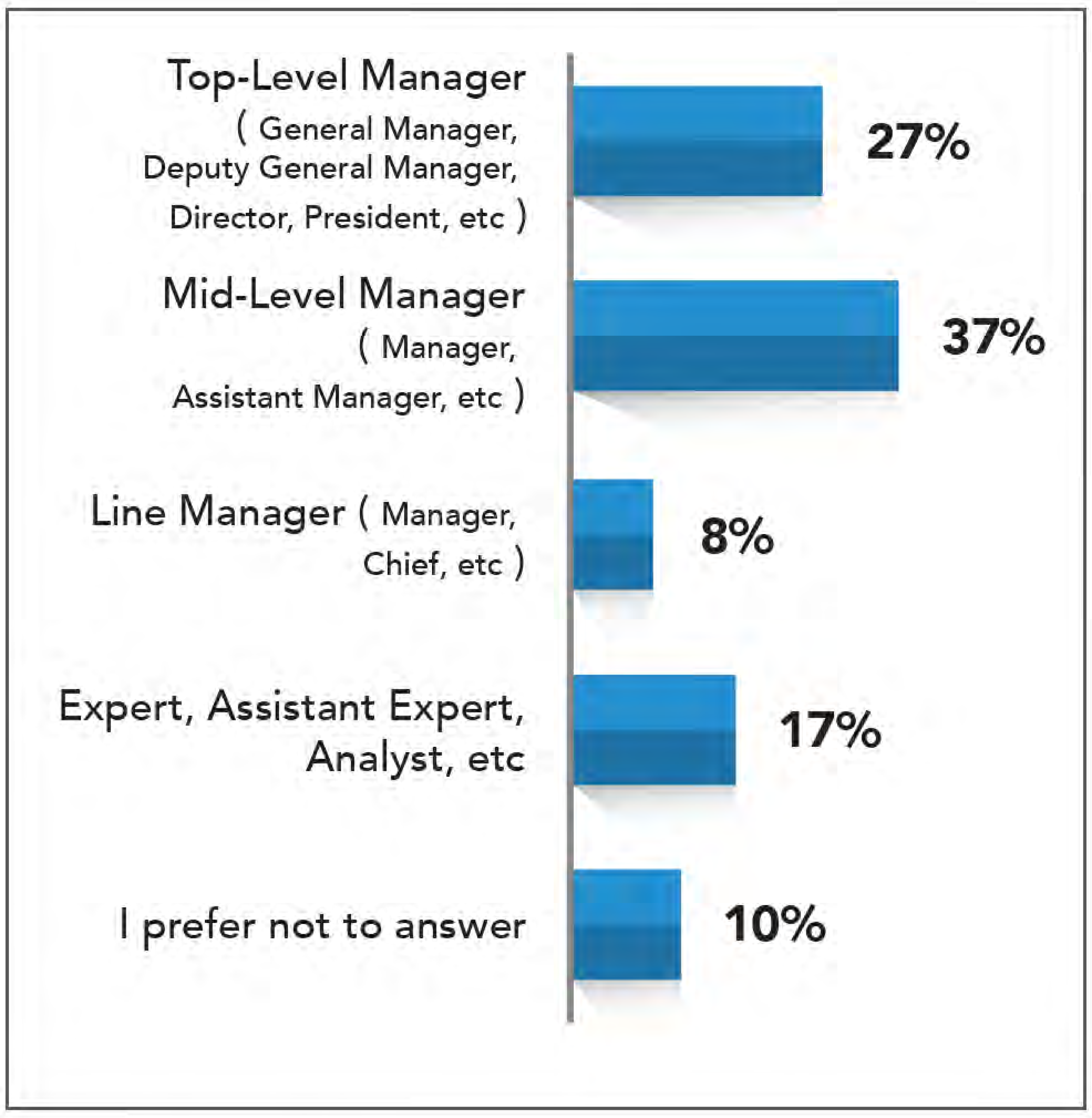


Figure 2. Job Titles

The rates of female and male respondents were 51% and 43%, respectively, whereas 6% of respondents did not answer the question regarding their sex.

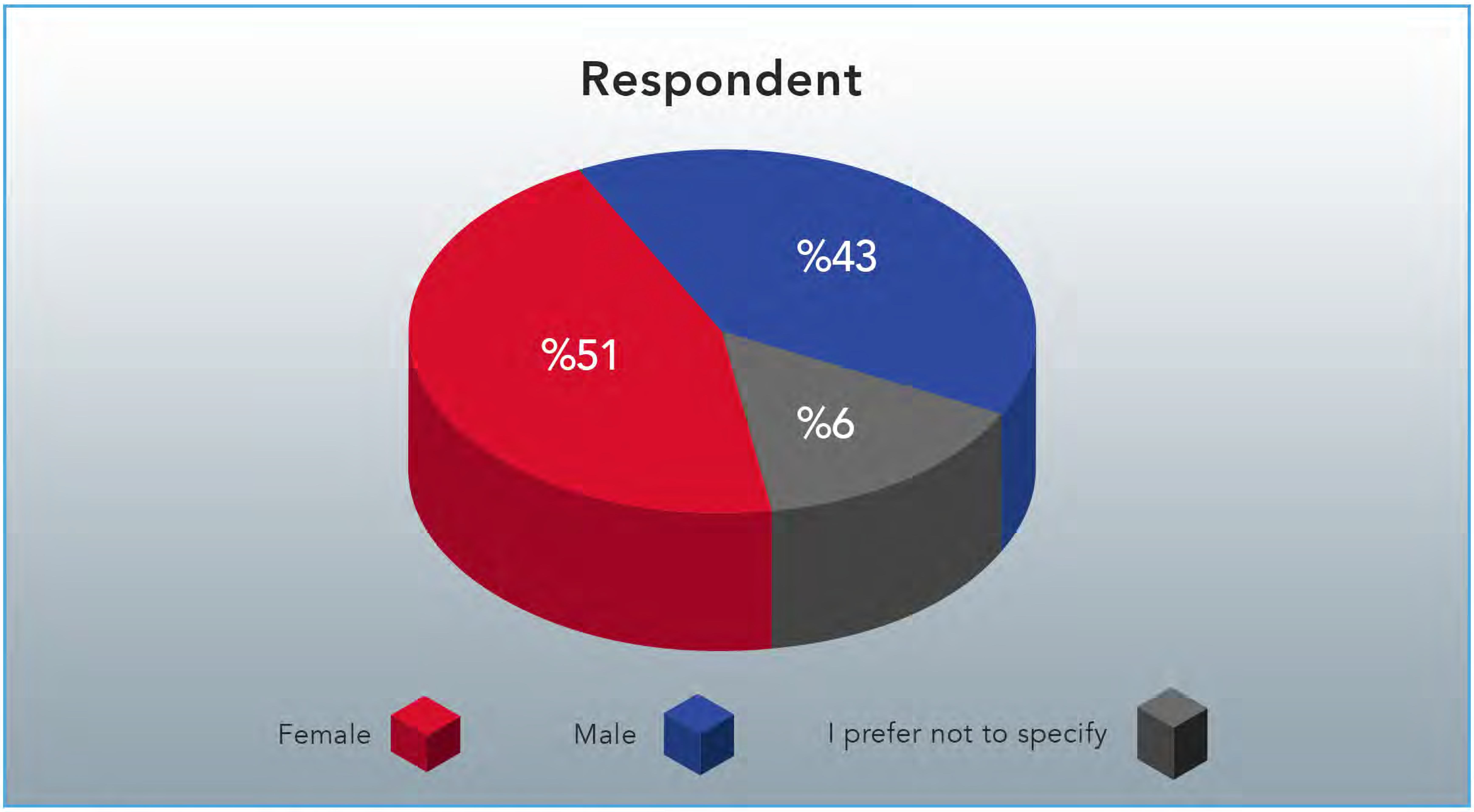


Figure 3. Distribution of survey respondents by sex

8. RESULTS AND ANALYSIS

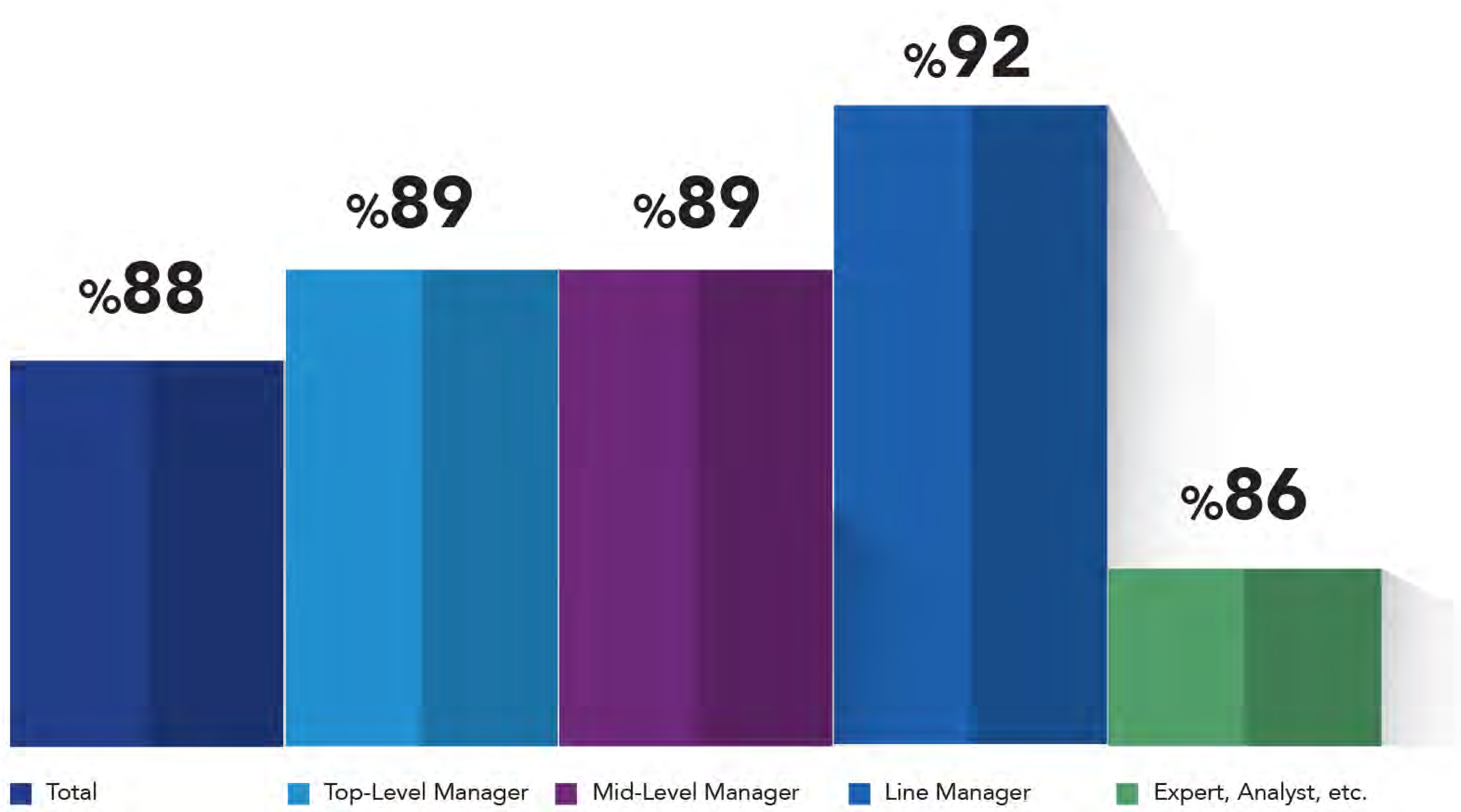
8.1. IMPORTANCE OF ESG AND BUSINESS ETHICS FOR COMPANY PERFORMANCE

Looking at the survey results, it is seen that the respondents considered ESG and business ethics practices very important for companies in terms of achieving their business targets. According to respondents, business ethics performance is slightly more important than ESG performance in terms of helping companies achieve their business targets. It was also observed that respondents had a common perception in this regard and that the levels of importance attached to these issues by respondents, regardless of their gender, age, and tenure, were very close to each other.

