



TEİD

Etik ve İtibar Derneği
Ethics & Reputation Society

Ethics and Compliance

Türkiye Assessment

June, 2023

KPMG Türkiye

kpmg.com.tr





Preamble



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The Turkish leg of the 2023 Compliance Officer (CCO) Survey, conducted by KPMG International to investigate how ethics and compliance functions adapt to global trends and evolving risks, was conducted in April 2023 in cooperation with the Association of Ethics and Reputation (TEİD). We are very pleased to share with you the 2023 Ethics and Compliance Survey Evaluation Report, which evaluates the Türkiye results and compares them with global results.

During these extraordinary years of transformation that have changed work habits, Ethics and Compliance Officers (CCOs) have emerged as the leaders of change.

In their role as the driving force of change for companies, CCOs strive to ensure that new approaches and technologies are adopted, regulatory and stakeholder expectations are accurately anticipated, and risks are prevented before they occur.

During this period, as we have previously experienced in the banking and other financial services sectors, other industries continue to integrate independently of national borders.

This situation increasingly emphasizes the importance of international regulations, rules, and best practices for companies.

In addition to the globalization of business, the imposition of sanctions on Russia, which holds significant importance for Türkiye's international commercial activities, further complicates the ethical and compliance climate for Türk companies.

The objective of the 2023 Ethics and Compliance Survey Assessment Report is to identify the existing compliance structures, areas in which organizations struggle while implementing compliance functions, and aspects open to improvement and development in different sectors within this complex climate.

I would like to extend my gratitude to KPMG Türkiye's Fraud Prevention, Investigation, Commercial Dispute, and Compliance Consultancy team, as well as TEİD, for their contributions to the realization of the 2023 Ethics and Compliance Survey.

Sincerely,

Oytun Önder



TEİD

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Preamble

As we move past the first quarter of the 21st century, the concepts of ethics, reputation, and compliance continue to gain unprecedented importance in today's business world.

Business practices around the world have started to differentiate rapidly, both on a national and international level.

While the changes took place slowly and in small steps, the steps grew over time and reached the stunning speed they have today.

As the need for data increases in order to perform due diligence and to better understand and explain ethics and compliance issues in this fast pace, and in parallel with this, it is of great importance to support information with data in studies on ethics and compliance issues, the importance of which is better understood every day.

In this respect, the Association of Ethics and Reputation (TEİD) and KPMG Türkiye have collaborated to carry out the "Ethics and Compliance Türkiye Assessment," which has been repeated since 2019. The aim was to examine the existing ethics and compliance structures and the areas of development targeted by leading companies in different sectors in our country, and to present this information with data.

The survey results reveal the rapidly evolving roles, responsibilities, and expectations concerning ethics and compliance within companies.

Embracing an ethical culture integrated into all operational activities is of great importance in mitigating ethics and compliance risks.

The participation in this survey consisted of ethics and compliance managers, experts, or similar senior compliance executives from prominent organizations in our country.

The survey examined the current status of companies in terms of ethics and compliance, identified priorities based on market factors and changes in areas where they are strong or have room for improvement.

As the Association of Ethics and Reputation, which considers providing the most up-to-date information and knowledge about the management of ethics, compliance, and reputation risks to its members and stakeholders as one of its most important objectives, we are delighted to collaborate with KPMG, one of the most significant global stakeholders in our sector.

The survey, which we hope to repeat in the coming years, will thus be a reference document through which we will observe and evaluate the changes in our country in detail.

In line with these efforts, we hereby present this report to you and extend our gratitude to all the valuable participants who took part in our survey, contributing to the enrichment of our results, as well as the dedicated KPMG team and our member, KPMG Türkiye, for their significant efforts in realizing the "2023 Ethics and Compliance Türkiye Assessment".

Sincerely,

Association of Ethics and Reputation (TEİD)

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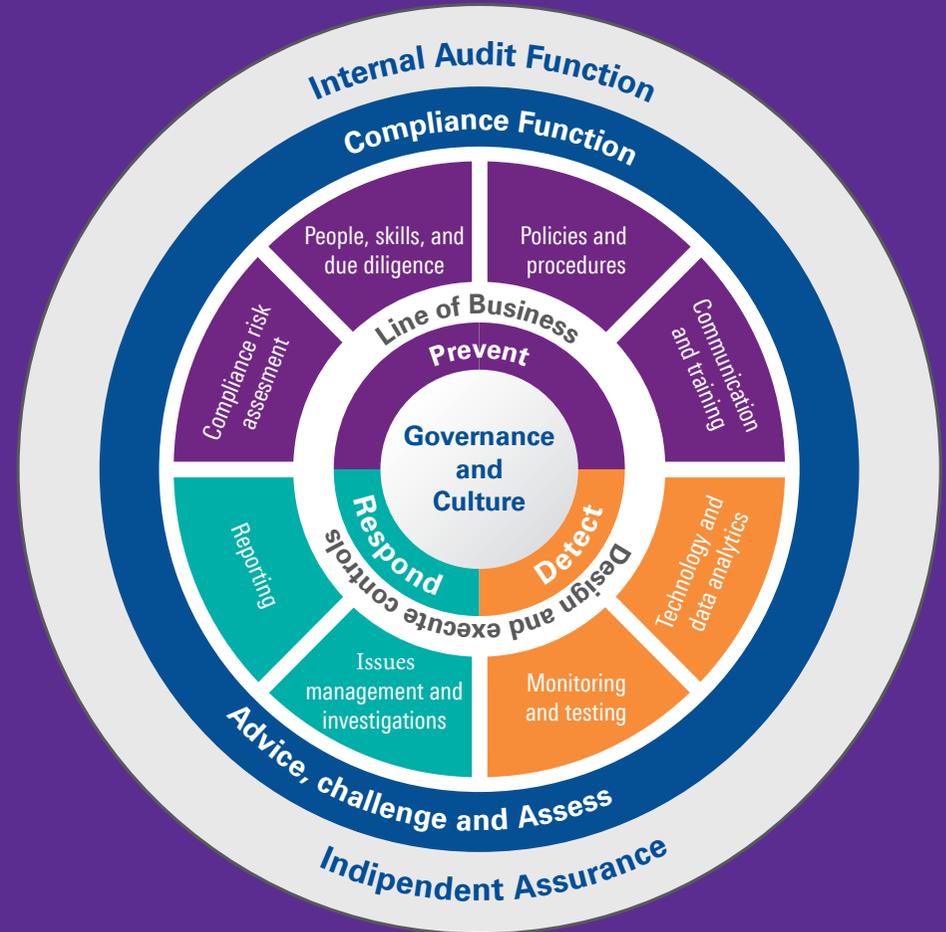


Methodology

Survey Methodology

KPMG's 2023 CCO Ethics and Compliance Survey is an online survey consisting of questions focused on components within KPMG's proprietary Compliance Program framework.

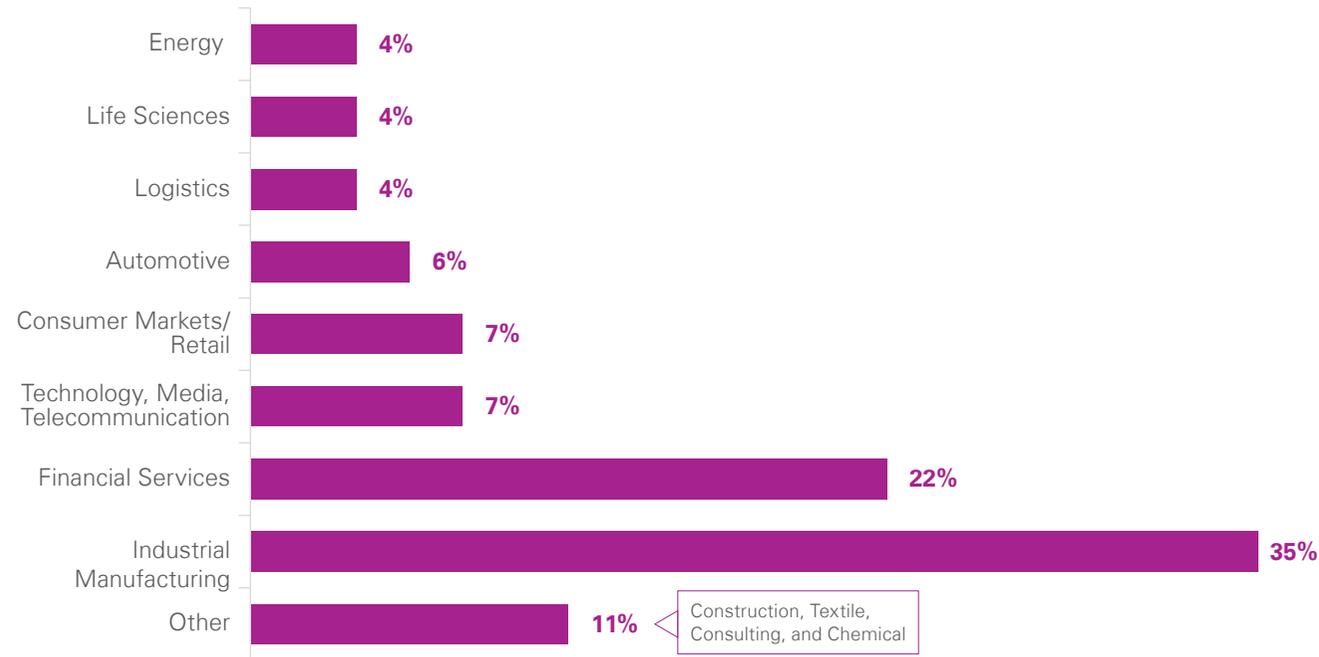
The survey comprises a total of seventy-one questions and was conducted with the participation of ethics and compliance professionals from the leading organizations in Türkiye.





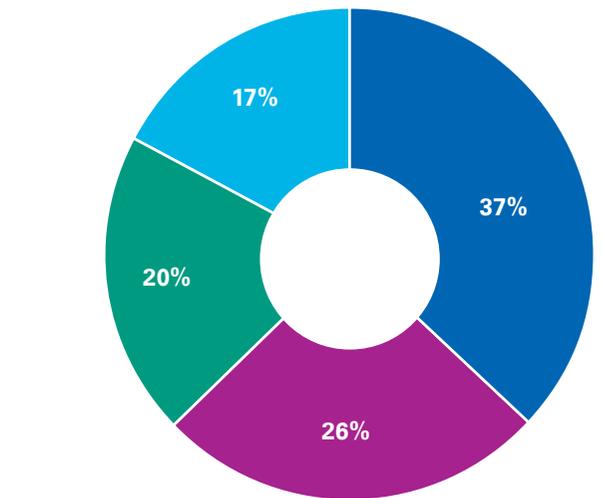
Survey Participant Profile

Sectors in which organizations operate:



The survey participants predominantly work in the Industrial Manufacturing and Financial Services sectors, followed by Consumer Markets/Retail, Technology/Media/Telecommunication, Life Sciences, and Energy sectors.

Titles of the Participants:



- Compliance Officer
- Legal Department Officer
- Internal Audit/Risk Management Officer
- *Other

*General Manager, Consultant, Sustainability and Business Ethics Manager, Sustainability Officer, Corporate Governance and Sustainability Director, Deputy General Manager

The survey participants consist of Compliance Leaders, Risk Managers, Legal, Compliance, or Risk Officers.

