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The Icelandic Banking Crisis: A Reason to Rethink CSR?

David Sigurthorsson

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Abstract In the fall of 2008, the three largest banks in Iceland collapsed, with severe and lasting consequences for the Icelandic economy. This article discusses the 'Icelandic banking crisis' in relation to the notion of corporate social responsibility (CSR). It explores some conceptual arguments for the position that the Icelandic banking crisis illustrates the broad problem of the indeterminacy of the scope and content of the duties that CSR is supposed to address. In particular, it is suggested that the way the banks in question conceived of CSR, i.e. largely in terms of strategic philanthropy, was gravely inadequate. It concludes by proposing that the case of the Icelandic banking crisis gives us a reason to rethink CSR.

Keywords CSR · Strategic philanthropy · Icelandic banking crisis · Public policy · PR

Abbreviations

CBI	Central Bank of Iceland
CSR	Corporate Social Responsibility
IFSA	Icelandic Financial Supervisory Authority
GDP	Gross Domestic Product
NGO	Non-Governmental Organisation
PR	Public Relations
SIC	Special Investigation Commission
WGE	Working Group on Ethics

D. Sigurthorsson (✉)
Center for Applied Ethics, Linköping, Sweden
e-mail: david.sigurthorsson@liu.se

Introduction

One of the most dramatic events related to the international financial and economic crises of 2008 is the case of the Icelandic banking crisis. Besides leading to their own downfall, the activities of the three largest Icelandic banks severely undermined the nation's economy. Parallel to their reckless and irresponsible behaviour, however, the banks in question all had seemingly impressive corporate social responsibility (CSR) policies and programs. The article begins by exploring the concept of CSR briefly and then focuses on the practical implications of a particular—and common—understanding of what types of duties CSR entails. The article then provides some insight into how the banks in question understood their social responsibilities. The case study, for lack of a better word, is based on *inter alia* the banks' own documents, as well as reports issued by a Special Investigation Commission (SIC) and an auxiliary Working Group on Ethics commissioned by the Icelandic Parliament to shed a light on the events leading to the crisis.[1]

The Conceptual Confusion of Corporate Social Responsibility

Over the last four decades or so, concerns about the impact of business on society and how best to manage it have attracted considerable attention of academics, activists, business people and casual observers alike. This has

[1] The SIC published its findings on April 12th 2010 (http://rna.althingi.is/). The commission's mandate was to 'collect information, find facts and provide an overview of the main events leading to the fall of the Icelandic banks and identify its causes' (Iceland.org 2010).

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generated an intense and prolific multidisciplinary discourse with participants approaching the subject from a broad range of academic disciplines and practical positions.[2] This is not to say, however, that the proliferation of opinions, arguments and approaches to CSR has brought theorists any closer to a shared understanding of what CSR is. On the contrary; what is becoming increasingly understood by CSR scholars is how many different and often mutually incompatible theories and interpretations co-exist under the hyponym CSR (Argandoña 2006; Carroll 2009; Crane et al. 2009; Garriga and Melé 2004).[3] So despite (or perhaps because of) the fact that CSR is today one of the most researched topics in business ethics and administration the concept of CSR continues to be a source of much confusion, disagreement and debate (Broomhill 2007; Crane et al. 2009; McWilliams et al. 2006; Melé 2009).

However, despite this conceptual confusion it is argued here that there is a core set of assumptions about how CSR is understood and advocated. It can be maintained that on most accounts CSR is understood as entailing responsibilities that can be expressed in terms of positive and/or negative duties owed by companies to society.