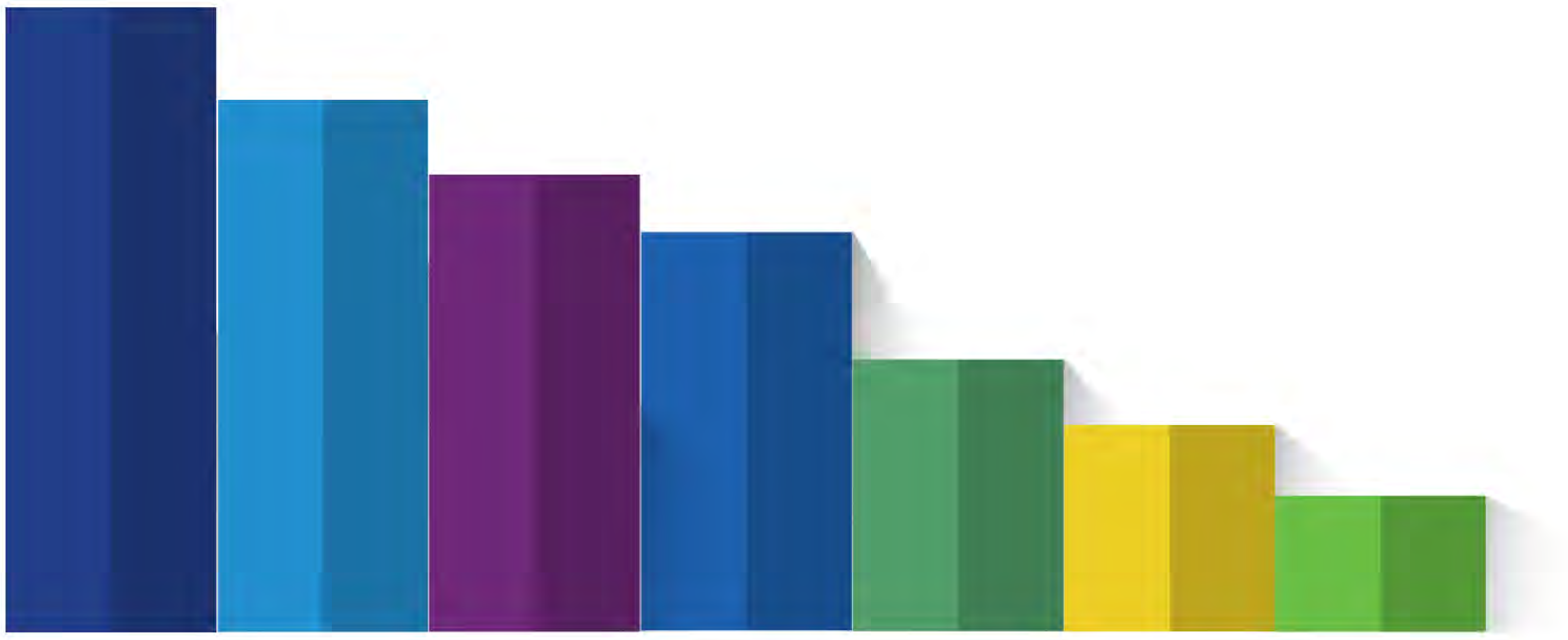
Looking at the impact of ESG and business ethics practices on the performance of companies in these fields, it can be said that respondents expect the implementation of a wide range of practices. Regarding ESG, it is seen that the factors that most affect performance are as follows: having an in-house body for sustainability; circular economy practices; climate change management; and OSH practices. Regarding business ethics, these factors are as follows: establishing the infrastructure required to report irregularities; maintaining and developing ethics and compliance risk management programs; and having an in-house organisation for ethics and compliance.

Looking at the relationship between ESG and business ethics and reputation, it was observed that, according to respondents, there was a very strong relationship between ESG and business ethics and reputation. Respondents consider that practices regarding ESG and business ethics are of great importance for the reputation of companies.

IMPORTANCE OF ESG PERFORMANCE IN TERMS OF ACHIEVING BUSINESS TARGETS IN THE PRIVATE SECTOR



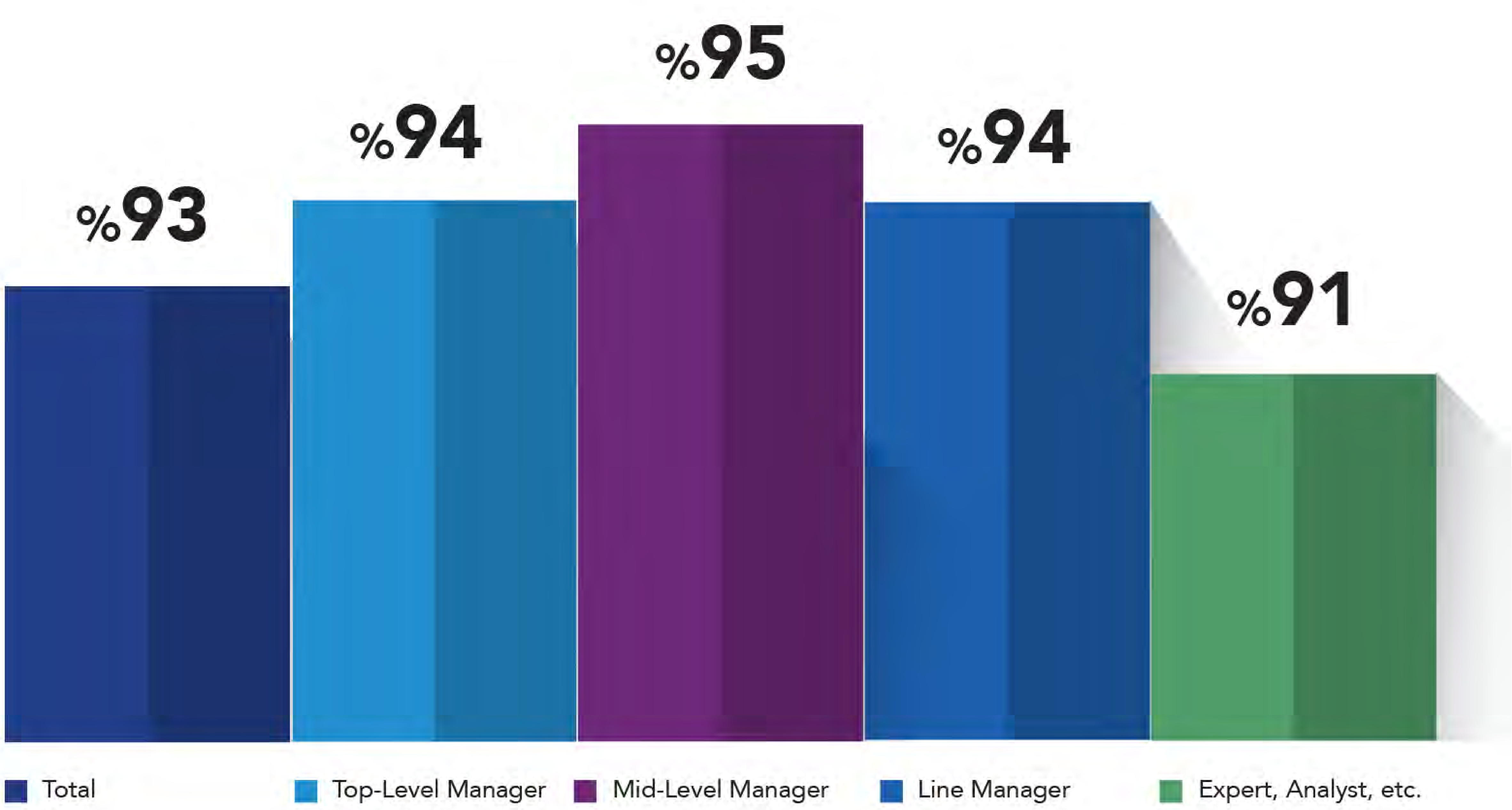
PRIORITY OF ESG PERFORMANCE CRITERIA IN TERMS OF ACHIEVING BUSINESS TARGETS IN THE PRIVATE SECTOR



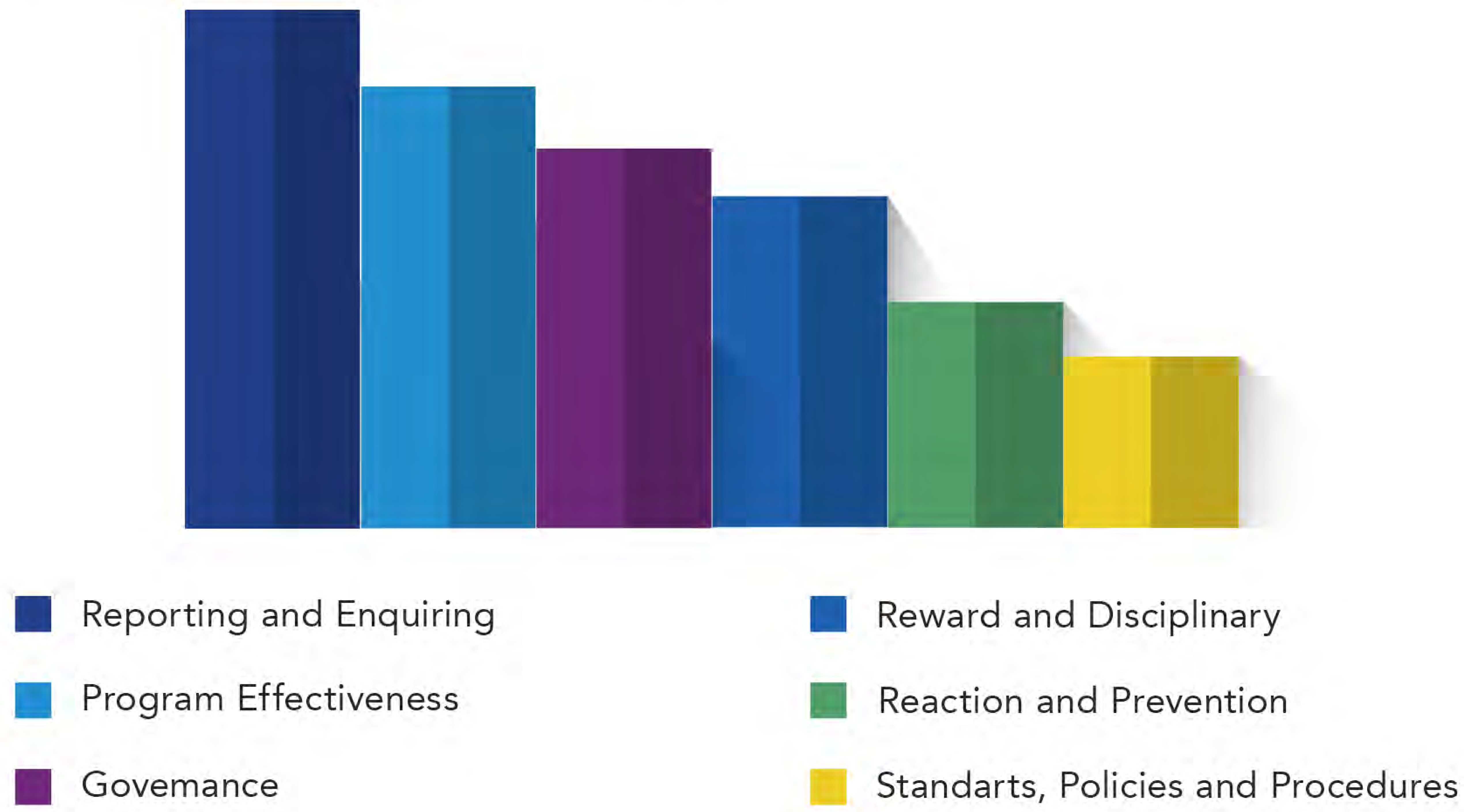
- Sustainability Organization
- Circular Economy
- Occupational Safety and Health
- Water Management
- Environmental Management System
- Social Responsibility
- Human Rights, Diversity and Inclusion