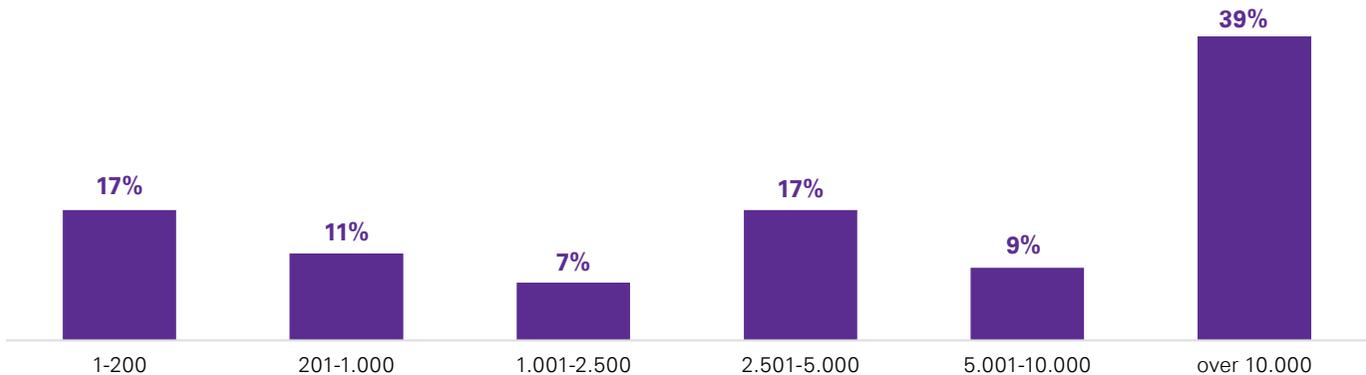
Additionally, with regard to the participating corporations

43% are included in the ISO500 list.

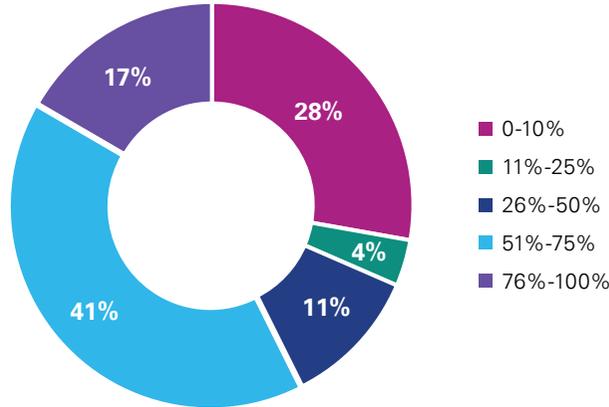
Approximately 35% have their headquarters located outside of Türkiye.

Survey Participant Profile

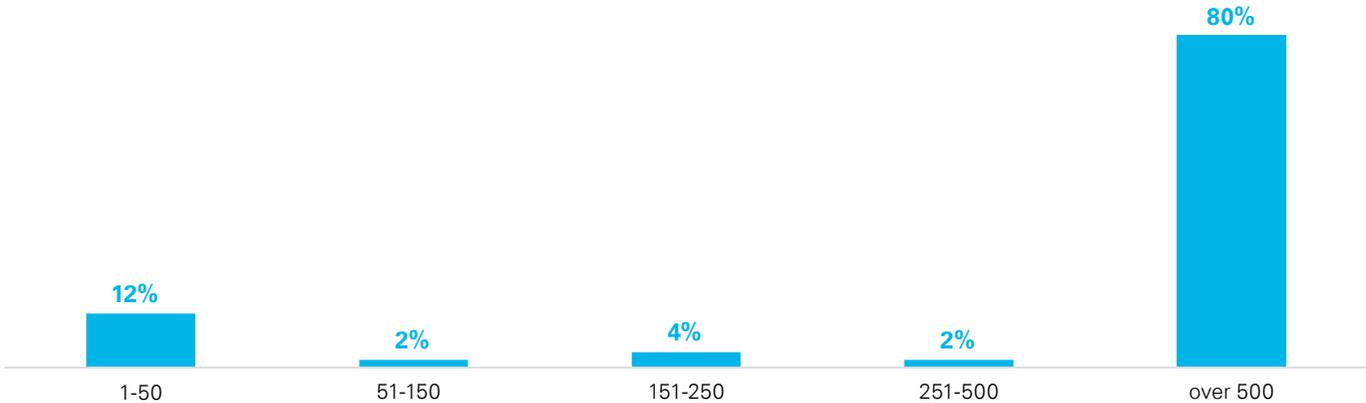
International employee counts



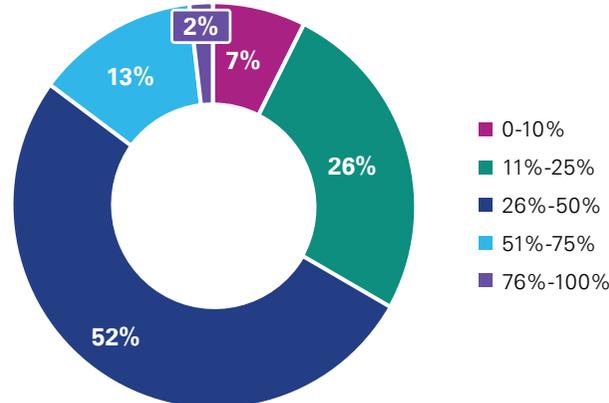
Blue Collar employee ratio



Local employee counts



Female employee ratio

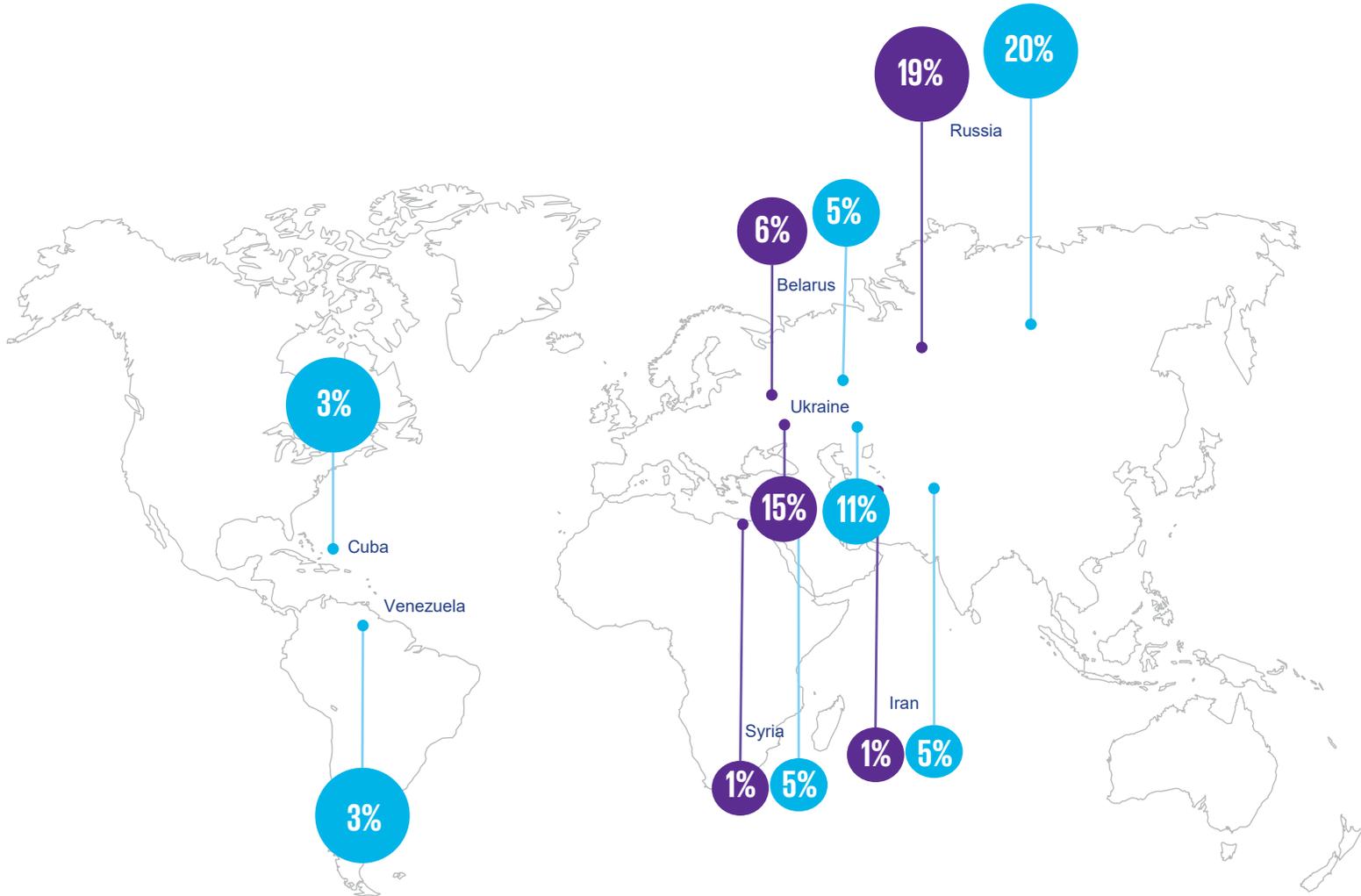


While 35% of the corporations participating in the survey have an international shareholding structure, 19% are of local attribute.





Survey Evaluation



Operating Regions

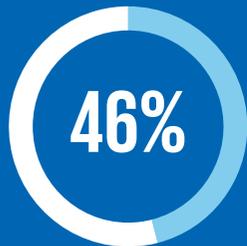
Supplier, Business Partner and Customer Regions

43% of the survey participants operate in countries with high levels of sanctions, and 53% of them have suppliers, business partners, or customers in these regions.

Key Findings and Assessment

01

Ethics and Compliance Obstacles



The lack of support from organizational stakeholders and insufficient personnel pose obstacles to compliance.

02

Ethics and Compliance Effectiveness



"Lessons learned" from ethical and compliance experiences are not shared throughout the organization.

03

Compliance Structure



There is no formal Ethics and Compliance Function in place.

04

Sustainability and ESG Compliance



The Ethics and Compliance Function does not participate in any activities related to ESG.

05

Compliance with Sanctions



Prior to Russia's intervention in Ukraine, organizations did not have a dedicated function specifically for sanctions.

06

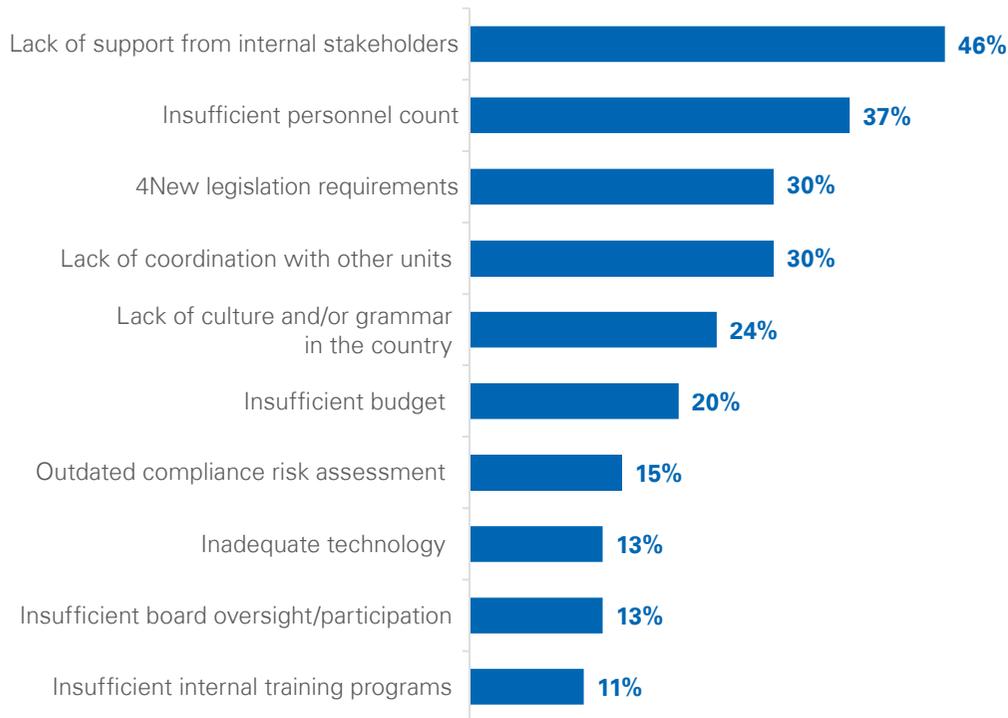
Investments in Compliance Field



Compliance risk assessment activities are conducted manually or through informal channels.

