Social responsibility of businesses questioned

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When the Icelandic banking system was privatised in 2003, it inaugurated a period of furious expansion of both loans and risky investments. The bubble burst in 2008. At that time, the nominal assets of the three largest banks was 14 times bigger than Iceland's entire GDP.

The crash shook Icelandic society to its foundations with mass bankruptcy, drastic increases in unemployment, loss of savings, increased indebtedness and raised taxes. Deteriorating health care and emigration of highly educated people are other consequences that will affect Iceland for a long time to come.

At the same time, the banks emphasized their social responsibility for sustainable development. During their brief heyday, they invested in sponsoring a number of sporting and cultural events – everything from opera and concerts to marathons, and even a chess club.

This is a type of positive social commitment that creates goodwill for companies and actually goes hand in hand with their PR strategies, argues David Sigurthorsson, doctoral student in Applied Ethics at Linköping University and himself an Icelander. His analysis has been published in an article in the *Journal of Business Ethics*.

He demonstrates the confusion reigning around what CSR – corporate social responsibility – actually means. Most of the good that companies do can be put here. CSR can, however, be roughly divided into positive and negative obligations. The negative ones amount to refraining from harmful behaviour, for example production that destroys the environment, and violations of human rights. In the case of the banks, it would have been managing depositors' money responsibly.

The positive obligations are supporting social activities in society. They are more visible, and can be more easily combined with the company's own PR operations. Negative obligations deal with how the company makes its profit; the positive are how a portion of that is spent.

Companies often prefer the positive commitments over the negative, and they gladly invest in a type of corporate philanthropy, Sigurthorsson argues. This applies to the three Icelandic banks as well, all of which emphasized the importance of social commitments in their ethical programmes. Both Landsbanki and Glitnir Bank wrote that sponsorship is important, and Kaupthing indicated charitable activities, education, culture, and sport as sectors to support.

Small investments here yielded large dividends. Sigurthorsson compares the significantly larger sums the banks spent on their guests – and fishing and sporting trips, as well as gifts, for them. Kaupthing, for example, spent over ISK 580 million (EUR 3.5 million) on its guests between 2004 and 2008, compared with ISK 107 million (EUR 656,000) on external sponsorship.

At the same time the banks sponsored a number of events, they managed socially harmful – and in certain cases criminal – operations with their aggressive loan and investment policies. Sigurthorsson asks himself whether the trust the banks built up actually became an obstacle to stronger regulation and supervision of their operations.

False trust was created, both with the public and politicians; they felt the banks were being responsible. This reduced the demand for transparency, and the pressure for harder legislation.

The contents of CSR should be better defined and tied to responsible operations – the things associated with negative obligations, he concludes.

This is one of the many lessons we should learn from the Icelandic banking crisis, he adds as a final remark.

Provided by Linköping University