Graph 1. Importance of ESG in the Private Sector

IMPORTANCE OF BUSINESS ETHICS PERFORMANCE IN TERMS OF ACHIEVING BUSINESS TARGETS IN THE PRIVATE SECTOR



PRIORITY OF BUSINESS ETHICS PERFORMANCE CRITERIA IN TERMS OF ACHIEVING BUSINESS TARGETS IN THE PRIVATE SECTOR

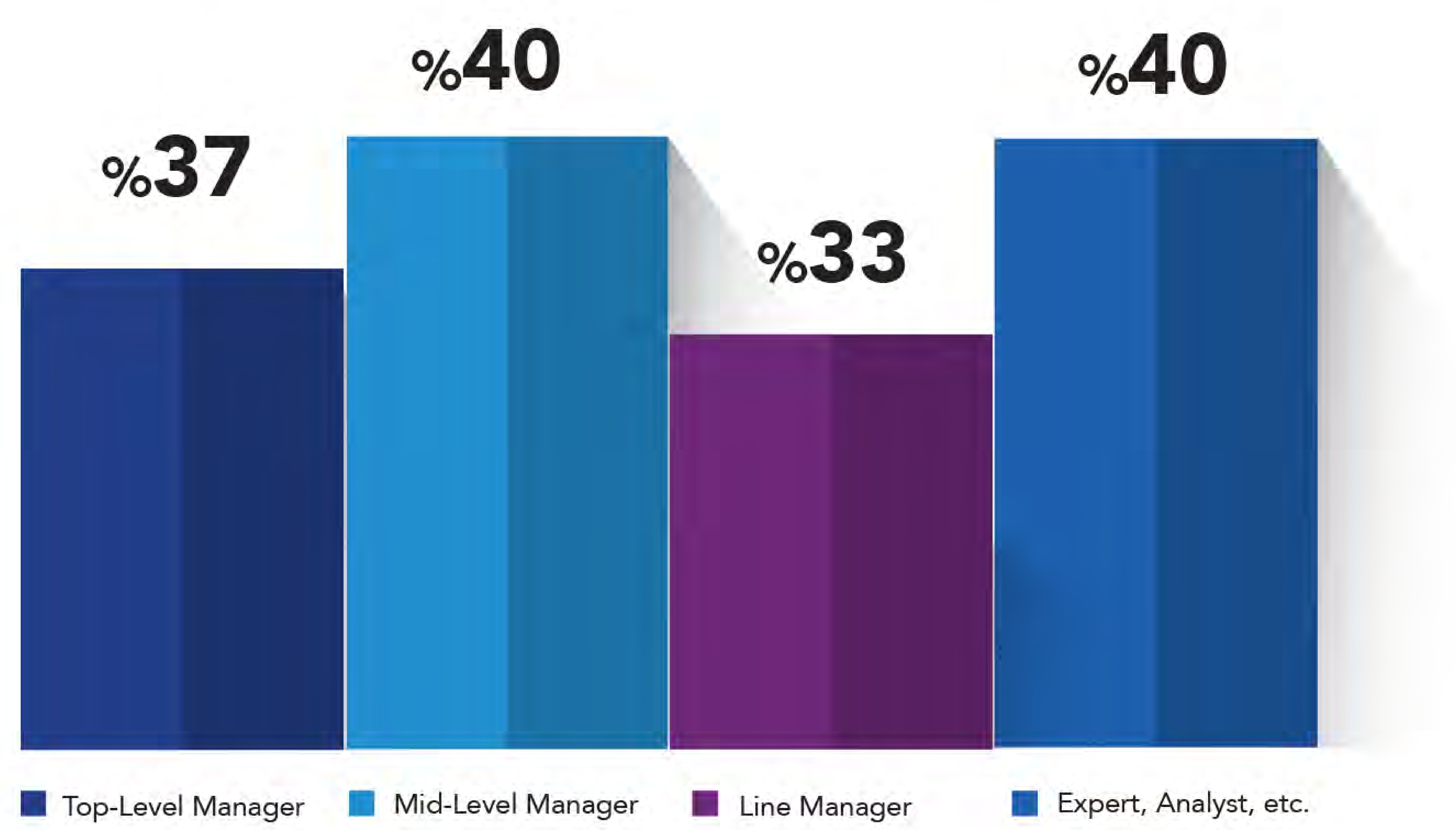


Graph 2. Importance of Business Ethics in the Private Sector

8.2. CURRENT PERFORMANCE IN BUSINESS ETHICS AND ESG PRACTICES

The analysis of survey results reveals that the respondents considered that the ESG performance of the private sector was unsatisfactory. Looking at the scores of the private sector for the satisfactoriness of ESG performance, it is seen that the ESG performance of the private sector was considered unsatisfactory, particularly by line managers. The scores given by middle- and top-level managers were also low but higher than those of line managers.

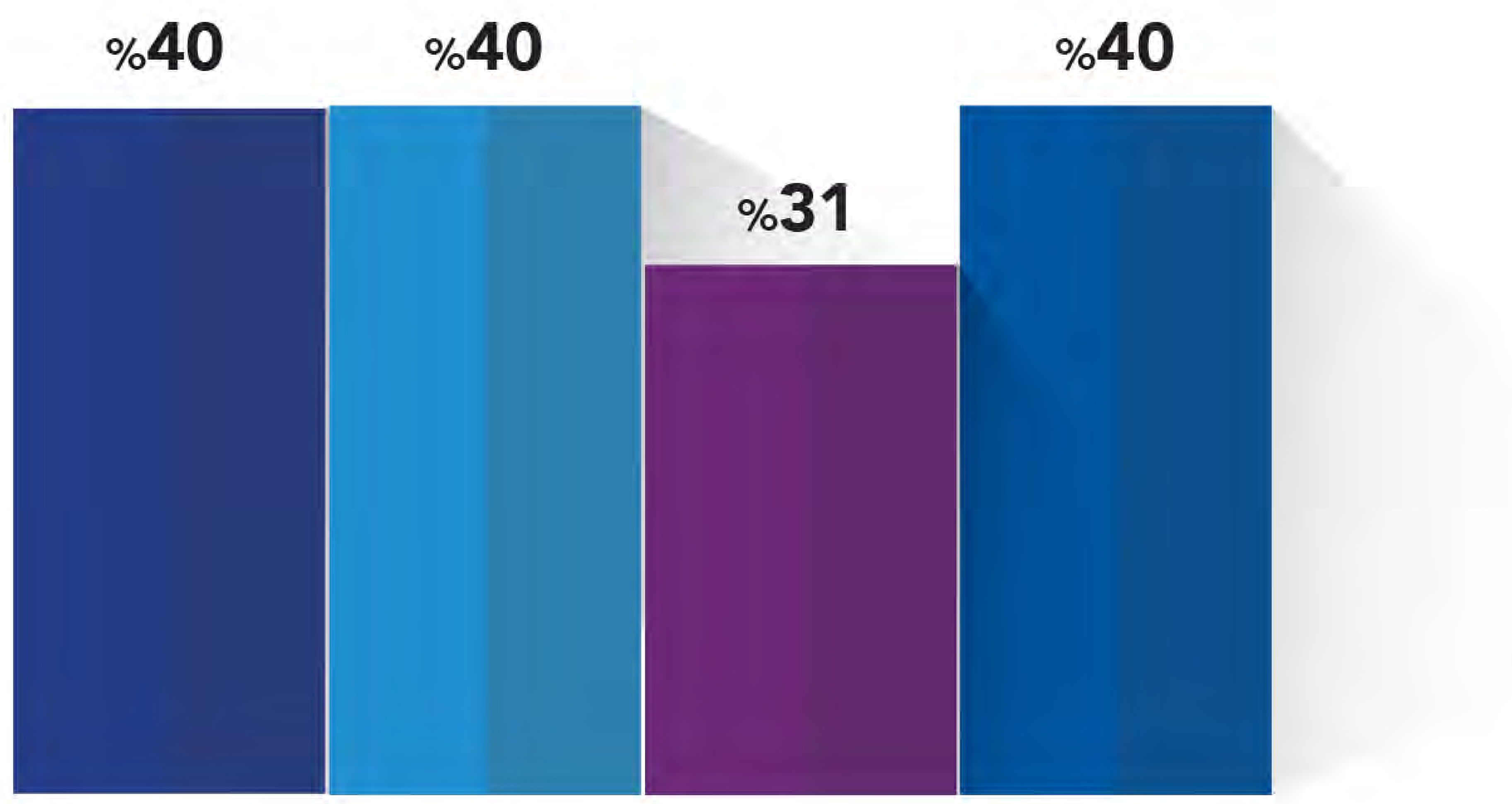
SATISFACTORINESS OF THE ESG PERFORMANCE OF THE PRIVATE SECTOR



Graph 3. Satisfactoriness of the ESG Performance of the Private Sector

Looking at the satisfactoriness of business ethics performance, it is seen that there is a similar case. It is seen that respondents consider the business ethics performance of the private sector to be unsatisfactory, that the scores given by line managers and middle- and top-level managers are different, and that the scores given by line managers are lower.