Ethics and Compliance Obstacles

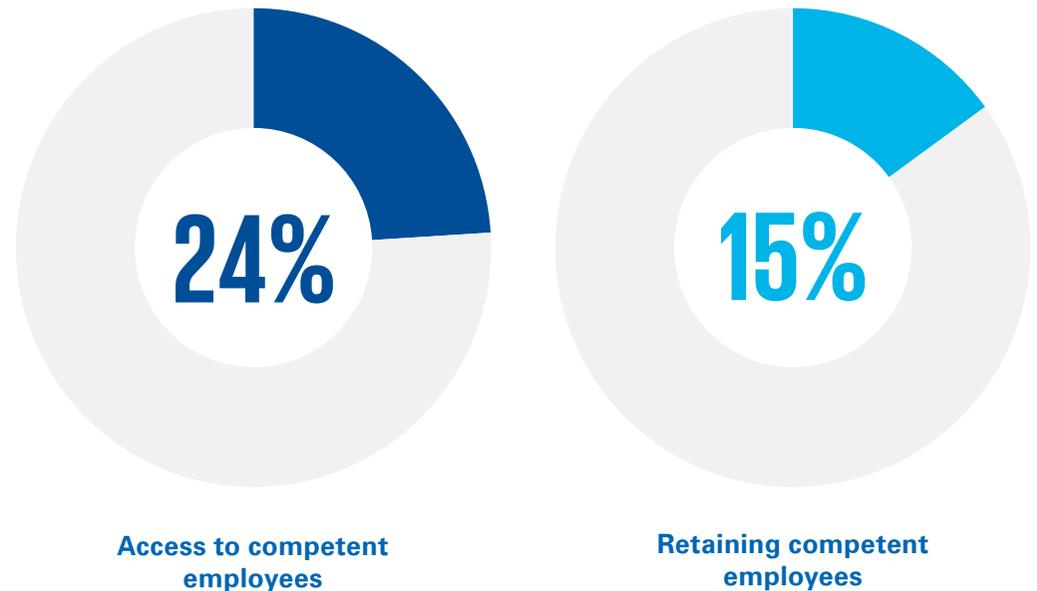
The main significant challenges that may be encountered in ethics and compliance efforts in the next three years are as follows:



With regard to the participants, 46% of the survey participants anticipate that they may encounter challenges in ethical and compliance studies in the future due to the inability to receive support from internal stakeholders whereas this is the same with 37% due to the insufficient personnel count.

When we have a look at the international results, it is predicted that the main challenges are 24% access to competent employees, and 15% is retaining these employees.

According to international survey results, the primary challenges encountered in the field of ethics and compliance are as follows:



%50
are not ready to overcome workforce challenges.

Ethics and Compliance Obstacles

Competencies difficult to find in the Ethics and Compliance Function:



30% of the survey participants stated that they had no difficulty in finding these skills in the ethics and compliance team.

When the participants were asked about the competencies that they had the most difficulty in finding, it is seen that similar issues stand out according to the survey results of 2021 and 2023, in addition to the fact that anti-bribery, anti-corruption and investigation capabilities are included in the pool of competencies expected from employees.

While 35% of the participants in the 2021 survey results stated that they had no difficulty in finding these skills, it is seen that this rate decreased to 30% in 2023.

The most significant challenges related to reporting of findings:



In the previous survey, among the competencies most challenging to find, 32% were information/data security, 29% were data analysis, and 23% were competencies in governance, risk management and compliance (GRC) technologies.

According to the similar results of the 2023 survey, these rates were 31% for data analysis, 30% for governance, risk management and compliance (GRC) technologies, and 20% for information/data security.

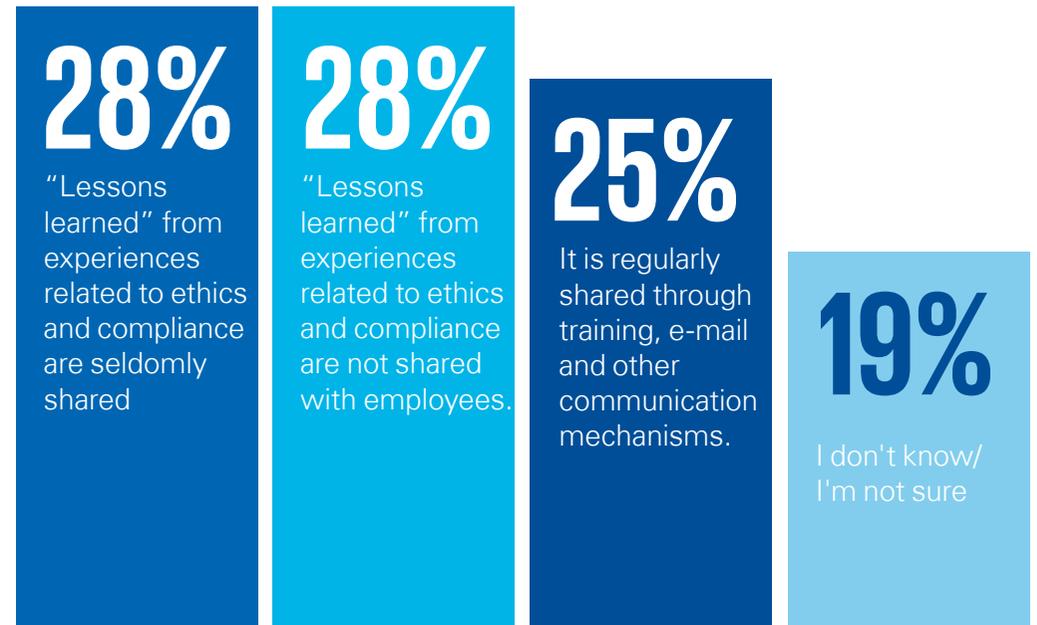
Ethics and Compliance Effectiveness

When the metrics used to evaluate the effectiveness of ethics and compliance programs are reviewed, audit findings were the determining factor at a rate of 72% according to the survey results conducted in 2021, while the volume of reports through the ethics reporting hotline surpassed the audit findings according to the survey results conducted in 2023.

This situation is considered valuable in terms of emphasizing the increasing importance of ethics reporting hotlines.



Sharing the "lessons learned" from ethical and compliance experiences throughout the organization:



Sharing the lessons learned from the experience throughout the organization is a subject that is open to development in our organizations according to 75% of the survey participants.

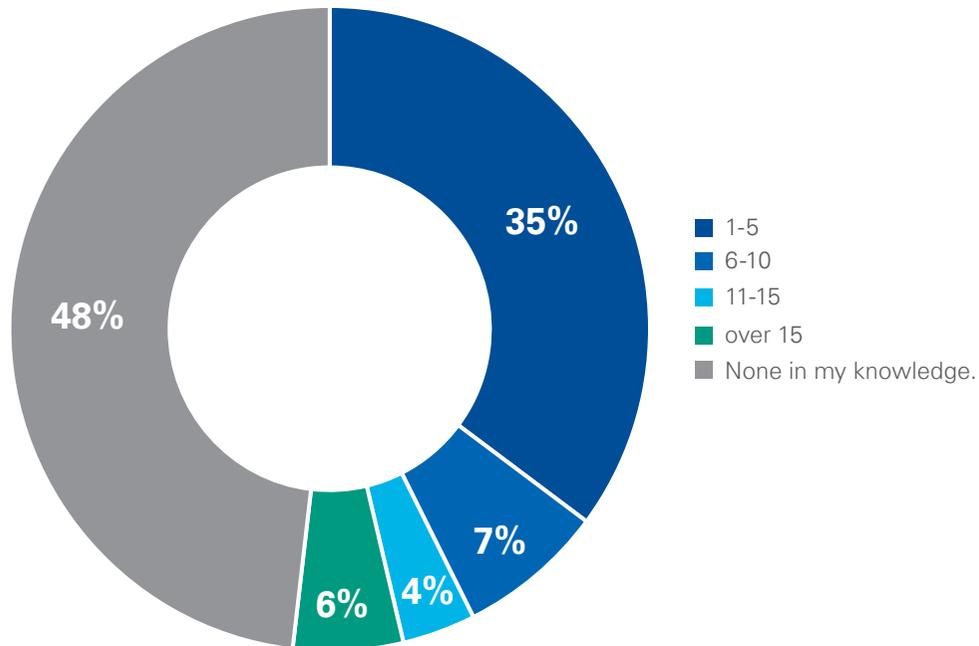


Cases of Misappropriation

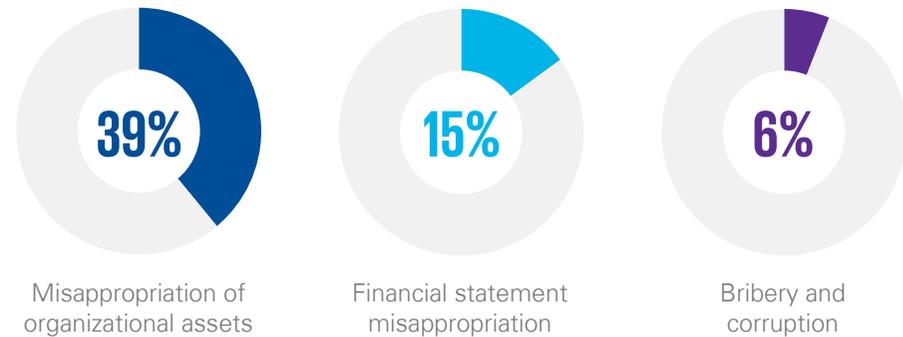
When the survey results are examined, it is understood that at least 1 case of employee misappropriation has been encountered in 52% of the organizations in the past year.

In 6% of the organizations, it is seen that the count of misappropriations encountered in the past year is over 15. Considering the results of the survey conducted in 2021, it is understood that 62% of the participants have witnessed at least 1 employee misappropriation in the past 1 year.

How many cases of employee misappropriation do you know that you have been exposed to in the past year?