A Few Words on CSR and Duties

Amongst those who have broached the matter of positive and negative duties is philosopher John Rawls who posited that there is an 'intuitively clear' distinction between negative and positive duties where the former prohibit us from doing 'something that is bad' whilst the latter require us to do 'something good for another' (1971/1999, p. 98).[4] As such, negative duties set a 'negative' legal or moral standard, or limits on permissible conduct. Simply put, in a business context, a negative duty requires merely that companies refrain from certain action, such as strategies and conduct that will certainly and foreseeably, or even just potentially, lead, or contribute, to some harm for society. Examples of such harm might be infringement of human rights, undue pollution of the environment or jeopardising economic and social stability in a given stakeholder community, to name a few. Living up to negative duties, so conceived, therefore does not require any sort of positive contribution, but mere non-violation. By contrast, a positive duty can be seen as an obligation which is owed by companies to society (or its stakeholders) in terms of a *contribution* to furthering their interests, i.e. 'to do good for another', beyond the benefits that society receives by default from business activity such as the provision of goods and services, employment and tax revenue. Understood as obligation of contribution, a positive duty sets a 'positive' standard to which it is presumed morally required to try to live up to and calls for certain types of action; that is, it demands some effort and usually, in the case of CSR, entails certain expenditures.[5] To put it in simple terms: CSR in accordance with positive duties is concerned with how profit is spent, whilst CSR in accordance with negative duties is concerned with how profit is made.

There are various ways in which companies might conceive of, and try to fulfil, their positive duties to society. One way is to use their resources—e.g. human, physical and financial—to tackle some of society's problems, locally or globally. Sometimes, however, companies will conceive of the fulfilment of their positive duties in terms of corporate sponsorship of causes some of which have arguably limited connection with social ills and problems; examples include sponsorship of various cultural and sporting events. This type of CSR activity is properly referred to as strategic philanthropy (Carroll 1979, 1991; Schwartz and Carroll 2003) and serves an important function in terms of securing public goodwill. We shall return to the issue of strategic philanthropy and discuss its potentially problematic implications.

But even if it can be maintained that CSR typically implies responsibilities that can be expressed in terms of either positive or negative duties, the conceptual indeterminacy of CSR still persists. This, it might be thought, poses a problem for those CSR policy makers and practitioners (i.e. managers) who acknowledge their social responsibilities and wish to take them seriously.

The Problem of the Conceptual Confusion About CSR

However understandable, and arguably inevitable, the general conceptual uncertainty about CSR may be, it should be seen as problematic[6] since, whilst society may increasingly expect and demand that companies take on social responsibilities, there is no consensus about

[2] For an excellent overview see e.g. Hagen 2009.

[3] Consequently, any attempt to reduce the debate over CSR to a manageable set of premises and presuppositions for the purpose of a single essay leaves itself wide-open to critics voicing concerns about over-simplification, reductionism and the like.

[4] Rawls, of course, had 'individuals'—not companies—in mind when he formulated this distinction (ibid). Nevertheless, leaving aside the philosophically complex question of 'corporate moral agency' (see e.g. Ronnegard 2006 for a comprehensive analysis), it shall be assumed here that the notions of positive and negative duties proposed here apply to companies (or at least the executives acting on their behalf) in the context of CSR.

[5] See also McAleer 2003 for this distinction.

[6] The same has been said about the diverse and contradictory ways in which stakeholder theory has been debated. See e.g. Donaldson and Preston (1995).

reasonable criteria for judging which response on behalf of companies in the name of CSR is appropriate and adequate, and which is not.[7] As observed by Timothy Devinney,

> one can make or disparage a claim that any corporation is or is not socially responsible by the definition of CSR that one believes is relevant and the level of specificity at which it is applied… Attempts to be all encompassing lead to overly complex fuzzy conceptualizations that are virtually impossible to validate or refute empirically. The science of corporate social responsibility suffers thereby (2009, p. 45).

This uncertainty and confusion subsequently create and sustain the susceptibility of the concept to opportunistic interpretation and manipulation by charlatans and opportunists in the practical realm. In other words, what is left open is the possibility for companies to, first, respond to society's expectations by undertaking virtually all manner of activities in the name of social responsibility, defined as they themselves see fit and; second—and perhaps more seriously—themselves mould and manipulate society's expectations in the first place.

CSR as Reducible to PR?