SATISFACTORINESS OF THE BUSINESS ETHICS PERFORMANCE OF THE PRIVATE SECTOR

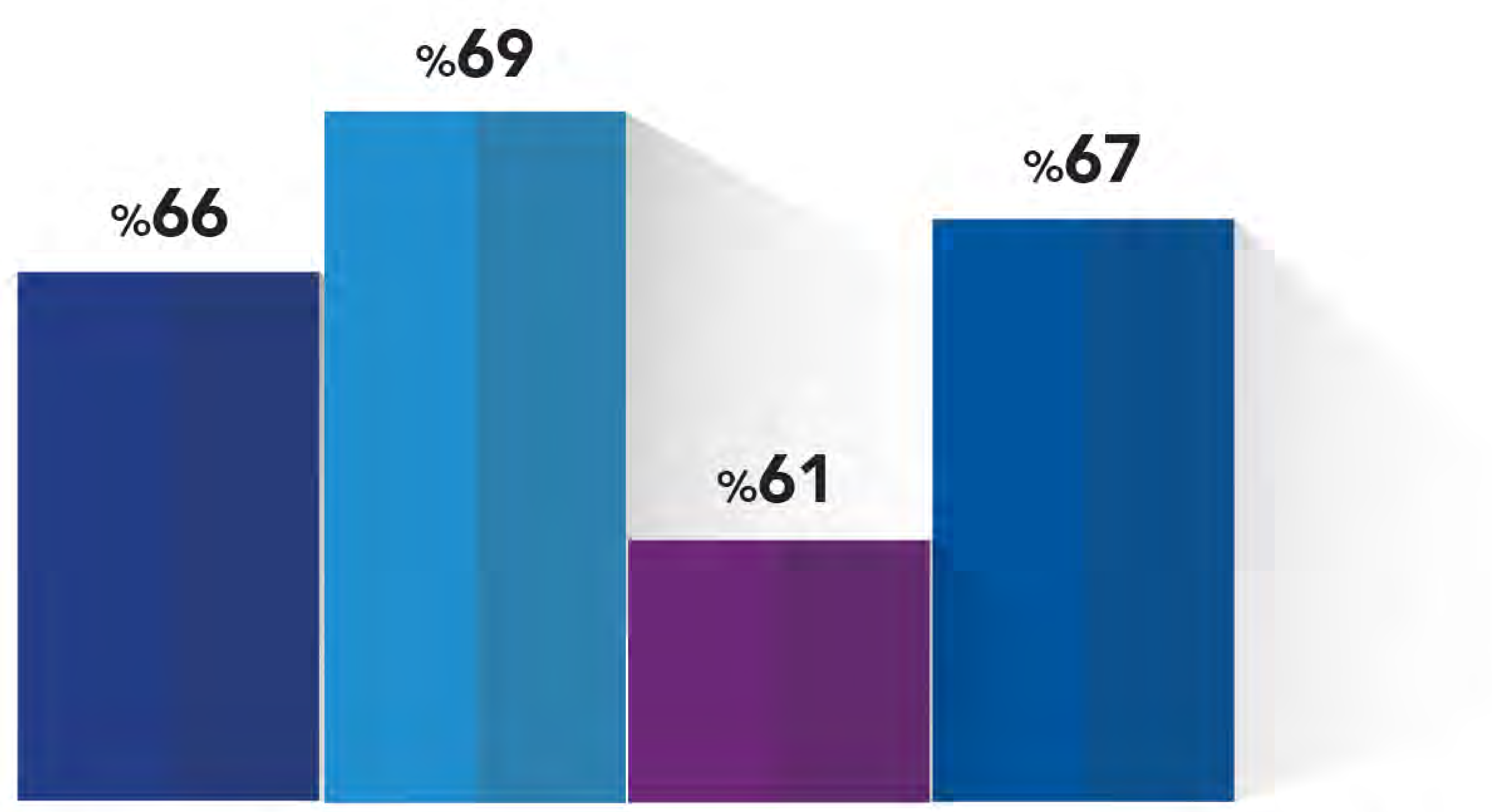


Top-Level Manager Middle-Level Manager Line Manager Analyst, Expert, etc.

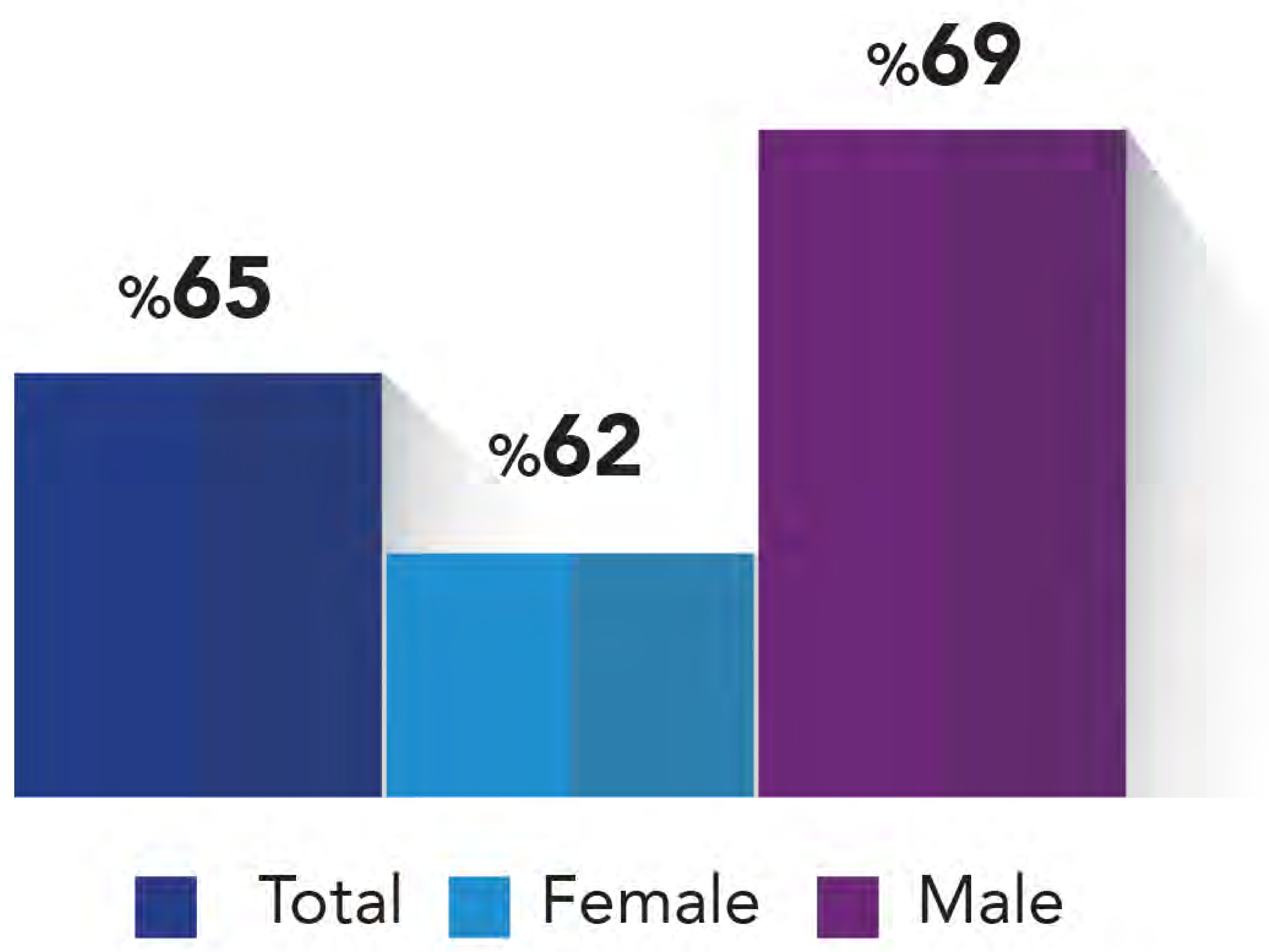
Graph 4. Satisfactoriness of the ESG Performance of the Private Sector

The evaluation by survey respondents regarding the ESG and business ethics performance of their own companies shows that they consider the ESG and business ethics practices of their own companies more positively compared to those of other companies, but point out that their companies still have a long way to go. Here, there is also a difference between the views of line managers and those of middle- and top-level managers. Furthermore, the satisfactoriness of ESG was considered lower by female respondents compared to male respondents.

SATISFACTORINESS OF ESG PERFORMANCE OF RESPONDENTS' OWN COMPANIES

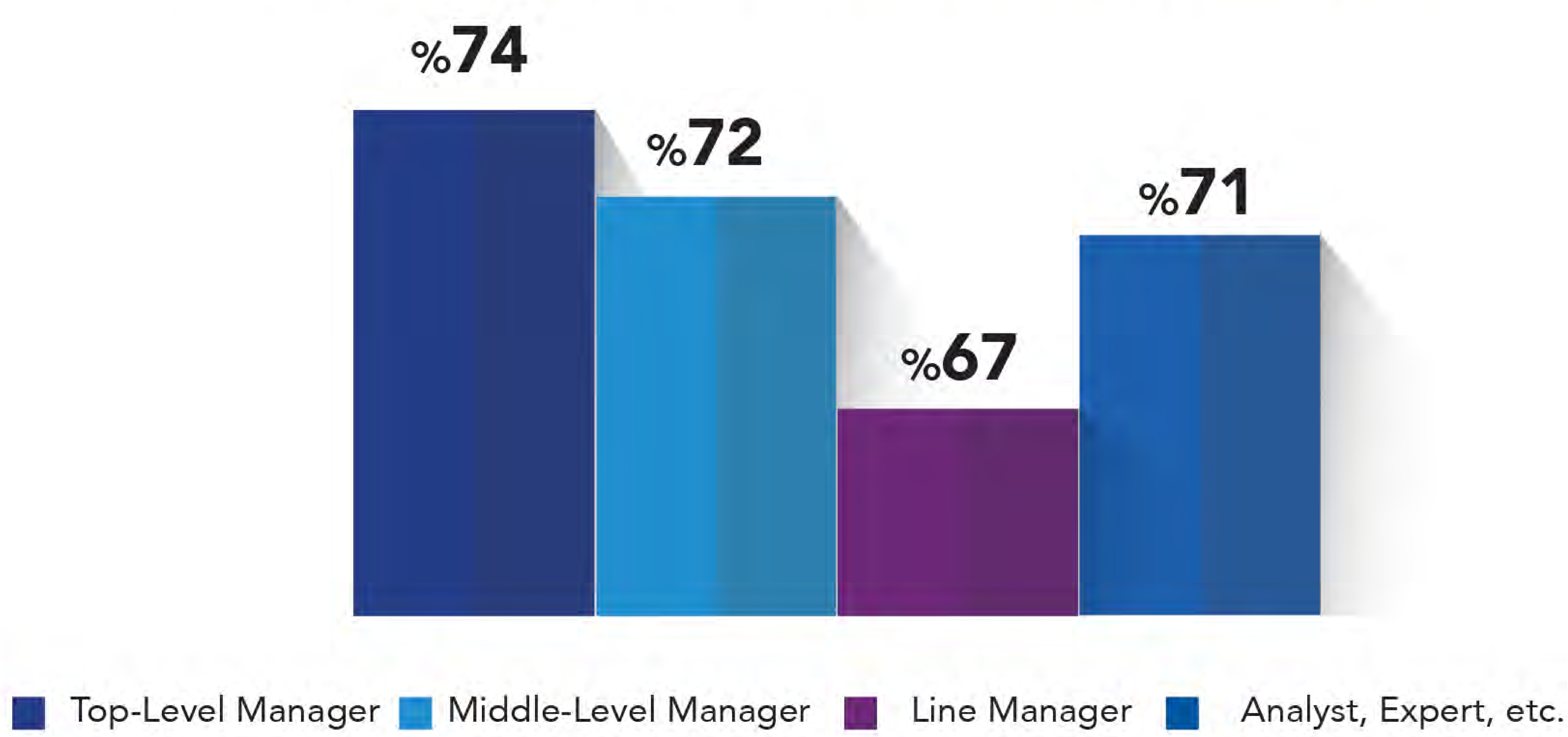


Top-Level Manager Middle-Level Manager Line Manager Analyst, Expert, etc.



Graph 5. Breakdown of Satisfactoriness of ESG Performance of Respondents' Own Companies
Respondents evaluated the satisfactoriness of the business ethics performance of their own company with higher scores compared to other companies. This is the same for all detailed performance criteria regarding business ethics. One can observe that the respondents considered their own companies' performance satisfactory in terms of business ethics practices, but the scores given by line managers were lower than those of others. These results show that the respondents considered that the business ethics performance of their own companies was satisfactory and that, however, there were areas open to improvement for their companies to achieve the performance of the company they consider most successful.