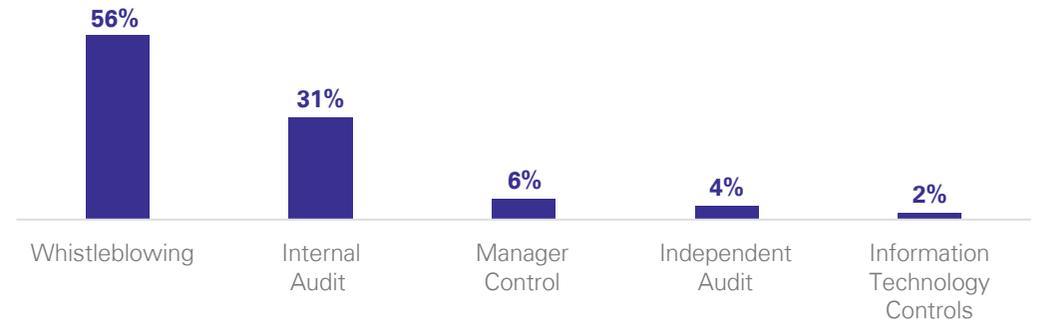


The most common types of misappropriation are listed as misappropriation of organizational assets (39%), financial statement misappropriation (15%), and bribery and corruption (6%), respectively. 48% of the participants stated that they did not observe any employee misappropriation in the past year.



Participants stated that the misappropriation cases that occurred in their organizations in the past year were mainly detected through reporting.

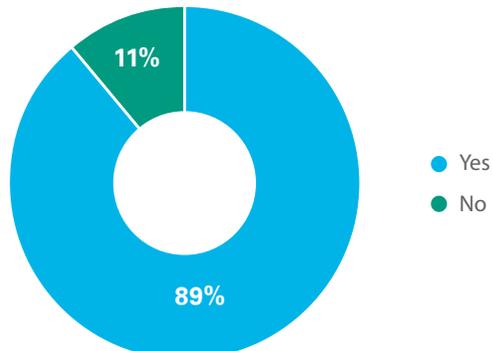
Methods that were effective in detecting misappropriation cases that have occurred in the past year:



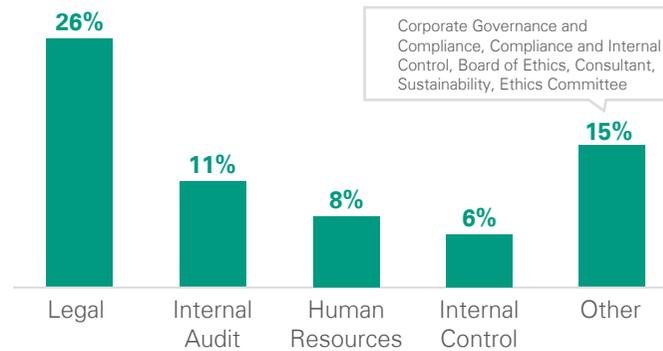
Compliance Structure

When the survey results are examined, it is understood that 89% of the participants have a separate Ethics and Compliance Function within the organizations they work. In organizations that do not have a separate Ethics and Compliance Function, this responsibility is assumed by the Legal (26%), Internal Audit (11%), and Human Resources (8%) departments, respectively. Ethics and compliance functions are predominantly centralized (63%) in internationally structured organizations.

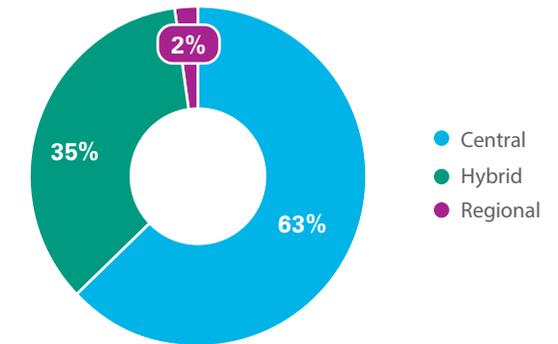
Does your organization have an Ethics and Compliance Function?



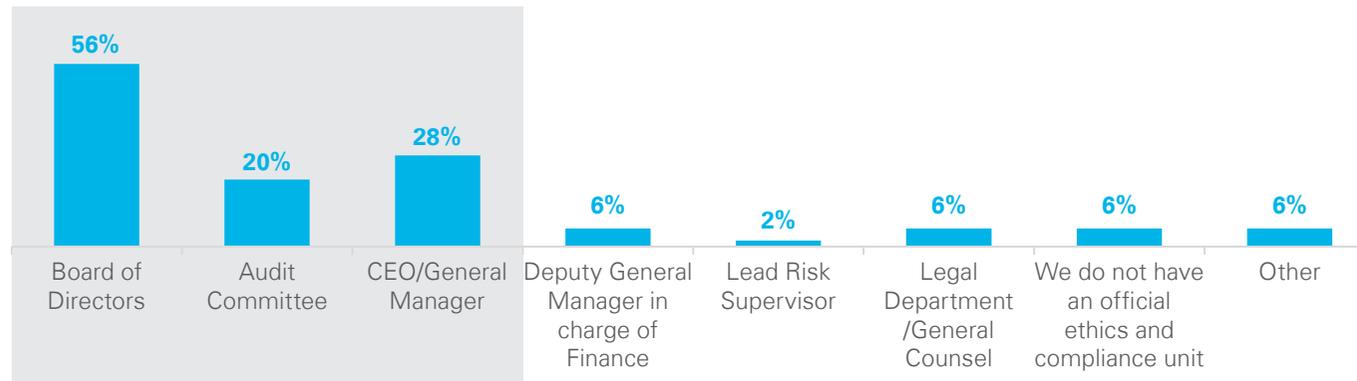
Which unit is responsible for the Ethics and Compliance Function in your organization?



If your organization is an international organization, how is the Ethics and Compliance Function structured?



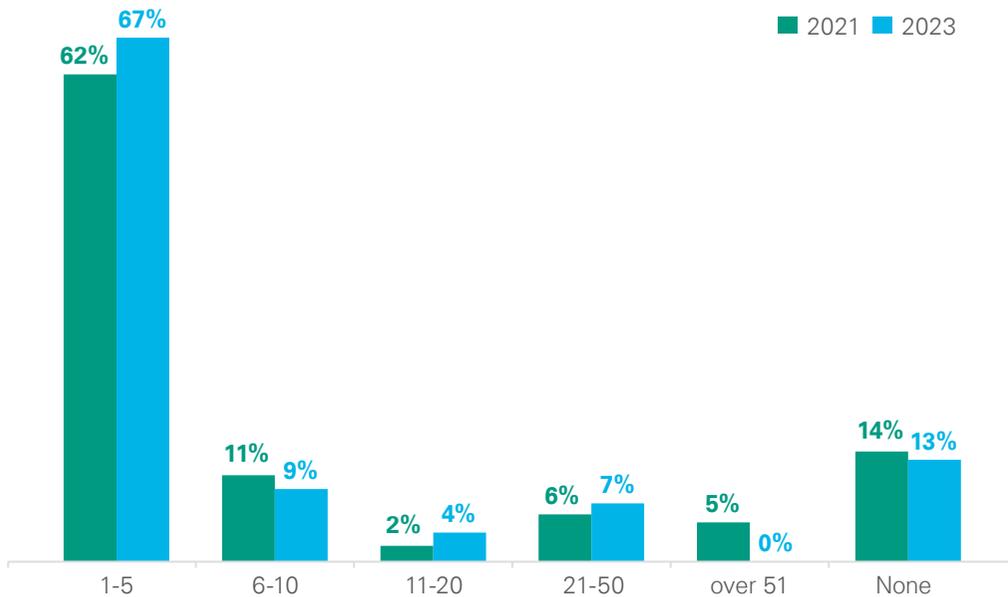
To which of the following does the Ethics and Compliance Function report?



In the organizations in Türkiye, it is seen that the Ethics and Compliance Function mainly reports to the Board of Directors and the General Manager in line with the survey results carried out in 2021.

Personnel Count

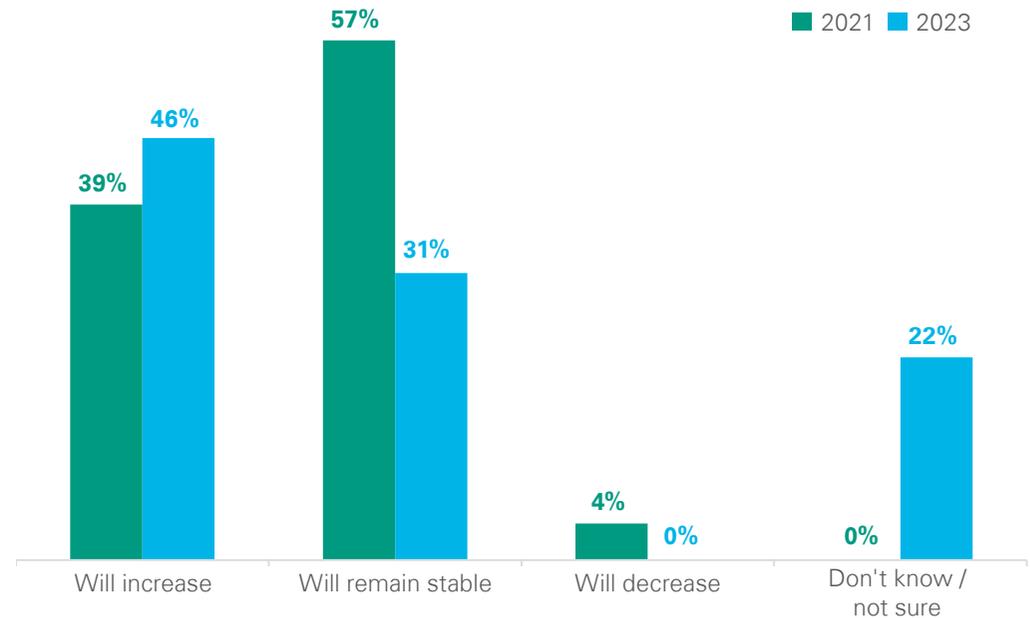
Number of full-time employees resided in Türkiye in Ethics and Compliance Function:



It is understood that the count of full-time employees residing in Türkiye in the field of ethics and compliance is between 1 and 5 in 67% of the organizations participating in the survey, and there are no full-time employees in 13%.

According to the results of the international survey, it is seen that 64% of the organizations recruit between 1 and 10 employees whereas 11% recruit between 11 and 50 employees.

3-year replacement forecast of the full-time Ethics and Compliance Function employee count:



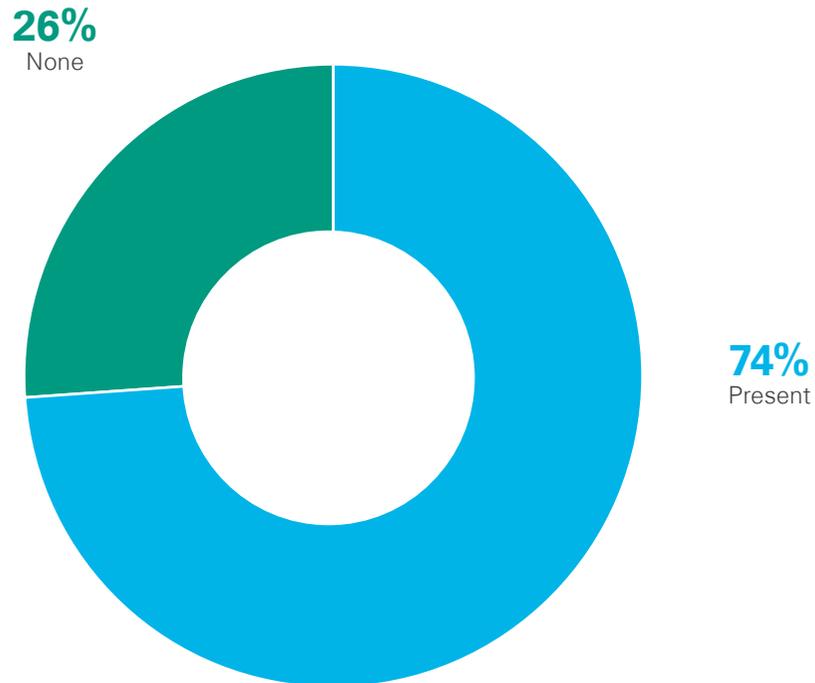
Considering the survey results, 31% of the participants stated that the number of full-time Ethics and Compliance Function employees will not change in the next three years, whereas 46% anticipate that this count will increase.