There is no doubt that CSR has great potential for i) limiting the negative impact of business on society, ii) increasing the level of convergence of business and societal interests, and iii) leading to corporate action that in one way or another furthers societal interests. The case for the positive impact of CSR is well established.[8] On the other hand, the case for CSR as being more about rhetoric than substance wielded for public relations (PR) purposes is also a straightforward one. (On the large and complex empirical question of which is more frequently the case it might be said that the jury is still out. As late as in 2009, Ulrich Steger observed that "[o]ptimists point to increasing levels of CSR reporting, but tend to mistake reporting for performance" (p. 563)).

Public goodwill can be both directly and indirectly economically beneficial for business. It can result in customer loyalty towards a specific brand or company and attract new customers. This is arguably amongst the most cited 'business cases' for CSR. But public goodwill can also, more indirectly, be crucial for business in political terms, i.e. in bringing about and nurturing a business friendly policy environment. Many companies, industry lobby groups, chambers of commerce, and corporate sponsored public policy think-tanks are concerned with the risk of governments imposing 'excessive' legislative and regulatory restrictions on business activity and on corporate self-regulation (King and Lenox 2000; Kolk et al. 1999; Utting 2005). Companies therefore have a great economic incentive to see to it, one way or another, that they are perceived as socially responsible. The more companies—and indeed the corporate sector in general—are perceived as being socially responsible by consumers, citizens, NGOs, regulatory and monitory bodies, governments, and so forth, the less the perceived need for increased legislation and regulation of their activity. Subsequently, it has been argued that CSR runs the risk of becoming "the vehicle for soft law and company self-regulation" (Burchell and Cook 2006).[9] But how do these actors best create and maintain the perception of them as socially responsible?

Modifying, or manipulating, people's perception and opinions can be achieved by means of a variety of PR oriented strategies for image, impression and reputation management. This is something which tends to be implicitly acknowledged in the business ethics literature. But rather than merely assuming this it might be helpful to briefly survey how this issue is approached in the PR literature. Reggy Hooghiemstra discusses "corporate social reporting" in terms of 'impression management' as "a means to influence people's perceptions", amongst the aims of which are legitimising a given company's activity and "protecting or enhancing its image or reputation" (2000, p. 64). Corporate social reporting and other communication strategies, and their usefulness in terms of enhancing a company's image, are both widely and explicitly discussed in the management, marketing and PR literatures: "CSR disclosure and reporting can be viewed in terms of corporate image management, a strategic marketing activity" (Liu and Zhou 2009, p. 796). In another PR publication, *Corporate Reputation Review*, it is suggested, similarly, that 'corporate citizenship[10] is tied to

[7] There are valid practical reasons for this lack of specification of the content of CSR. A major one is that since CSR is voluntary, in the sense that companies take it upon themselves whether or not to formulate and enact some CSR policy or another, it may be feared by the proponents of CSR that too specific an account of what types of duties CSR entails will for many companies pose a barrier to entry onto the CSR bandwagon. It is clearly more appealing to companies and industry-specific organisations to engage in CSR activity if they can themselves cherry-pick the duties or commitments to society they deem appropriate. This raises the question whether society is better off with as many actors as possible pursuing any which *ad hoc* policy of social responsibility they see fit in the name of CSR, or fewer actors earnestly trying to live up to a more specifically (and narrowly) defined concept of corporate social responsibility.

[8] See e.g. Porter and Kramer 2006; Hamel 2007

[9] It has also been argued that CSR can be seen as an obstacle to creation of a democratic society in as much as it pacifies and placates citizens who otherwise might challenge the structural status quo and demand systemic change (Kuhn and Deetz 2009).

[10] Corporate citizenship a term often understood similarly to CSR, not least in the context of PR.

branding …with an indirect impact to *building trust* by *increasing perceived quality* and creating a "goodwill bank"' (Pfau et al. 2008, p. 148, emphasis added).[11]

Keller et al. concur and suggest that a method that has proven especially effective in fostering 'a *socially responsible corporate image association* involves the creation of consumer perceptions of a company as contributing to community programs, supporting artistic and social activities, and generally attempting to improve the welfare of society as a whole' (2008, p. 533, emphasis in original). To sum, what companies seek to achieve with image enhancing activity is 'building commercialisable goodwill' (Kitchin 2003, p. 314).