SATISFACTORINESS OF BUSINESS ETHICS PERFORMANCE OF RESPONDENTS' OWN COMPANIES

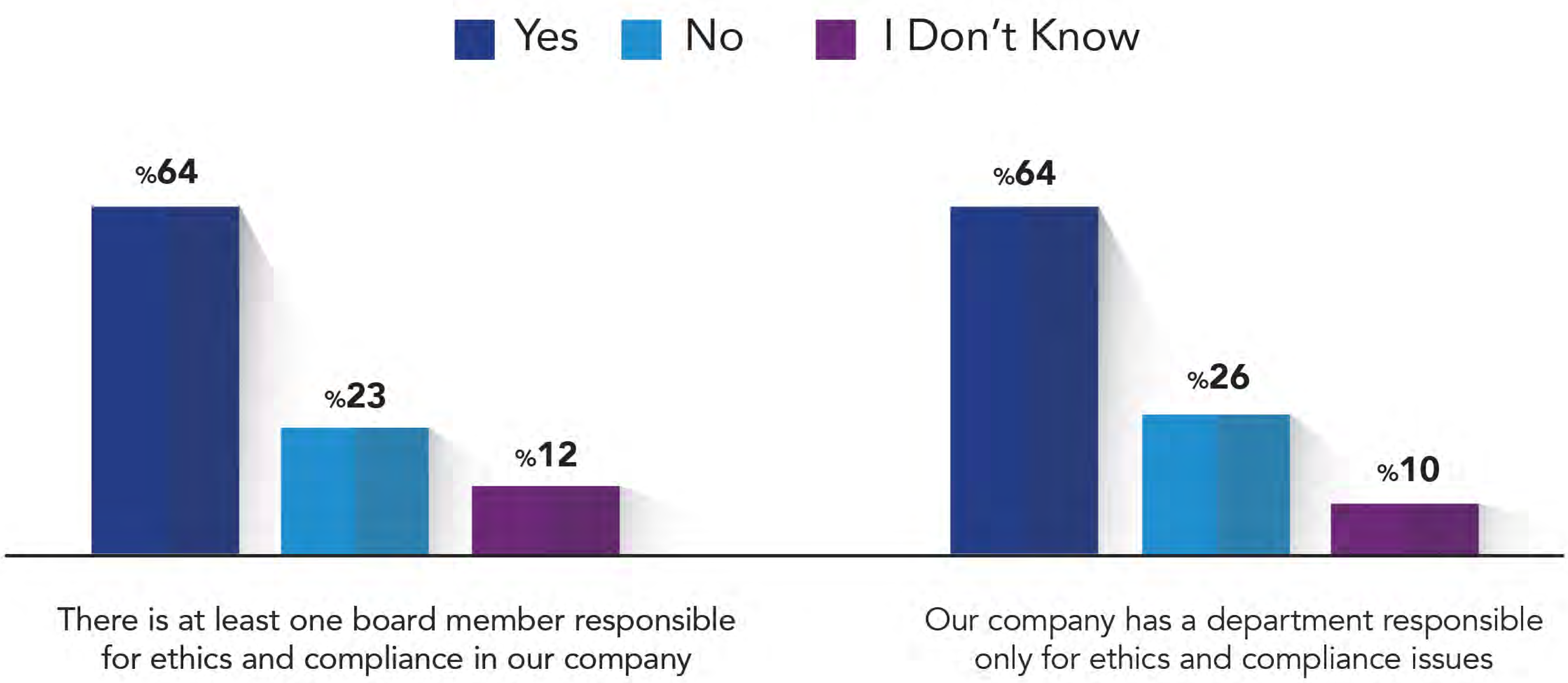


Graph 6. Satisfactoriness of Business Ethics Performance of Respondents' Own Companies
Looking at both the impacts of ESG-related practices on ESG performance and the current performance scores, it is seen that there are a few issues that have a high impact but yield relatively low performance. Among these issues are the establishment of sustainability committees; the importance attached to biodiversity; ensuring transparency for sustainability; and implementing sustainable supply chain practices. It is seen that ESG performance is significantly impacted by the practices in these areas, where such practices perform poorly when compared to their impact.

Regarding business ethics, such issues include measuring and enhancing the effectiveness of programs related to ethics and compliance risk management and delivering training on business ethics to both internal and external stakeholders. Although these areas are important for the business ethics performance of companies, respondents considered that companies' current performance in these areas remained low.

Looking at the details of the results regarding sustainability bodies, it is seen that 64% of the respondents stated that, in their companies, there was a department responsible for ethics and compliance and that there was at least one board member responsible for ethics and compliance. It can also be seen that in companies without a department responsible for ethics and compliance, approximately 90% of the people responsible for these issues work in various departments, such as legal affairs, reputation management, corporate communications, and auditing, which means that their responsibilities are not limited to ethics and compliance.

Looking at the departments responsible for ESG issues, it is seen that the top three departments responsible for these issues are the sustainability department (40%), reputation management department (35%), and corporate communications department (14%). The results regarding the sustainability bodies reveal that, as is the case for ESG and ethics and compliance, there is a lack of definition to identify responsibilities for managing reputation management processes. This means that companies should determine which departments will oversee the ESG and business ethics issues, which are of high importance as demonstrated in the previous section and should be included among the priority business areas by companies.



Graph 7. Ethics and Compliance Organisation

The Department in which the Person in Charge of Ethics and Compliance Works at Companies without an Ethics and Compliance Department

Graph 8. The Department in which the Person in Charge of Ethics and Compliance Works

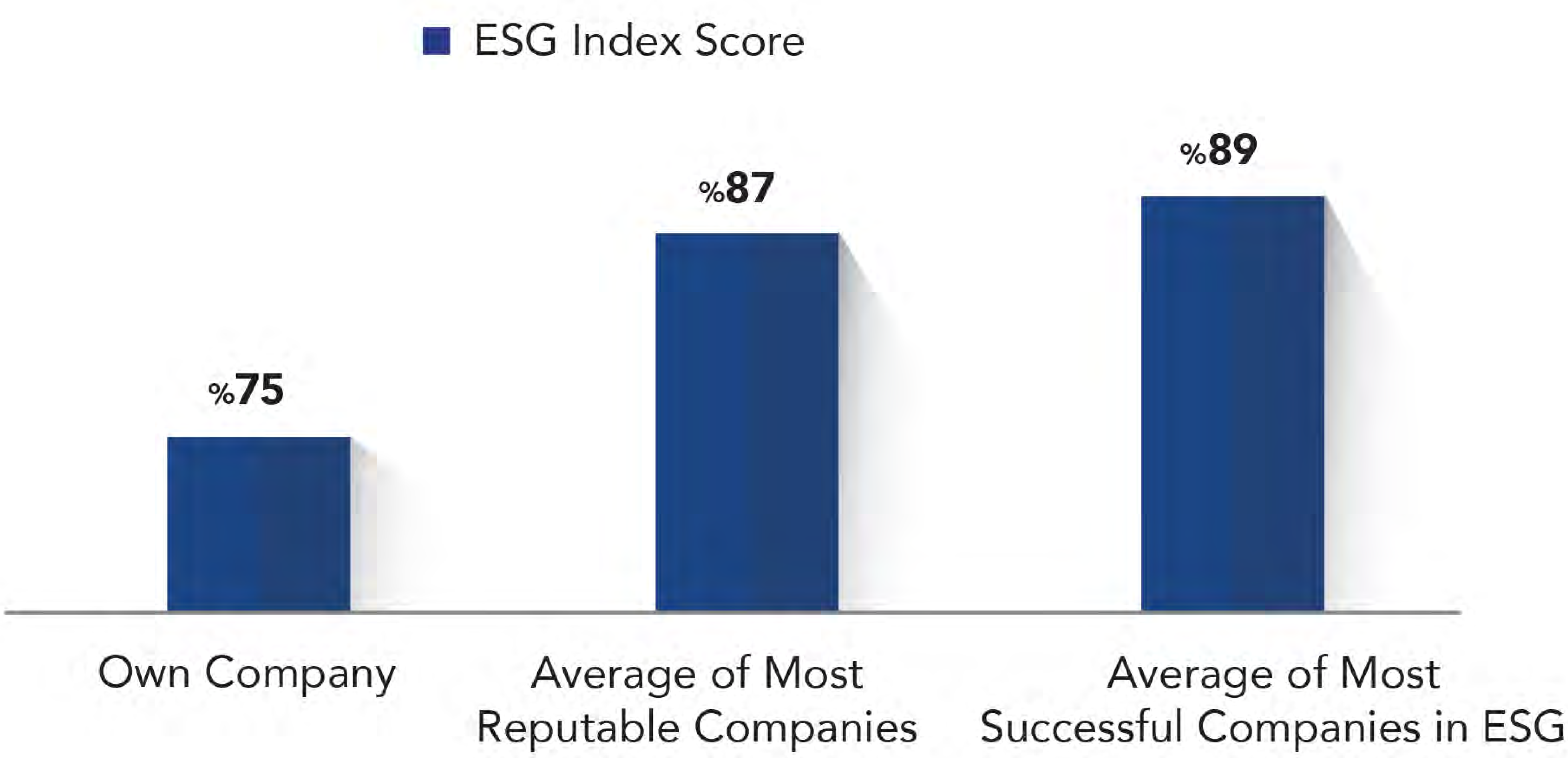
Department Responsible for ESG

Graph 9. The Department Responsible for ESG

Department Responsible for Reputation Management

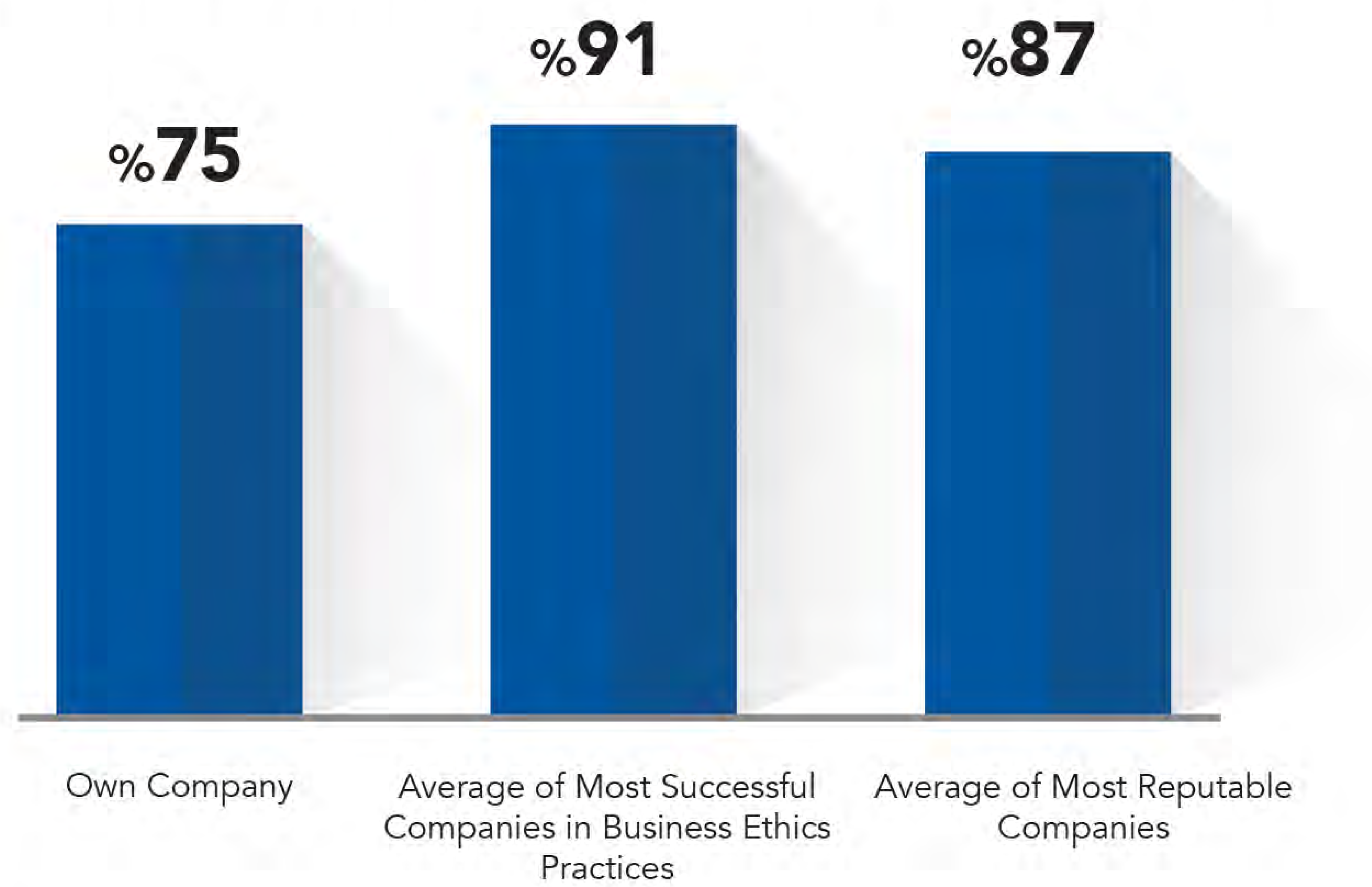
Graph 10. The Department Responsible for Reputation Management

Looking at the most successful companies in terms of ESG performance, it is seen that they have very high scores. The ESG performance of the most successful companies seems to be very high, resulting in significant differences between the average of the private sector, the average of the scores given by the respondents to their own companies, and the average of the most successful companies. It is observed that the case is the same for business ethics practices.