When compared with the survey results conducted in 2021, it is seen that the expectation of an increase in the number of employees has prevailed.



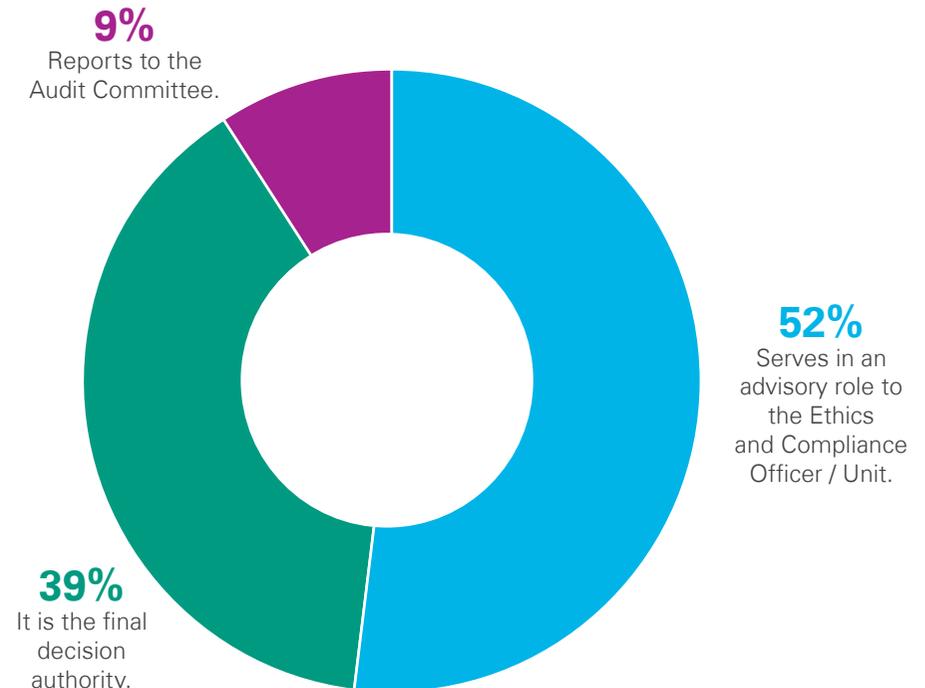
Ethics and Compliance Committees

Is there a board/committee working with Ethics and Compliance Officers in your organization?



While there is a Compliance Committee working with Compliance Officers in 74% of the organizations where the participants work, this rate is 56% according to the survey results conducted in 2021.

Responsibilities of the Ethics and Compliance Committee:



In 52% of the organizations participating in the survey, the Compliance Committee acts as an advisory authority within the organization.

Duties and Responsibilities Related to Compliance Activities

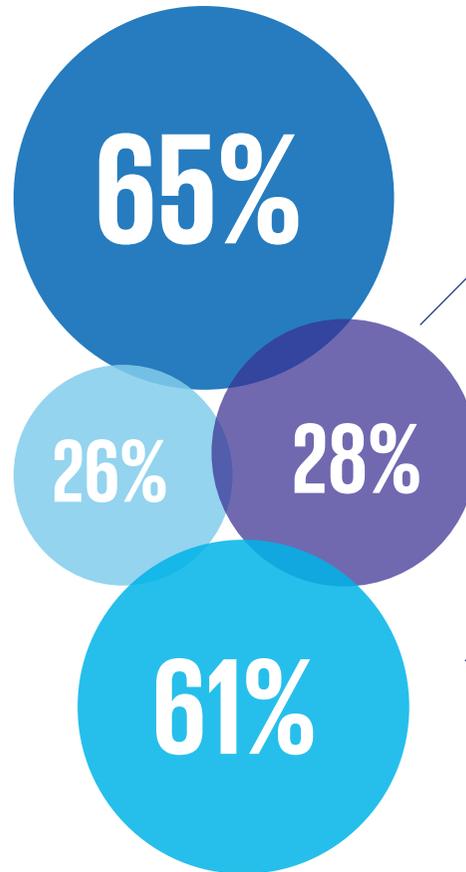
Duties and responsibilities to be in written form:

Yes

65% of the participants stated that the responsibilities for compliance activities were in written form.

Partially

While 26% of the participants stated that the duties and responsibilities were not fully in written form, 7% stated that there was no written definition of duties and responsibilities.



Regular update of duties and responsibilities:

No

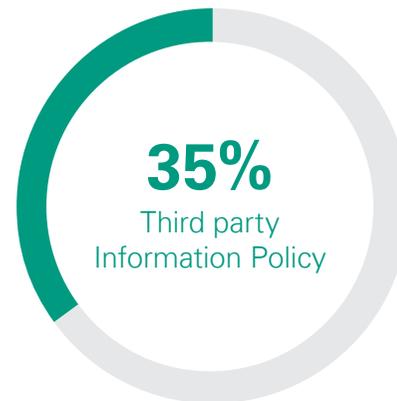
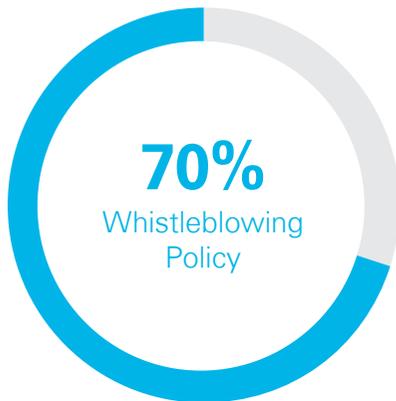
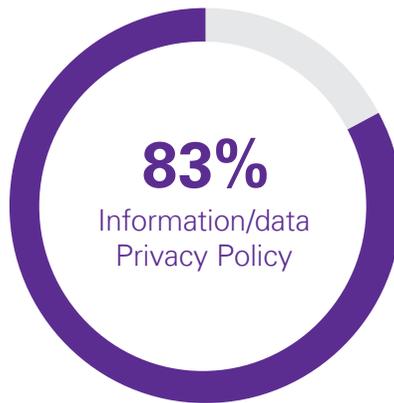
28% of the participants stated that the duties and responsibilities were not updated regularly.

Yes

61% of the participants stated that the duties and responsibilities were updated regularly in written form.

Compliance Policies

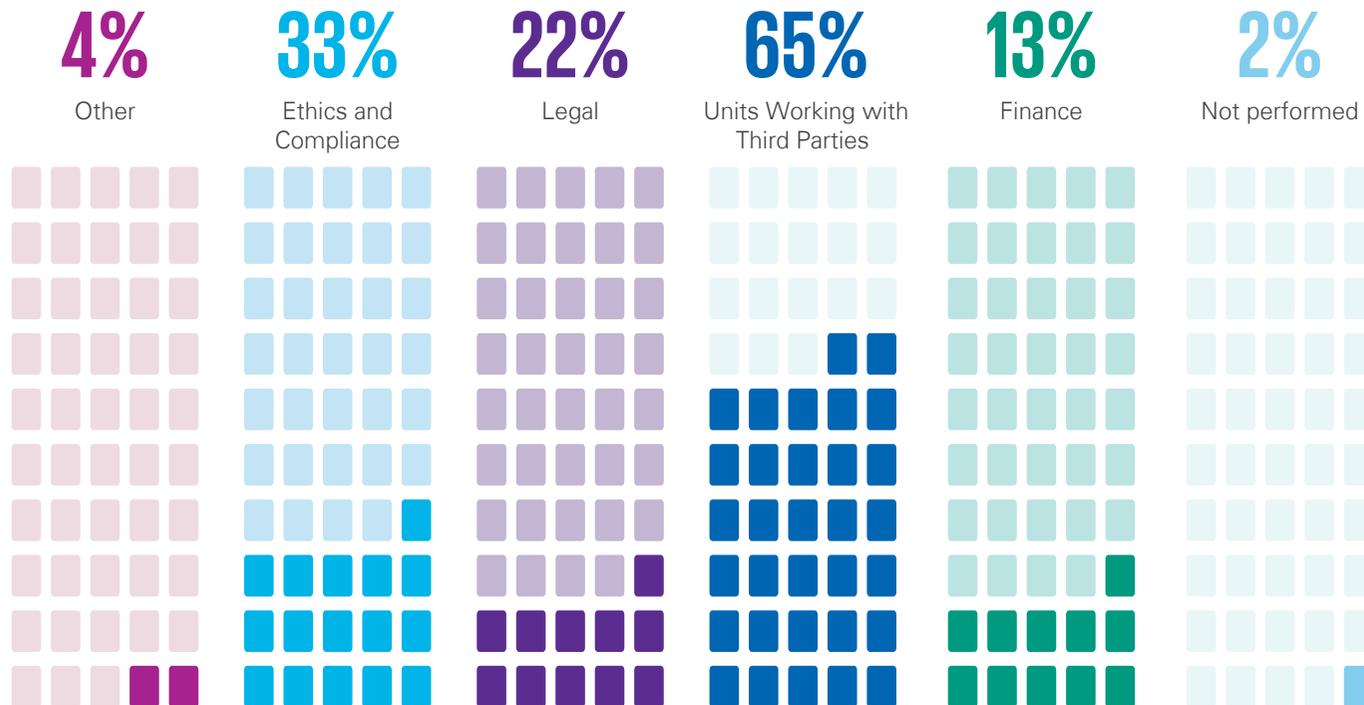
According to the survey results, the most and least common policies in the organizations where the participants work are as follows:



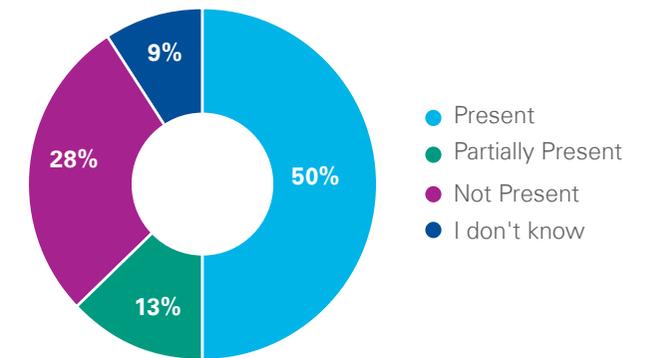
Third Party Management

Activities of organizations within the scope of third party management:

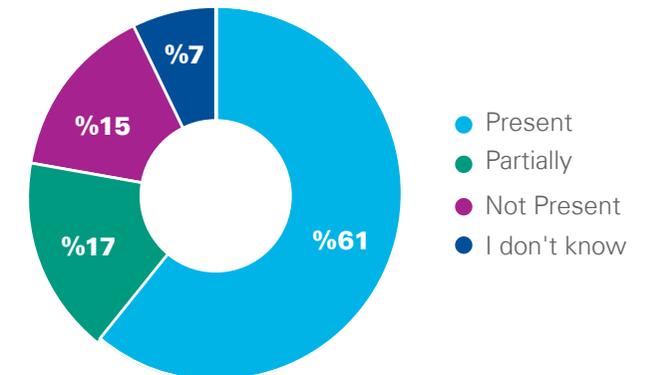
When the responses to the questions on third party management, which is one of the primary objectives of compliance programs, are analysed, it is understood that 70% of the organizations perform risk screenings before entering into a business relationship with a third party, 52% request certifications held by third parties, and 52% carry out continuous monitoring activities as long as the business relationship continues. These studies are mainly undertaken by the Ethics and Compliance Function with the business units that are in direct contact with the third party.