It would seem that these lessons from the PR literature suggest that to maintain a good image, transmit a socially responsible character, build trust and loyalty, create a goodwill bank and so on, 'perception' is everything—substance is secondary. This is not to say that from a PR perspective substance does not matter, but that its importance increases the more it serves the *instrumental* purpose of producing the desired perception of trust, loyalty, and so forth. Moreover, the rhetoric and positive connotations associated with CSR in general—and especially, it would seem, CSR as philanthropy—lend themselves well to creating a perception of social responsibility and trustworthiness: 'How could a company that cares so much for its community ever do anything to harm it, or some other stakeholder, for that matter?' It is all too easy to lose one's critical perspective in the face of the seemingly benevolent philanthropist corporate citizen. This is what CSR as PR is about: To transmit a socially responsible character to win trust and loyalty. Sometimes it is warranted, other times it is not.

What is of particular importance here is that this way of creating and maintaining a socially responsible corporate image association, for the purposes described above, is especially straightforward as long as CSR is broadly understood and advocated as implying a duty of corporate philanthropy. It is furthermore important to bear in mind that profit driven enterprises have a self-evident economic incentive to minimize the costs involved in generating the sufficient goodwill to preserve their image as socially responsible. Consequently, if public perception of a given company or industry as socially responsible is strong *enough* then the corporate actor in question can more readily ignore or avoid the more difficult issues of social responsibility, i.e. issues that may demand drastic and costly restructuring or more careful and risk-averse business strategies that can lead to reduced profit potential. Therefore, there is both an opportunity and an economic incentive to:

i) conceive of CSR *largely* in terms of positive duties, in a way that perhaps crowds out concerns for negative duties (not to harm) and reduces them to legal compliance;
ii) conceive of the fulfilment of the positive duties in terms of corporate philanthropy, due to the positive publicity and high PR value;
iii) conceive and implement philanthropic activity with an eye to the company's narrow strategic interests, both economic and political, as opposed to some nuanced conception of societal interests.

If this logic is sound it would suggest that corporate philanthropy might have an inherent tendency to get reduced to a PR instrument at the expense, potentially, of societal interests. This is, as of yet, a tentative hypothesis derived from a brief conceptual account of a certain set of circumstances. Space does not permit here the type of full-blown argumentative account that would be necessary to corroborate the hypothesis. However, the case for the problematic nature of uncritical, opportunistic approaches to CSR as corporate philanthropy for PR purposes finds support in the following account of the Icelandic banks' approach to CSR.

The Icelandic Banking Crisis

One of the most spectacular events related to the international financial and economic crises of 2008 is the case of the Icelandic banking crisis and the ensuing meltdown of the Icelandic economy.[12] In the 5 year period from 2003, when the privatisation of the Icelandic banking sector was completed, until it collapsed in 2008, it had increased its assets from being worth approximately 100% to about 1,400% (fourteen times) the nation's gross domestic product (GDP), or the equivalent of US$182 billion. To put this into context, according to Jared Bibler, a researcher at the Icelandic Financial Supervisory Authority (IFSA), the combined bankruptcy of the three Icelandic banks would take third place amongst the largest bankruptcies in the history of the United States; only those of Lehman Brothers and Washington Mutual were larger in terms of losses sustained. The bankruptcy of Kaupthing Bank alone was 30% in excess of that of the Enron Corporation which, when bankrupted in late 2001, was the seventh largest company in the United States. Iceland has a population of about 315,000, whilst the US has a population of about

[11] See also Bae and Cameron 2006.

[12] Exact dating of this particular crisis is debatable. First, some of the contributing processes, such as shrinking global supply of credit, were already in motion in 2007, and second, the duration of the impact of the crisis varies greatly across different economies. But 2008 is the year that the banking systems of America, Europe (including that of Iceland) and elsewhere were shaken to their core by the domino-effect started by the bankruptcy of Lehman Brothers.