Graph 11. ESG Index Score

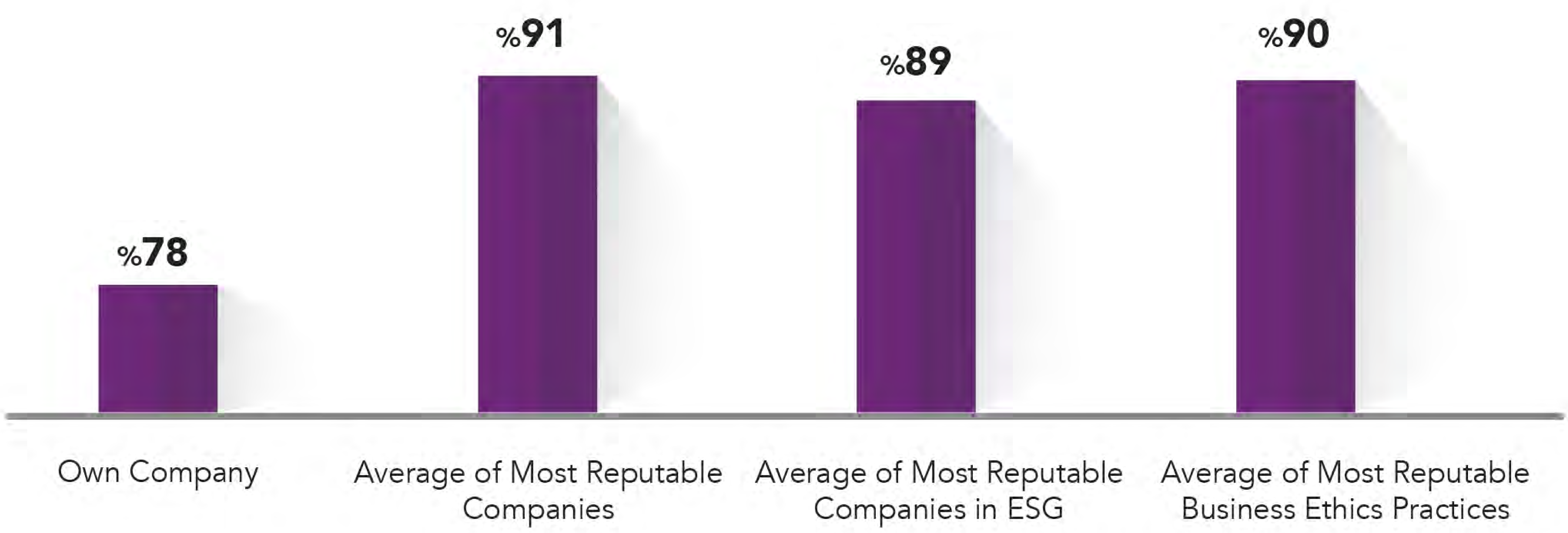
Overall Performance of Business Ethics Practices



Graph 12. Business Ethics Performance Scores

Looking at the reputation management performance of companies, it is seen that there is a similarity. Although the scores given by respondents to their own companies seem satisfactory, they are far behind those of most reputable companies. The scores given by the line managers are also low for this area. Regarding reputation management, there are significant deficiencies in terms of employee quality, management quality, emotional commitment, and social responsibility.

Reputation Management Performance Score

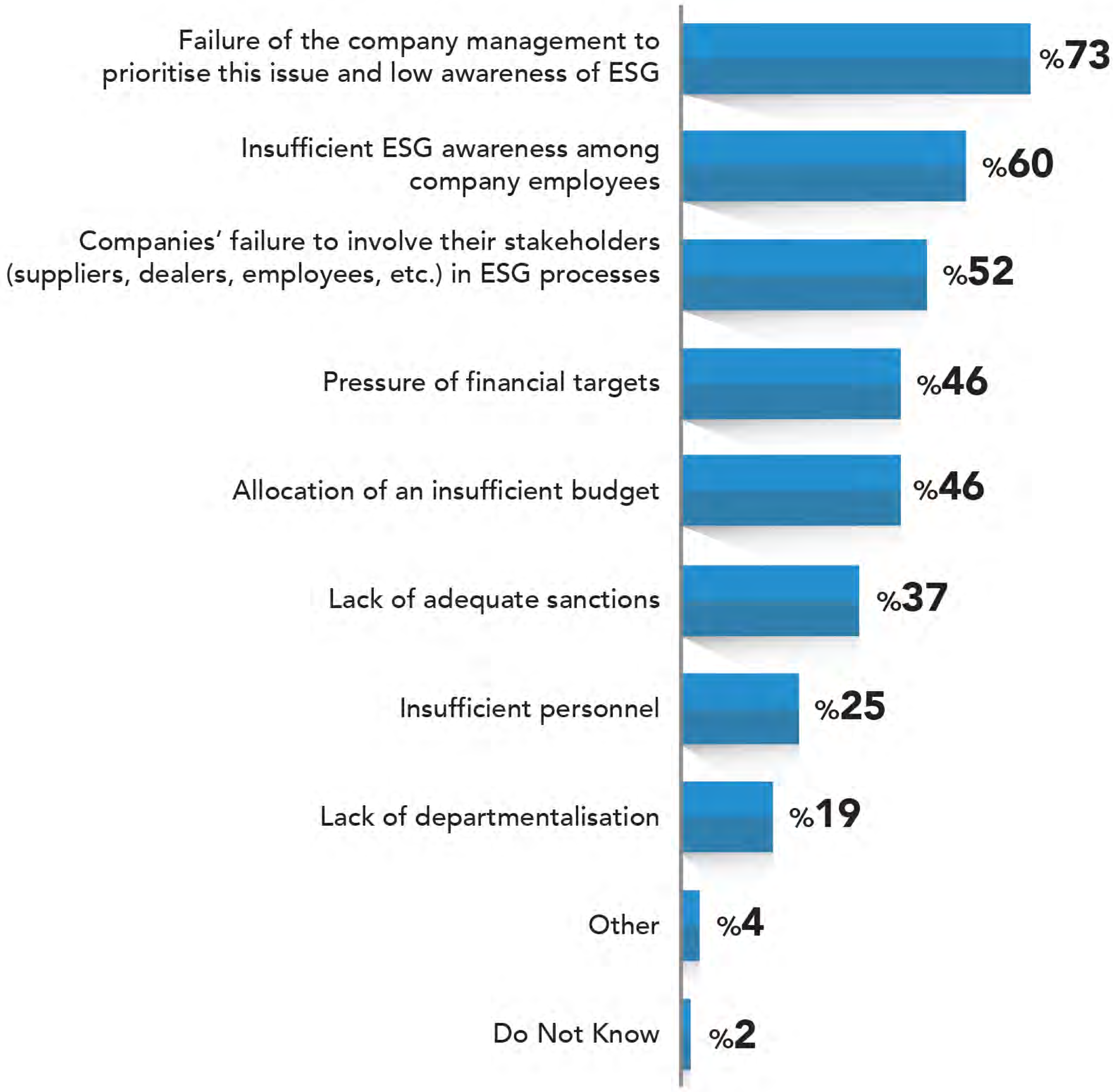


Graph 13. Reputation Management Performance Scores

The index scores for ESG, business ethics and reputation management performance are very close. However, according to respondents, the reputation management performance of their own companies is better than that of other companies. ESG and business ethics issues fall behind compared to reputation management.

8.3. OBSTACLES TO ESG PRACTICES

It can be said that the most significant obstacles for companies to perform well in terms of ESG are the low awareness of ESG both at companies' management levels and among employees, and the failure of companies' management to prioritise ESG-related issues. However, the fact that companies fail to involve their stakeholders in ESG processes and that they focus more on financial targets than on ESG-related practices and targets can also be considered significant obstacles.