50% of survey participants provide compliance guides to their dealers/business partners.



According to 61% of participants, ethics and compliance issues* are included in dealership/business partnership agreements.



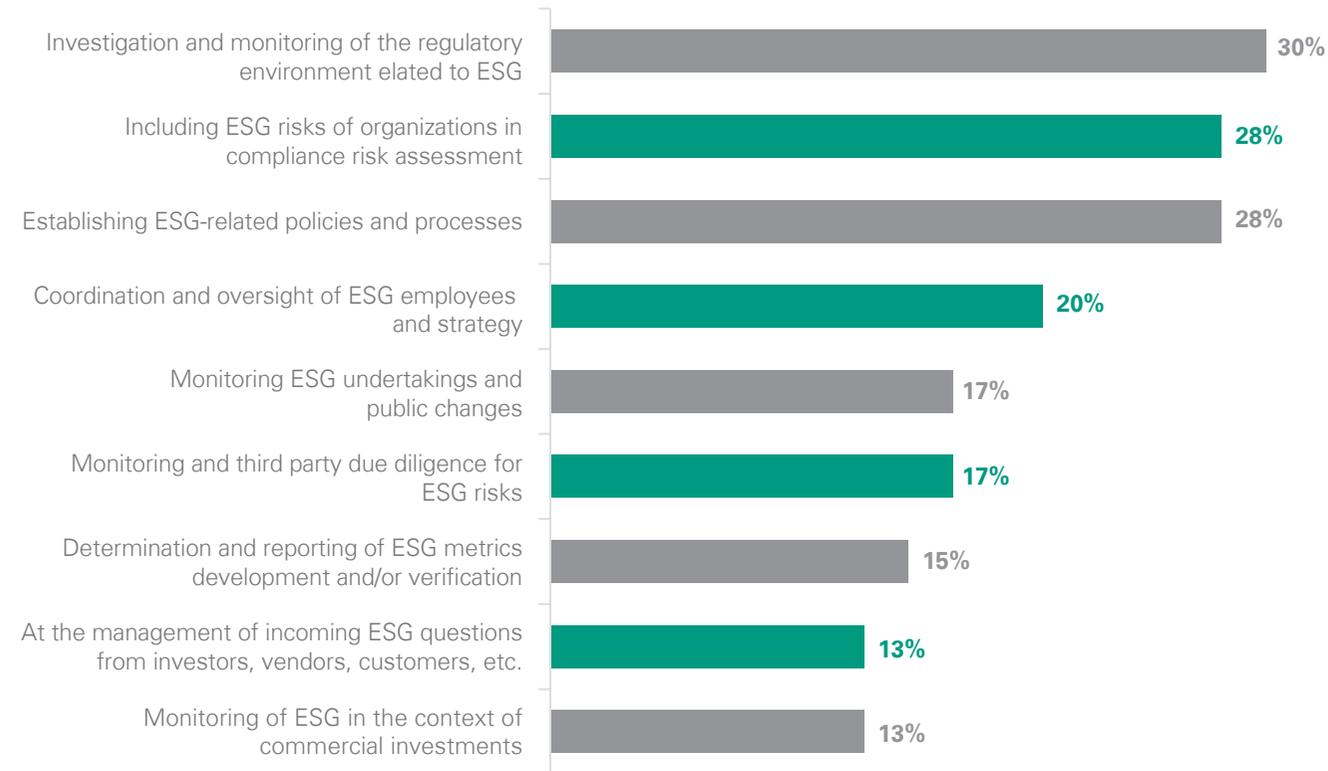
*compliance with regulations on human rights, prevention of bribery and corruption, laundering of proceeds of crime, international sanctions, etc.

Sustainability and ESG Compliance

Sustainability and ESG issues have become increasingly important in organizations' compliance processes, with various regulations such as the European Union and European countries' border carbon regulation, the German Supply Chain Act and the European Green Deal.

On the other hand, 37% of the survey participants stated that the Ethics and Compliance Function in their organizations did not participate in any activities related to sustainability and ESG.

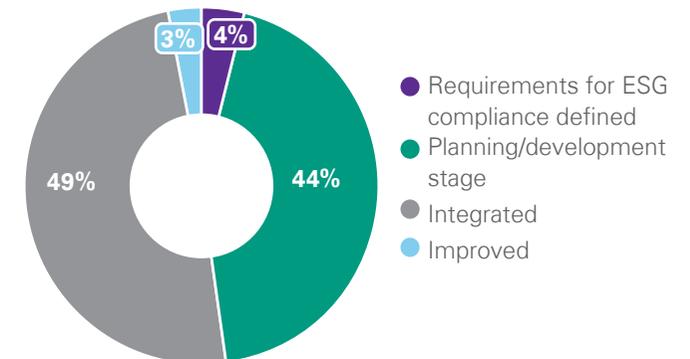
The main activities involving the Ethics and Compliance Function in relation to ESG initiatives are:



Business steps concerning compliance with ESG according to international survey results

48%

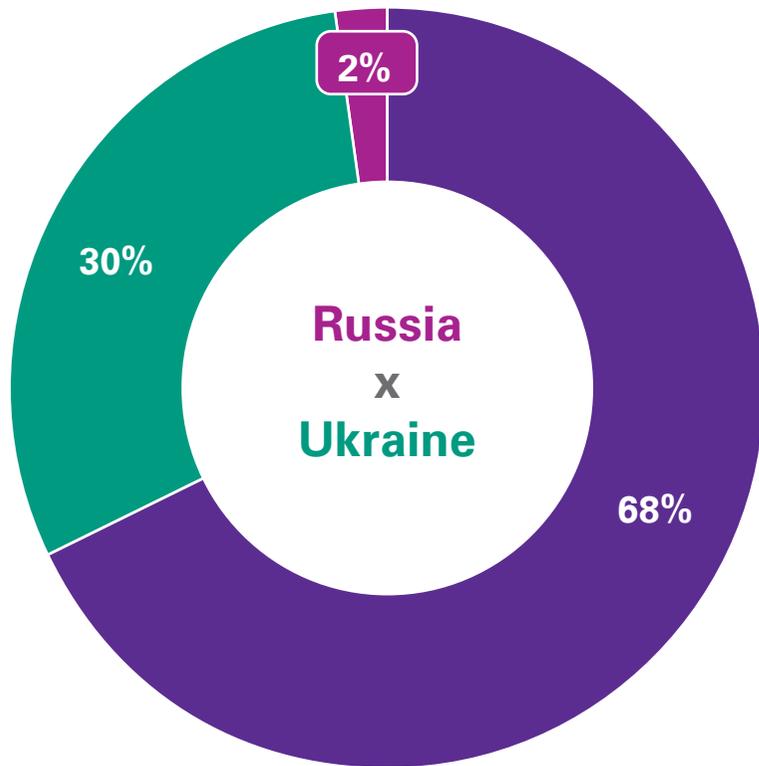
has not been integrated in the processes yet.





Compliance with Sanctions

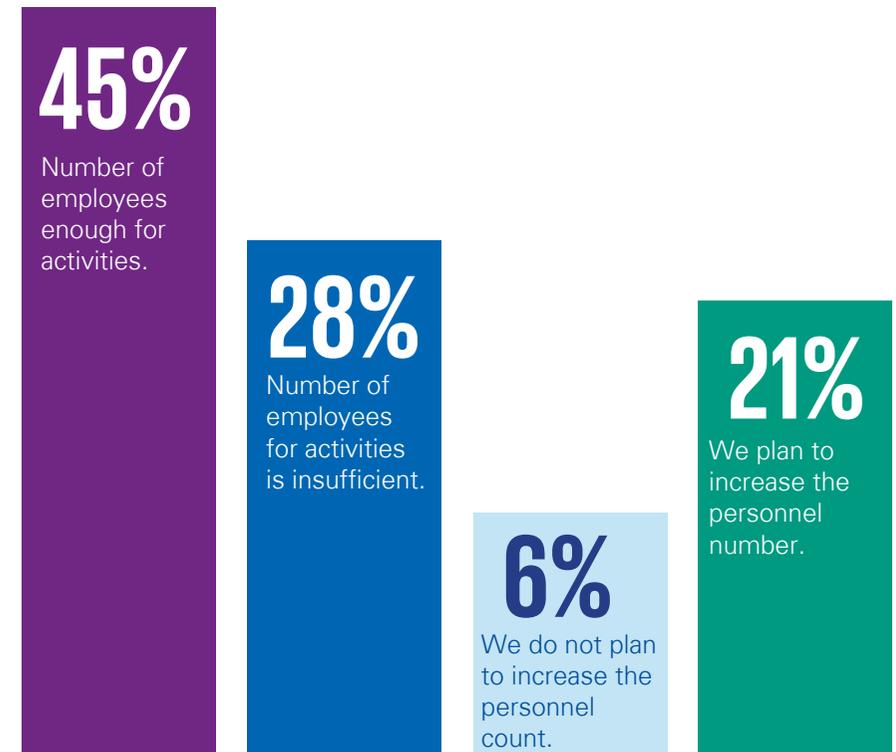
Only 30% of the organizations participating in the survey had a sanction-specific employee function prior to Russia's intervention in Ukraine, and only 2% established a separate department after the intervention.



- We did not have a department dedicated to sanctions.
- We had a department dedicated to sanctions.
- A respective department was established after the incident.

The workforce working for sanctions and legislation follow-up was found to be sufficient by 45% among the participants.

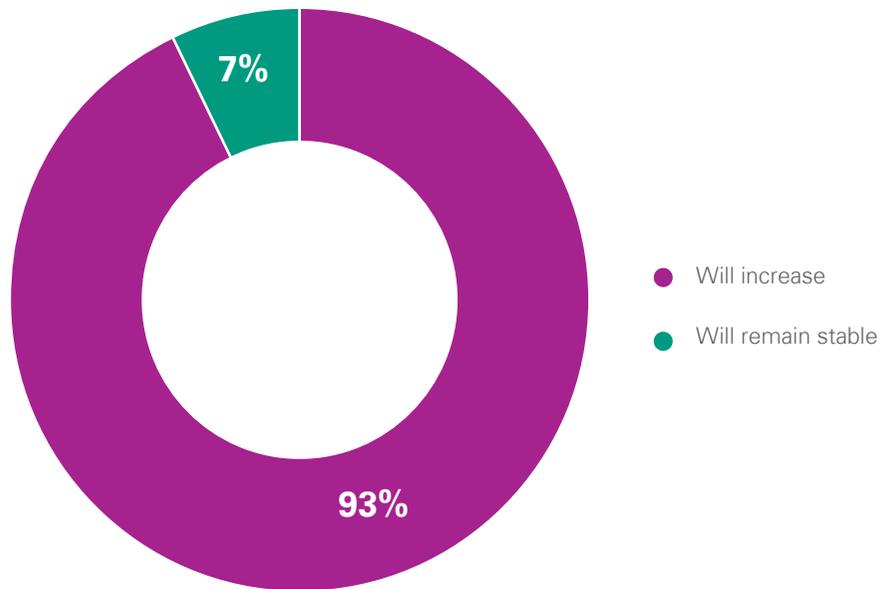
While 28% of the participants consider the workforce insufficient, 21% aim to increase the number of employees.