310,000,000, or roughly 1,000 times larger than that of Iceland, whilst its economy was approximately 1,100 times larger than the Icelandic one in 2008. So, given the magnitude of the combined bankruptcy of the three Icelandic banks in relation to GDP, to bring about the equivalent effect in terms of the US economy it would have had to experience the simultaneous bankruptcy of almost 300 Lehman Brothers banks (Bibler 2010).

Amongst the consequences of the collapse of the Icelandic banking sector are: Mass bankruptcies of firms and individuals, spectacular increase in unemployment, loss of savings and investments, huge run-up of foreign debt (public and private), increased taxes and cut-backs in spending on public services and infrastructure, and emigration of educated work force, to name but a few.

The Icelandic Banks and CSR[13]

In this section, the case is sketched for how the three main commercial banks of Iceland conceived and exercised CSR in the years leading up to their collapse.[14] The purpose is to provide grounds on which to raise questions about the appropriateness of their conception of their social responsibilities. So how did the Icelandic banks understand and implement CSR? One way of answering this question is by looking at how the banks themselves—all of which had formulated explicitly some CSR policy or another—expressed their conception of and commitment to CSR in corporate media such as websites, annual reports and other documents.[15]

[13] The focus here on the banks themselves is not to deny that there were many other actors and factors that contributed to the Icelandic banking crisis (e.g. political, ideological, institutional, sociological, socio-psychological, etc.) both nationally and internationally. It might also be noted that references to the banks themselves as actors—such as by speaking of the 'behaviour of banks'—is not intended to endorse theories that regard companies as 'persons' possessing metaphysical characteristics that make it appropriate to see them as moral agents (see e.g. French, 1984; 1994) such use is here merely a short-hand for referring to their decision-making members, i.e. their managers, 'shadow-managers', board members, owners, etc.

[14] These are Landsbanki, Kaupthing (now rebranded as Arion bank) and Glitnir bank. Glitnir bank was previously known as Islandsbanki but rebranded as Glitnir bank in 2006. It was then rebranded again as Islandsbanki following its collapse and subsequent take-over by the Icelandic government in 2008.

[15] This cursory overview of the Icelandic bankś CSR policies is intended merely to give examples of what types social issues they were concerned with and types of activities they undertook in the name of CSR in the years leading up to their collapse.

Islandsbanki/Glitnir Bank

In Islandsbanki/Glitnir bank's Annual report from 2005, the section on 'Corporate social responsibility' opens as follows:

> [The Bank] plays an active role in society, not only as a responsible business partner, but also as an *active supporter of worthy projects in humanitarian, educational and cultural initiatives*. Through its *sponsorship of a broad range of projects*, *the Bank contributes* to the cultivation of a rich and dynamic community in the knowledge that this again benefits the Bank and society in general (Islandsbanki/Glitnir 2005, p. 70, emphasis added).

The report goes on to list a number of social causes and events that have received a donation from the bank, including 'The Icelandic Opera', 'Hrókurinn Youth Chess Club', 'Reykjavik Culture Night Outdoor Concert' and the 'Islandsbanki/Reykjavik Marathon' (ibid). Beyond referring to itself as 'a responsible business partner',[16] no mention is made of the bank's social responsibility consisting of anything other than donation to various social causes (i.e. discretionary responsibilities of philanthropy). According to the bank's 2006 Annual report 'Glitnir aims to be a proactive participant in society, not only in its business activities, but also when it comes to [its] employees, environmental awareness and *philanthropic involvement'* (Islandsbanki/Glitnir 2006, p. 86, emphasis added). In fact, the bank intended to expand its philanthropic reach: 'Glitnir's increased activities and global expansion mean that the relevance of the Cultural Fund is constantly extending. It is therefore the fund's policy to initiate projects in all of Glitnir's markets in the coming years' (ibid). In addition to philanthropic involvement, the bank included various environmental and sustainability concerns in its CSR policy in 2006 (published in a separate report). The main area of concern there has been investment in environmentally sustainable projects, in particular in geothermal energy. At the same time, however, the bank itself also described this investment policy in the Wall Street Journal as a strategic approach to a niche market (WSJ 2007).