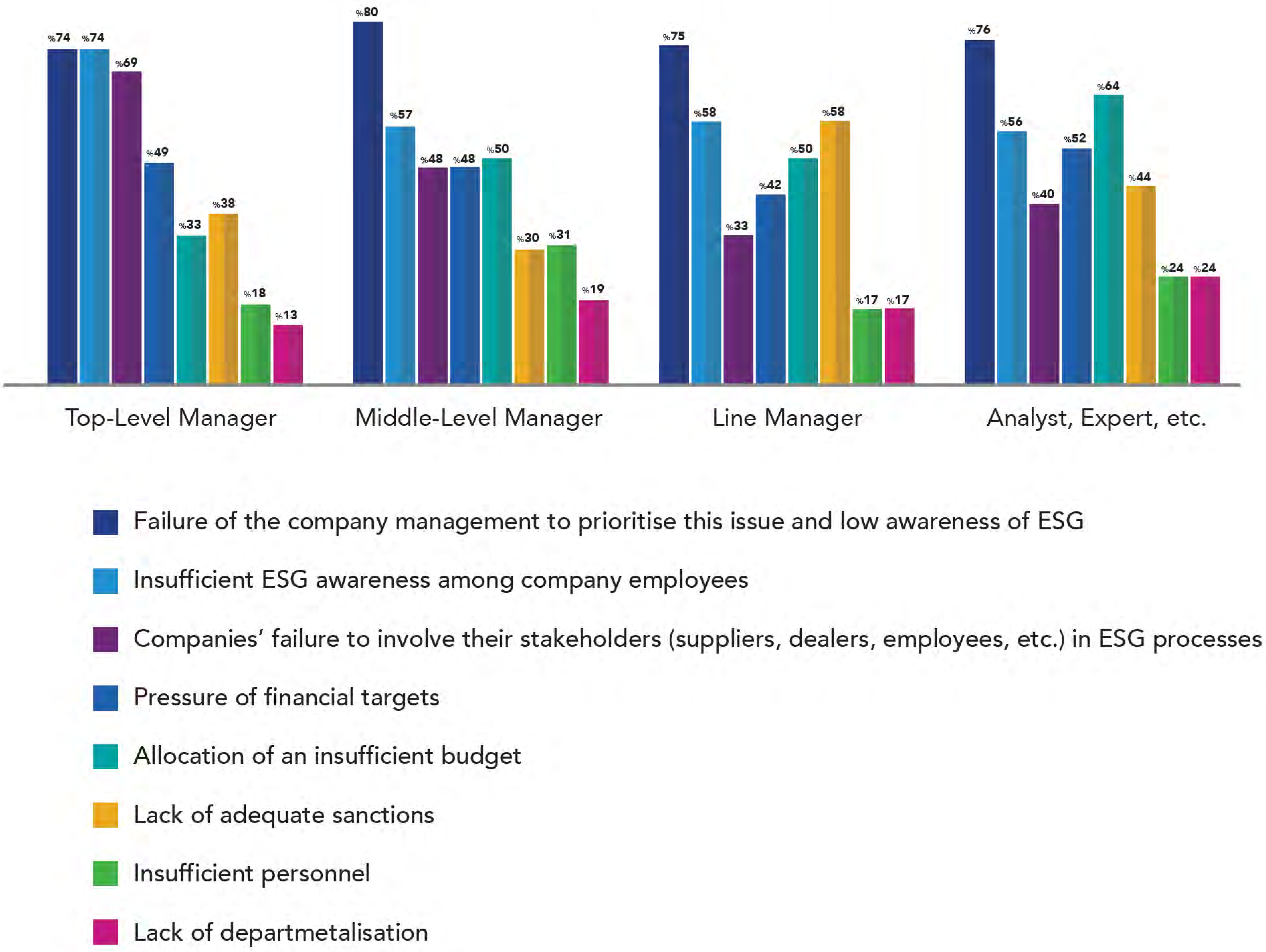


Graph 14. Obstacles to ESG Practices

Regarding the lack of awareness of ESG, particularly among employees of companies, it is seen that the perception of top-level managers differs from that of middle-level and line managers; more clearly, top-level managers consider that awareness of ESG among company employees is unsatisfactory. This is also the same for companies that do not involve their stakeholders in ESG processes. According to the middle-level and line managers, the most significant obstacles to ESG practices are the low awareness of ESG within the company and the failure of the management to prioritise this issue. Unlike top-level managers, middle-level and line managers see insufficient ESG awareness among company employees as a minor obstacle. The opinions of the middle-level and line managers regarding the first two obstacles are similar. However, the third most significant obstacle is the allocation of an insufficient budget according to the middle-level managers, whereas it is the lack of adequate sanctions according to the line managers. In this respect, the responses given by the middle-level managers and the respondents with such titles as an expert, analyst, etc. are similar.

Among the actions that may be taken to overcome these obstacles are involving stakeholders in ESG processes; allocating a sufficient budget to ESG practices and imposing adequate sanctions on companies for their failures in this field. The results of this study indicate that the top three obstacles to ESG practices are low awareness of ESG and the failure of management to prioritise this issue; insufficient awareness of ESG among company employees; and the failure of companies to involve their stakeholders in ESG processes. However, it is thought the visibility of ESG issues will increase in the upcoming period in line with the regulations, foreign trade rules, and actions taken to combat climate change that are presented in the next section.

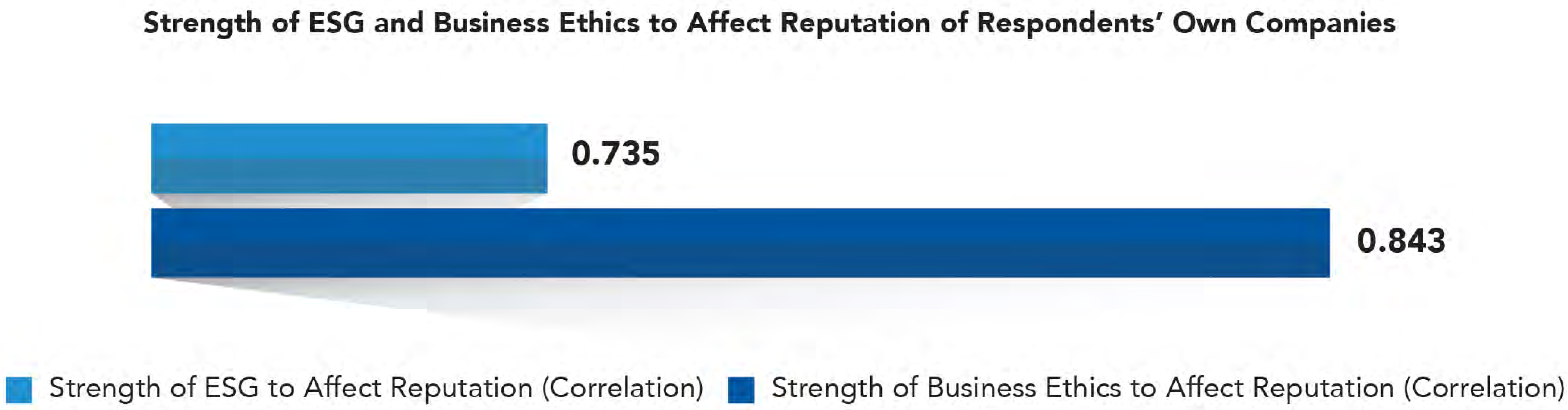
OBSTACLES TO ESG PRACTICES



Graph 15. Obstacles to ESG Practices - Detail

8.4. EFFECTS OF ESG AND BUSINESS ETHICS PRACTICES ON REPUTATION STANDING OF ENTERPRISES

It is observed that the respondents have a common perception regarding the future reputation of companies which do not prioritise ESG practices and business ethics and compliance processes. Looking at the effect of business ethics and ESG on the reputation of respondents' own companies, it is observed that there are strong relationships. In this regard, the correlation coefficients calculated indicate that there is a very strong relationship between ESG and reputation and that there is a strong relationship between business ethics practices and reputation.



Graph 16. Strength of ESG and Business Ethics to Affect Reputation of Respondents' Own Companies

According to most respondents, companies that do not prioritise business ethics and ESG practices will lose their reputation and market share in the future. However, a considerable number of respondents think that such companies would lose their reputation but not their market share. This view is common, particularly among top-level managers. Among top-level managers, approximately 25% stated that failure to prioritise ESG would not affect companies in terms of market share. The rate of middle-level and line managers that have the same view is as low as approximately 16% and 8% respectively. It is observed that this is the same for not prioritising business ethics and compliance processes. However, there is a contradiction between these results and the scores given by the respondents, who state that business ethics and ESG practices are of great importance for companies in achieving their business targets. Furthermore, failure to prioritise these areas poses a significant risk considering developments around the world, particularly in the European Union, our country's largest foreign trade partner. Various examples of these developments are presented in the following box.

Carbon Border Adjustment: The Carbon Border Adjustment Mechanism is aimed at the taxation of the carbon content of products imported into the European Union. Established to prevent the existing carbon pricing systems in the European Union from weakening the competitiveness of European manufacturers and resulting in carbon leakage, this mechanism will impose a carbon levy on the products of carbon-intensive sectors. With this mechanism, it will be mandatory to measure and report the carbon content of products as of 2023 and to pay a levy based on such content as of 2026.

CSRD: The CSRD was drawn up by EFRAG based on a plan to introduce an obligation on companies across the European Union to report sustainability risks. These standards, which are expected to go into effect by 2023, will have an impact on the entire EU as well as impose an obligation on approximately 12,000 companies with more than 500 employees to report on issues such as the environment, social, human rights, and corruption.

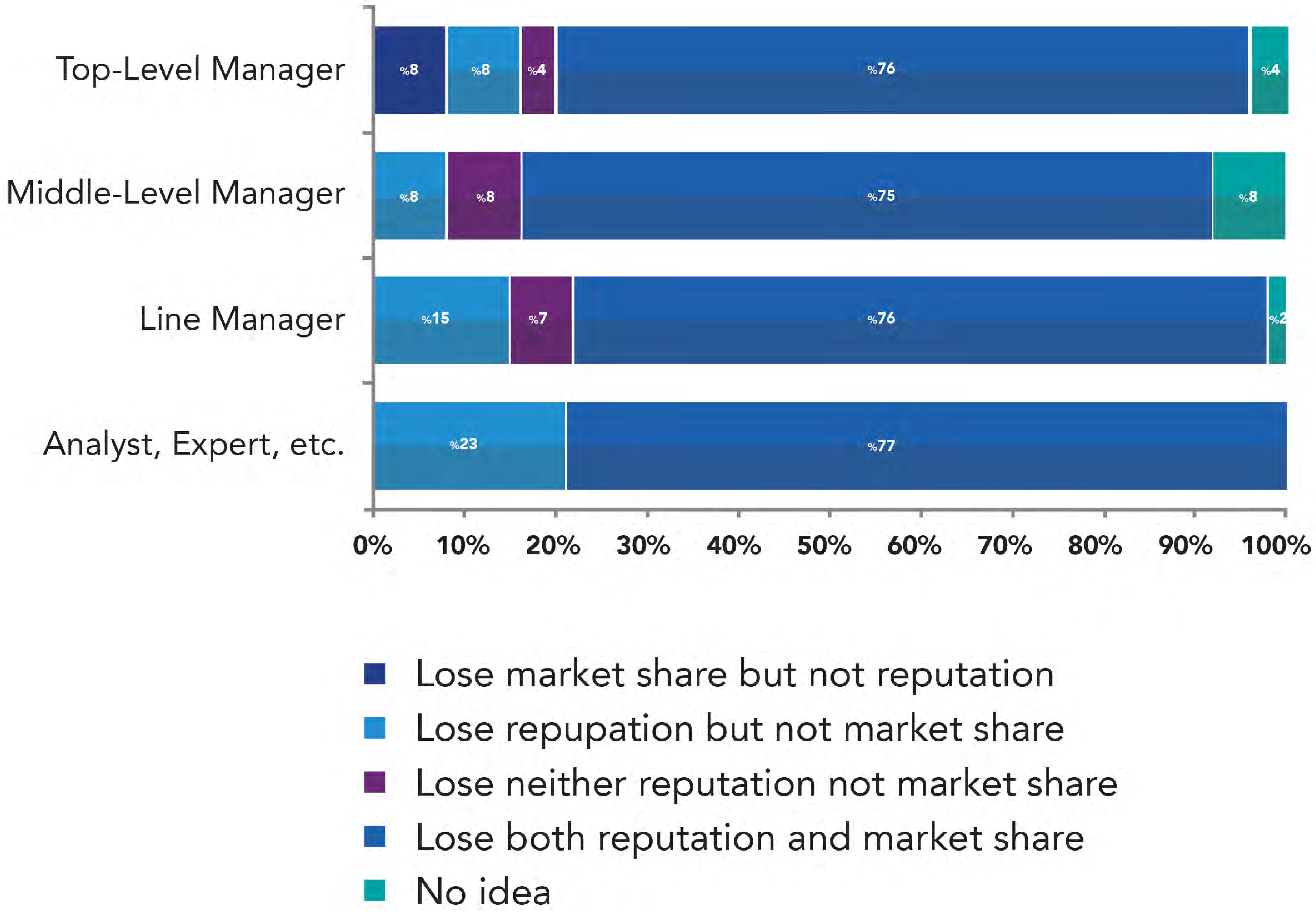
German Supply Chain Act: With the Supply Chain Act, which will enter into force by 2023, Germany plans to introduce a risk management and reporting obligation on large-scale companies for environmental and human rights issues in their supply chains. Under this act, it will be mandatory as of 2023 for enterprises with at least 3,000 employees and as of 2024 for enterprises with at least 1,000 employees to establish a risk management system for detecting, prohibiting and mitigating all environmental damages and human rights violations within their entire supply chain and to report its related works.