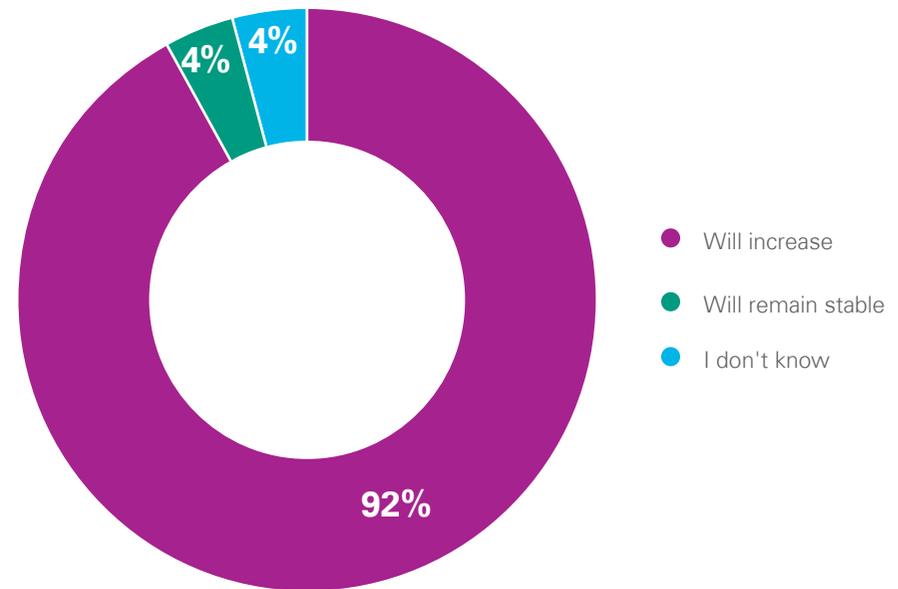
Ethics and Compliance Focus Points

According to the results of the survey, it is expected that the level of focus of regulatory authorities, investors and shareholders on ethics and compliance will increase in the next three years compared to previous years.

Levels of regulatory authority focus on ethics and compliance in the next 3 years compared to previous years:

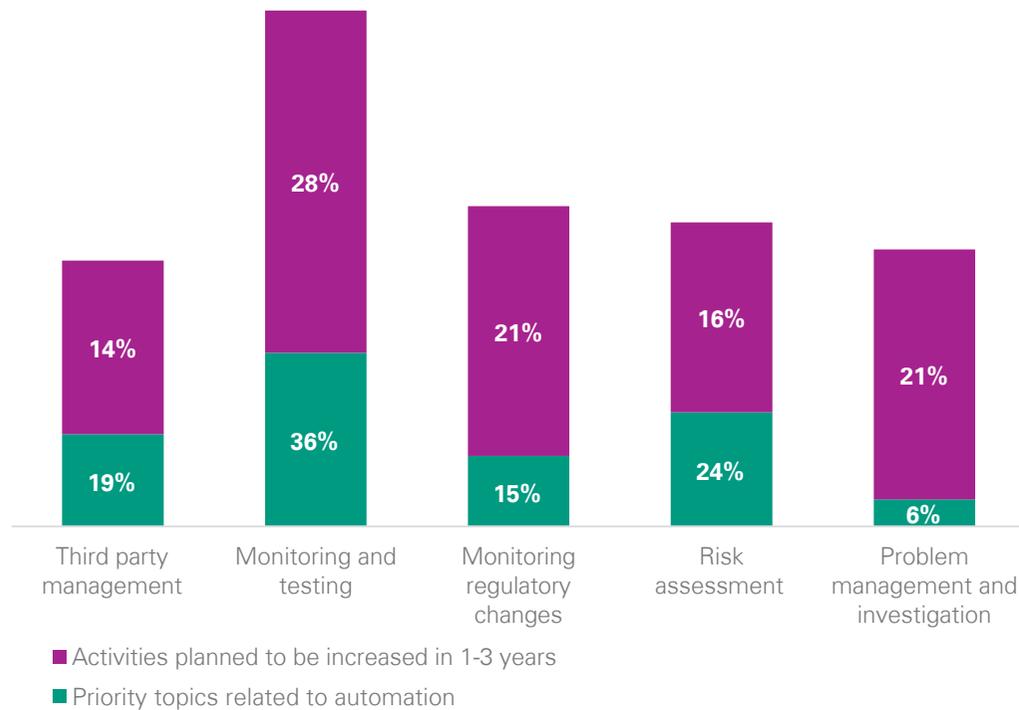


Levels of regulatory authority focus on ethics and compliance in the next 3 years compared to previous years:

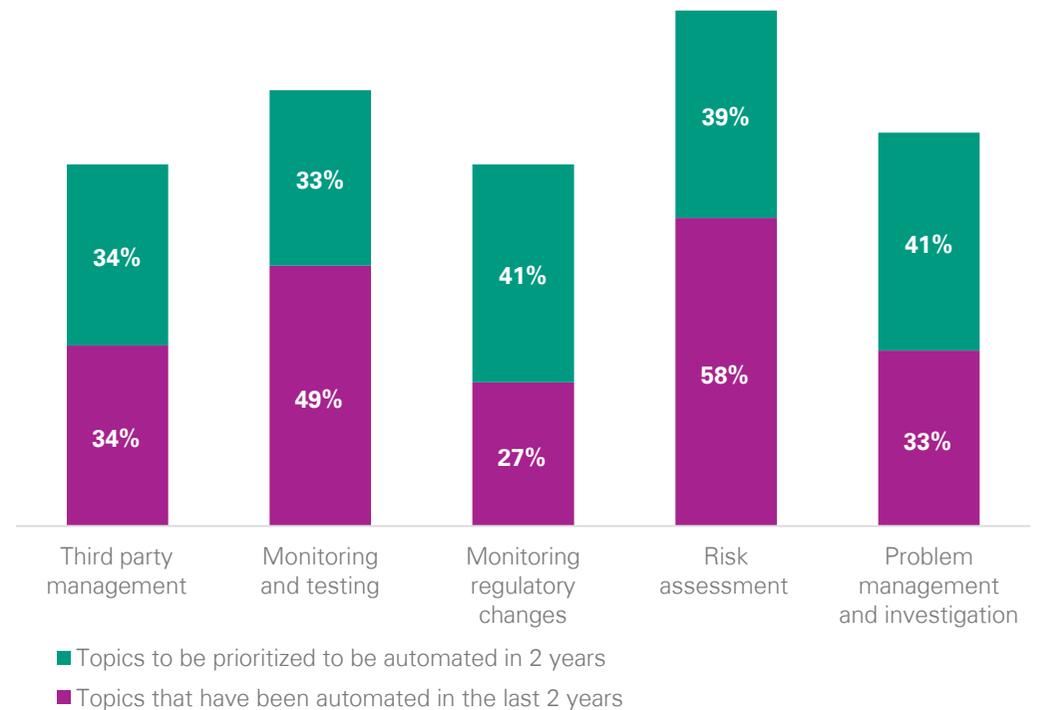


Compliance Investments and Automation

Issues prioritized for automation in the areas of ethics and compliance in Türkiye and activities planned to be increased within the scope of compliance risk management:



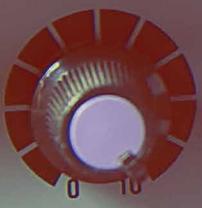
Issues in ethics and compliance that are managed automatically and issues prioritized for automation, according to international survey results:



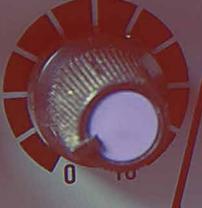
* 26% of the survey participants stated that they have no plans to increase the level of automation in their adaptation processes in the next three years.