Kaupthing Bank

Under the heading 'Corporate responsibility', Kaupthing's Annual report of 2006 states that:

[16] A claim the foundation of which can be questioned in hindsight given that the bank was *de facto* bankrupt three years later.

> …Kaupthing Bank is dedicated to ethical corporate behaviour. The Bank supports sustainable development by contributing to economic development and improving the quality of life for its employees, the communities where it operates, and society at large… A flourishing community creates a flourishing business. By *supporting charitable causes, educational programs, cultural life and sports,* The Bank seeks to help people achieve their goals and, at the same time, make life richer for all of us (Kaupthing bank 2006, p. 16, emphasis added).[17]

In addition the bank regards '[r]esponsible behaviour towards clients, our shareholders and employees [as] an essential element of the Bank's daily business' and states its position as 'a committed equal opportunity employer, adhering to the highest social standards. The Bank seeks to provide a superior working environment for its staff based on diversity and respect for the importance of the individual' (ibid).

Landsbanki

The opening paragraph of Landsbanki's Annual report from 2006 states that '[t]he bank's CSR Policy is …designed to ensure that the company's value creation also benefits the communities where it operates' (2006, p. 99). According to the bank's 2007 Annual report (the last one issued by the bank prior to its collapse), two of the 'main pillars' of its 'CSR strategy's' were '*social support through very substantial tax contributions*', and '*liberal community sponsorship'* (2007, p. 101, emphasis added). The report continues stating that 'Landsbanki has led the way in *actively contributing to the quality of life in Iceland*. Its *funding and sponsorship activities have grown in parallel to its own expansion'* (ibid, emphasis added). Under the heading '*Internal CSR framework*', the bank's Annual reports from 2006 and 2007 both state that '[w]ithin Landsbanki, a Corporate Social Responsibility Committee operates under the leadership of senior management. The Committee oversees the bank's *extensive financial donations* in Iceland and monitors how well it is *meeting the expectations of various interest groups* in this area' (2006, p. 100; Landsbanki 2007, p. 104, emphasis added). Last, under the heading '*Tax contributions and sponsorship'* both reports go on to state the following:

> Taxes paid each year by Landsbanki have grown substantially, as have taxes paid by its employees, reflecting the increased scale and profitability of operations both domestically and internationally. Increased tax revenue generated by the bank's growth helps to boost public coffers, thereby directly benefiting society at large.
> Sponsorship is a key aspect of Landsbanki's community programme. In Iceland, the bank has been a forerunner in financial donations to humanitarian, cultural and educational initiatives, as well as sports and youth activities (2006, p. 101; Landsbanki 2007, p. 104).

It is clear that whatever else Landsbanki conceived of as pertaining to its social responsibilities, it placed great emphasis on philanthropic activity (as did Glitnir and Kaupthing) and took great pride in its economic contribution to Icelandic society; to the extent, in fact, that it saw reason to include its corporate tax, as well as that of its employees (both of which are legally required) as amongst the main pillars of its CSR strategy, referring to it in terms of 'tax *contributions'* (2006, p. 99; Landsbanki 2007, p. 104, emphasis added). It is furthermore apparent that the bank's 'CSR Committee' was concerned with 'meeting the expectations of various interest groups'. This would indicate that if indeed the bank (or its senior management) considered philanthropic activity as a 'social responsibility'—as opposed to a matter of mere corporate strategy—it may have grounded this position in the notion of 'legitimate expectations' of society (or 'stakeholders' or 'interest groups') as understood by Carroll (1979, 1991). *The Icelandic banks*' *shared conception of CSR*

To summarise: First, the banks expressed great concern for the wellbeing of Icelandic society. Second, they apparently assumed *positive duties* to *contribute* to the quality of life of its subjects. Last, the banks clearly shared the conviction that corporate philanthropic contributions to social and cultural causes and events properly played a significant, and arguably dominant, role in addressing their social responsibilities. This conclusion is supported by the findings of the 'Working Group on Ethics' (WGE), commissioned by the Icelandic Parliament in conjunction with the commissioning of the SIC which concluded that '[t]he banks were omnipresent in the social sphere and over a certain period there was hardly a cultural event held in the country that did not involve the banks or their owners, one way or another' (Árnason et al. 2010, p. 79).[18]

It is difficult to speculate about the intentions behind the Icelandic banks' emphasis on CSR as corporate philanthropy; that is, about the extent to which it was motivated by genuine concern for 'the quality of life in Iceland' (as expressed) compared with the banks' concern for creating and sustaining a positive public image as socially responsible

[17] The last sentence here is repeated in the banḱs 2007 Annual report (Kaupthing Bank 2007, p. 100).