U.S. Federal Acquisition Supply Chain Security Act: The federal government of the United States, as one of the world's largest buyers, announced new decisions to achieve its sustainability targets and manage climate risks. According to these decisions, large suppliers that sell goods and services to the federal government will be required to determine science-based emission reduction targets in line with the Paris Agreement and to publicly report their greenhouse gases and climate change-related financial risks.

IFRS S1 and S2: Setting global accounting standards, IFRS provides a global basis for sustainability reporting standards through the ISSB, which was established to act for similar studies regarding sustainability. The IFRS S1 and S2 standards focus on the financial effects of sustainability issues. According to these standards, reports should be prepared in conjunction with financial statements and subject to audits, just like financial statements, so that the information presented is of the same quality as the financial tables and presented to stakeholders at the same time. The ISSB drafted these standards based on the TCFD framework and SASB standards and submitted the drafts to the review of stakeholders and is continuing to carry out necessary studies in light of the comments of relevant stakeholders.

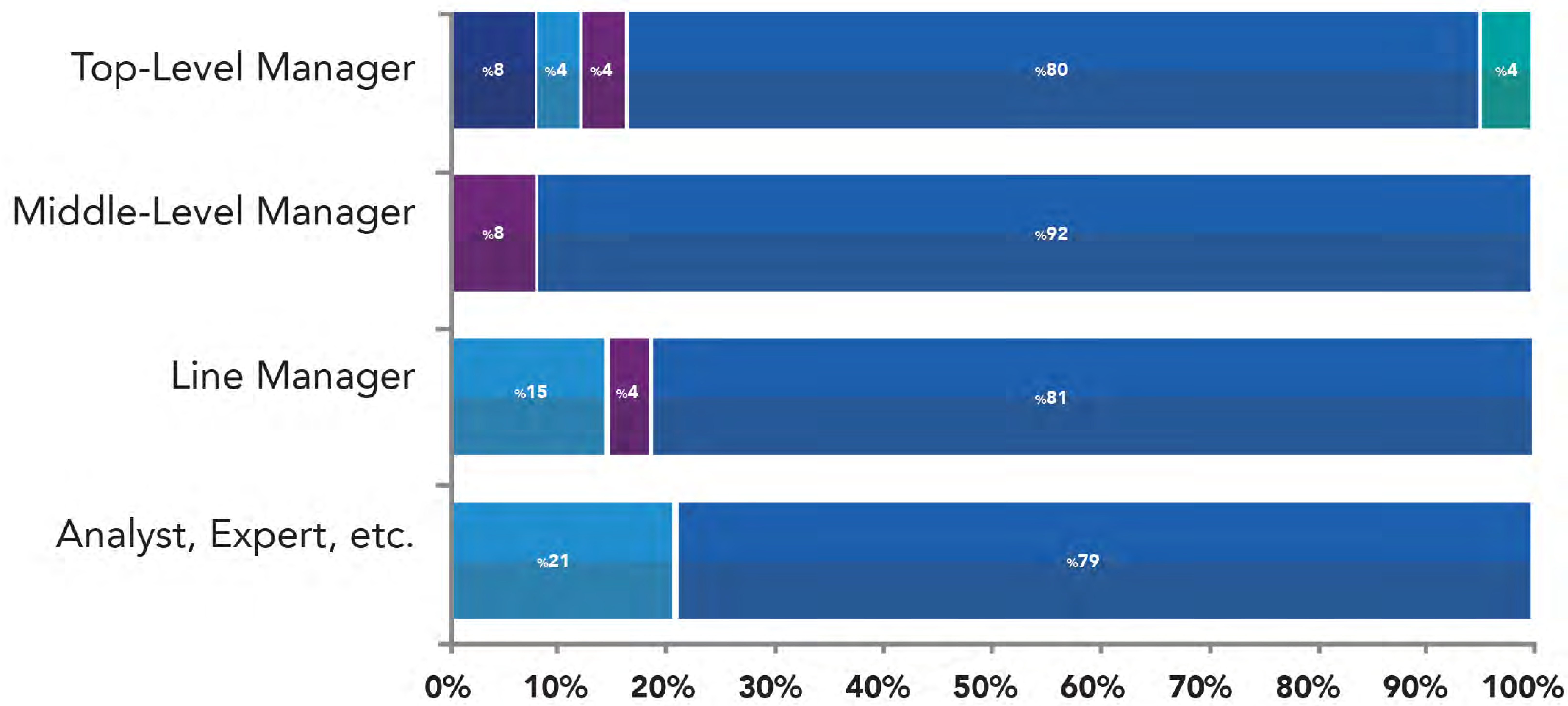
Here, there is also a split in opinion between managerial levels, which was observed during the evaluation of current performance. The obstacles mentioned in the previous section can be identified through such a perception of top-level managers: Managers who think that deficiencies in ESG and business ethics will not have a negative financial impact will not tend to prioritise practices in these fields.

FUTURE REPUTATION OF COMPANIES THAT DO NOT PRIORITISE ESG



Graph 17. Effect of ESG on Reputation

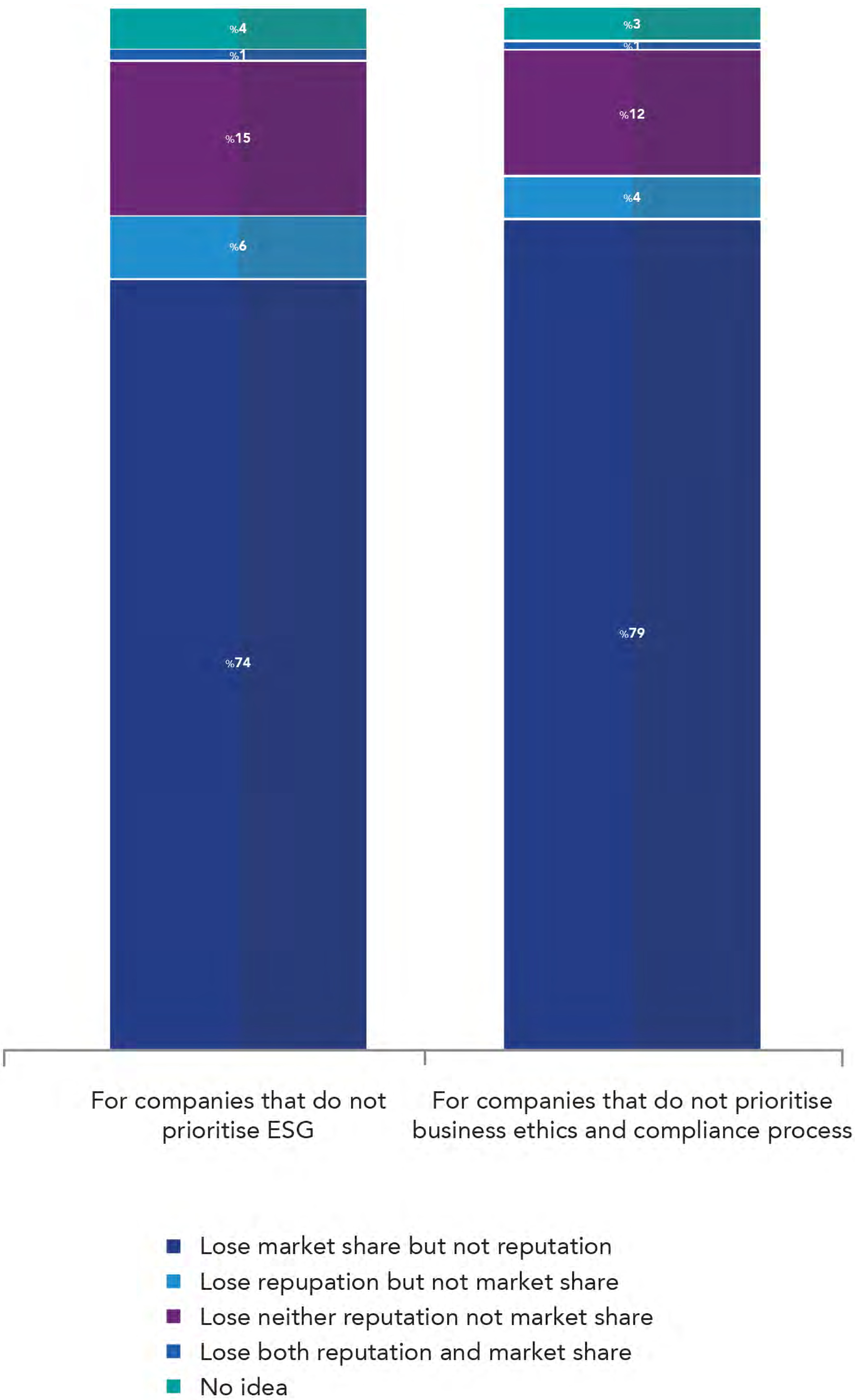
FUTURE REPUTATION OF COMPANIES THAT DO NOT PRIORITISE BUSINESS ETHICS AND COMPLIANCE PROCESS



- Lose market share but not reputation
- Lose repupation but not market share
- Lose neither reputation not market share
- Lose both reputation and market share
- No idea

Graph 18. Effect of Business Ethics and Compliance Process on Reputation

FUTURE REPUTATION OF COMPANIES THAT DO NOT PRIORITISE ESG AND BUSINESS ETHICS AND COMPLIANCE PROCESS



Graph 19. Effect of ESG and Business Ethics & Compliance Process on Reputation

9. CONCLUSIONS

Based on the survey results, in which 145 representatives from 44 different sectors of the Turkish business world participated, this report reveals that business ethics and ESG practices have a significant impact on the reputation of companies. Most respondents think that there is a close relationship between business ethics, ESG and reputation. Respondents have posed questions regarding the business ethics, ESG and reputation management performance of both the companies in which they worked and other private sector companies they considered most successful in these areas. The results indicate that the satisfactoriness of the business ethics, ESG, and reputation management performance of the companies in which respondents work is considered higher by the top- and middle-level managers than by the line managers. On the other hand, female respondents, who comprise 51% of the total respondents, consider the ESG performance of the companies in which they work lower when compared to male respondents.

All respondents, regardless of position, tenure, age, or gender, believe that ESG and business ethics performance has a significant impact on a company's reputation. The results also indicate that most respondents have a common perception that the performance of the companies regarding business ethics and ESG will affect the reputation of companies both in the upcoming period and in the future. However, there are differences between the views of managers of various levels. It is seen that line, middle-, and top-level managers have different opinions about the current performance of companies. Besides, a considerable number of respondents, most of whom are top-level managers, think that there is no relationship between ESG and business ethics performance and the future financial position of companies. This perception is common among top-level managers and other decision-makers and contradicts the high scores given by respondents for the importance of business ethics and ESG practices in achieving the company's business targets. However, failure to attach the necessary importance and priority to business ethics and ESG practices poses a great risk for companies. Also, ignoring new policy packages, such as the European Green Deal, the laws and regulations that entered into force regarding these areas on a global scale pose significant reputational and financial risks.

It is seen that, according to respondents, the most significant criteria that prevent companies from having satisfactory ESG performance are the low awareness of ESG among the managers and other employees; failure of management to prioritise ESG issues; and failure of companies to involve all their stakeholders in the ESG processes. Respondents stated that the most significant actions to be taken for overcoming these obstacles were to involve stakeholders in ESG processes, to prioritise business ethics and ESG practices, and to allocate sufficient budget for these areas.

TEİD

Etik ve İtibar Derneği

Ethics & Reputation Society