INPUT



GAIN



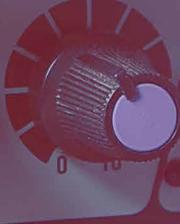
VOLUME



HIGH



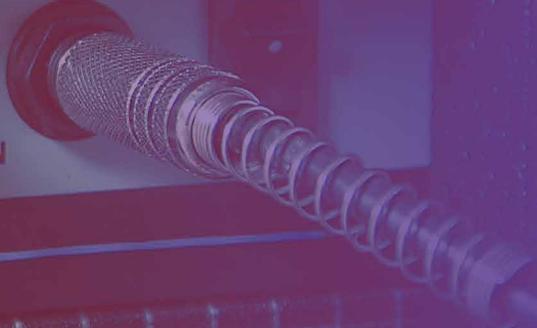
MIDDLE



LOW

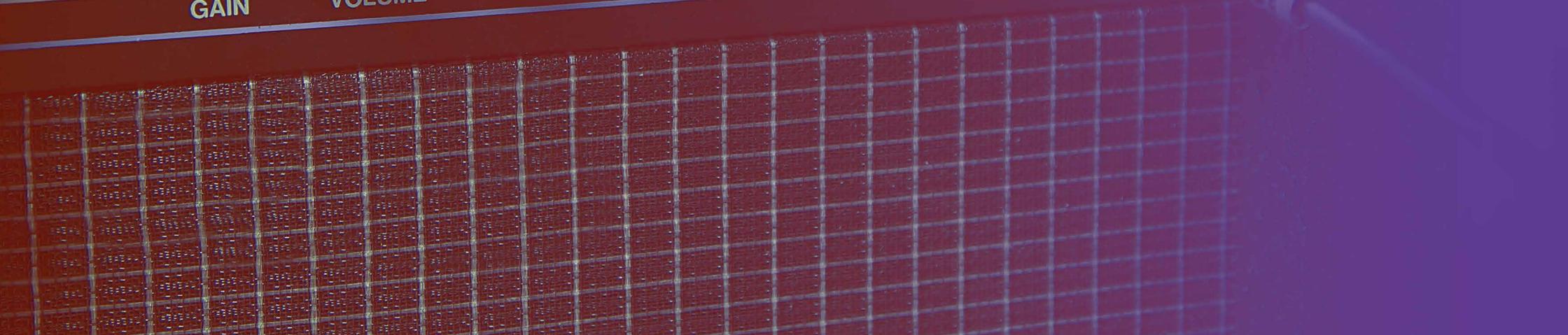
EQUALIZER

PHONE



ON

POWER

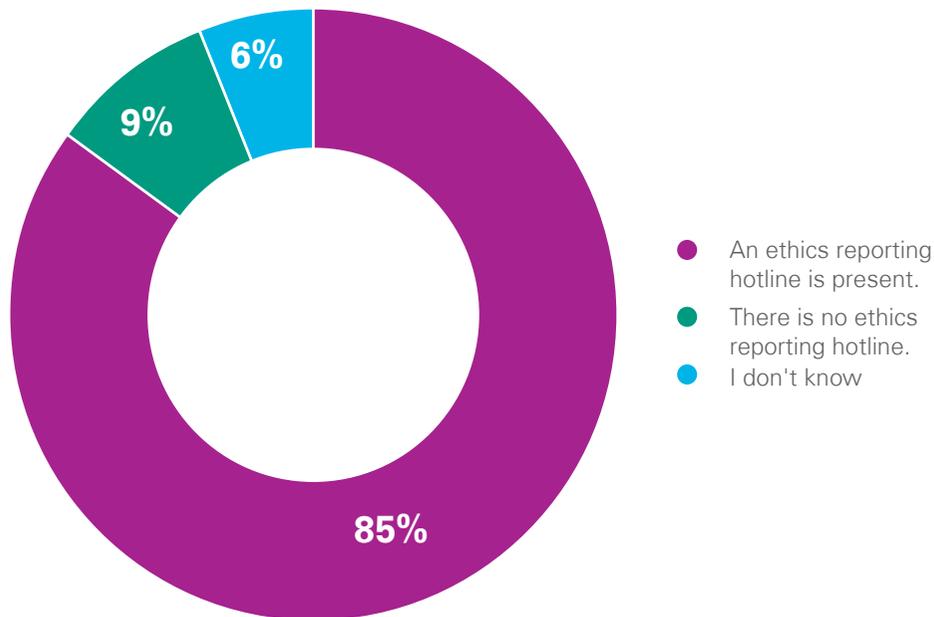


Ethics Reporting Hotline Management

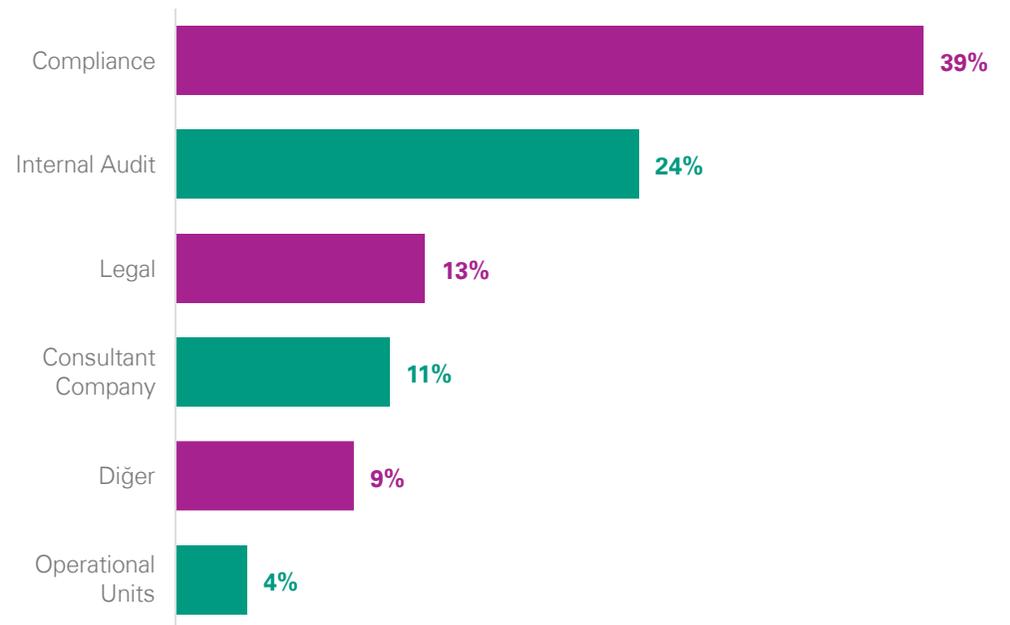
The vast majority of survey participants stated that there is an ethics reporting hotline in their company that allows anonymous reporting. Again, according to the survey results, while ethics reporting hotlines are mostly managed by the Compliance Function, it is also seen that there are ethics reporting hotlines managed by the Internal Audit, Legal Department and the Consultant Company. According to the survey results conducted in 2021, 34% of ethics reporting hotlines were managed by Internal Audit departments.

From this point of view, it is possible to conclude that compliance functions have become increasingly common in companies in the last 2 years and that the ethics reporting hotline has assumed the management responsibility.

The existence of an ethics reporting hotline that allows reporting anonymously:



Functions managing the ethics reporting hotline:



Investments in Training

Trainings provided within the scope of ethics and compliance:

According to the survey results, within the scope of ethics and compliance, it is understood that personal data protection (78%), ethical principles (80%), whistleblowing hotlines (57%), competition (59%), bribery and corruption (56%) and conflict of interest (56%) trainings are widely organized.

In the organizations participating in the survey, the trainings are generally organized by the Compliance Function.

Functions that organize trainings within the scope of ethics and compliance:

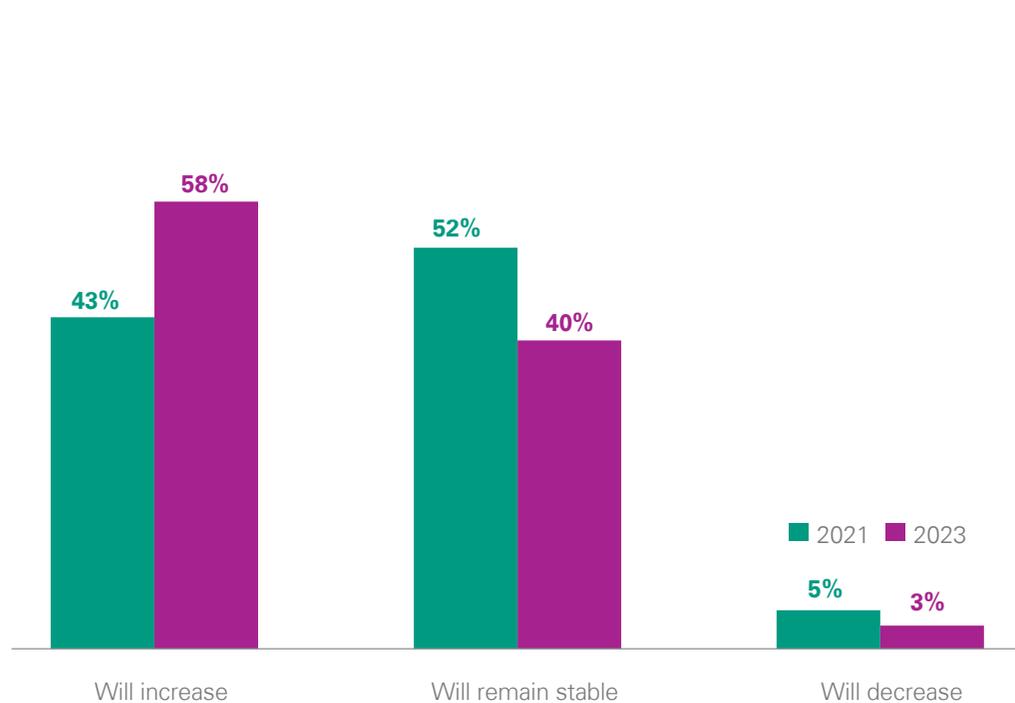


Training contents:



Ethics and Compliance Budget

Compliance Function's budget for 2023 compared to the previous year:



Compliance Function's projected technology investment budget for the next three years:



It is seen that the majority of the survey participants expect the budget to be allocated to the Ethics and Compliance Function to increase in 2023.

This rate increased significantly compared to the results of the survey conducted in 2021.

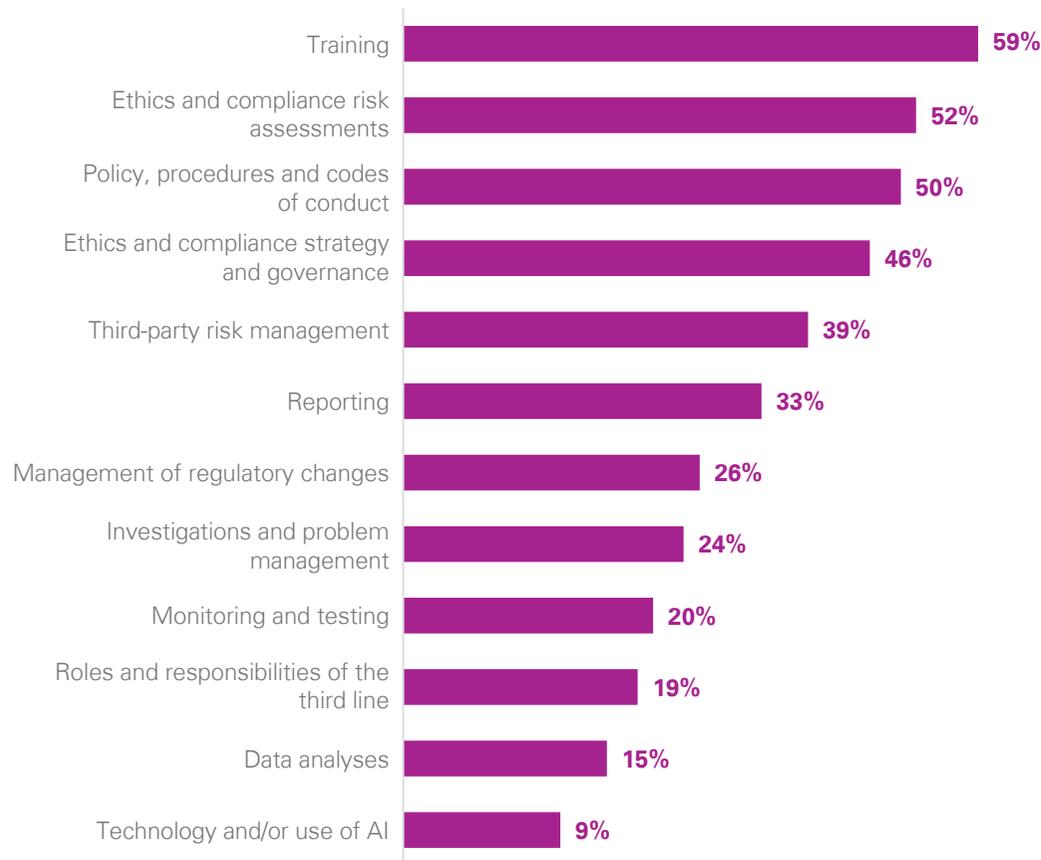
In line with these results, the prediction that technology investments for compliance functions will increase in Türkiye in the next three years prevails.

While this rate is 63% according to the results of the international survey, according to the survey results conducted in Türkiye, the majority of the participants expect the technology investment budget for compliance functions to increase.

Priorities in Compliance Investments

In companies, training processes are at the forefront of the areas where investments are made in order to support the Ethics and Compliance Function at the corporate level. As the consequence of the examination of the results, it is understood that technology-related investment decisions still do not take sufficient priority in the company budgets.

According to the results of the survey, it is understood that ethical and compliance risks are highly managed through manual methods or business relations/connections. Only 22% of responses were found to use governance, risk and compliance technology solutions.



Results

Together with the technological advancements and legal regulations in the business world, we can see there are new opportunities as well as new risks. It is evident that organizations are expanding the scope of their ethics and compliance activities in this environment of change and development.

Organizations need to invest in the Ethics and Compliance Function in order to better predict future risk outcomes and establish better connections with customers and all other third parties.

Technology support and the use of larger data capabilities should be prioritized in efforts to enhance the effectiveness of ethics and compliance functions and compliance programs.

With the European Union's regulations on ethics reporting hotlines and whistleblower protection, the importance of the issue has increased. Organizations need to strengthen their ethics reporting mechanisms. These reporting mechanisms should be governed by principles of impartiality and confidentiality and contribute to the preservation of internal ethical standards.

As social and environmental needs increase, ESG-related compliance responsibilities are being included in ethics and compliance programs. Effectively identifying and incorporating ESG risks into business plans will become a primary task for compliance functions. Therefore, organizations need to invest more in this area and focus on sustainability goals.

Recently, the issue of economic sanctions has gained significant importance following Russia's intervention in Ukraine. Organizations will be required to consider this situation and keep track of international sanction regimes, as well as take appropriate compliance measures.

In summary, the survey results demonstrate that organizations are progressing in the field of ethics and compliance, and that these developments need to continue in the future. Sustainability and ESG compliance, EU regulations on ethics reporting hotlines, and the issue of economic sanctions due to Russia's intervention in Ukraine stand out as priority topics to be addressed. Improvements in these areas will increase the compliance of the organizations with ethical standards and support their long-term success.

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