[18] The WGE delivered its report to the Parliament on April 12th 2010 as part of the SIC report, referred to above.

corporate actors, i.e. for PR purposes. However, subsequent to an official investigation that took place from 2009 to early 2010 the WGE found that:

> Considerable sums of money were allocated in the name of social responsibility. There is no doubt that these contributions made a difference for the recipients, but they definitely played a role in reinforcing these firms' images amongst the general public and in increasing the level of trust people had in them; there are many examples of how these social contributions were intimately related to their marketing efforts. In light of this it is worth considering whether these types of contributions and gifts should not be limited (Árnason et al. 2010, p. 84).

Vilhálmur Árnason, chair of the WGE, describes the Icelandic banks' approach to social responsibility, based on the findings of the WGE, as follows:

> …the social responsibility programs of the Icelandic banks were geared towards sponsoring cultural events, student's grants, sports and charity. Whilst these programs may have brought about beneficial social results they primarily strengthened the image of the financial sector and facilitated the view that the private sector was indispensible for sustaining a thriving culture in' the country. These programs also played a key role in getting the owners and directors of the banks into the spotlight as benefactors of the public. The irony is that at the same time the high risk policies of the banks were threatening the very economic structure of society (Árnason 2010, p. 108).

It is enlightening to place the banks' philanthropic contributions into further perspective. It is clear from the above quotations that all three banks emphasised the importance of their philanthropic contributions to society. But how much did they in fact contribute in terms of philanthropic or charitable sponsorship?

In the period from 2004 to 2008 Kaupthing bank contributed a total of IKR[19] 107,1 million to 'Sporting and Miscellaneous events'. Over the same period, however, the bank spent approximately double that amount, or 216,7 million, on 'Guest receptions', 77 million on 'Invitational tours', and 190,4 million on 'Fishing and hunting trips' for favoured customers and investors (Árnason et al. 2010, p. 78).

In 2007 and 2008 (the period for which numbers are available) Glitnir contributed a total of IKR 197,5 million to 'Sporting and Miscellaneous events'. Over the same period the bank spent 71,9 million on 'Invitational tours', and 160,9 million on 'Fishing and hunting trips' (ibid).

Of the three banks, Landsbanki had by far the largest philanthropic portfolio. In its Annual reports the bank states that during 2006 and 2007 'Landsbanki has provided more support of this kind than any company ever in Icelandic corporate history' (2006, p. 101; Landsbanki 2007, p. 104). In the period from 2004 to 2008 Landsbanki contributed a total of IKR 473,9 million to 'Sporting and Miscellaneous events'. Over the same period, however, the bank spent IKR 532,3 million on 'Guest receptions', 576,3 million on 'Invitational tours', 351,7 million on 'Fishing and hunting trips' and 85,1 million on 'Gifts' (Árnason et al. 2010, p. 78). It is perhaps not surprising then that in an interview with the Special Investigation Committee, conducted in 2009, Landsbanki's CEO, Sigurjón Árnason, revealed that 'in his estimate it was insignificant amounts that the bank contributed to various projects—[in his own words] "a few million here and there"' (Árnason et al. 2010, p. 78).

There appears to be a major contradiction between the CEO's expressed opinion—after the fact—that the bank's social contribution was "insignificant" (as indeed it appears to have been when compared with some of the bank's other "social" expenses) on the one hand, and the 'omnipresence' of the banks in the social and cultural spheres and the accolades generated on account of their generosity, on the other. This discrepancy can be explained, however, by the sheer size of the banks relative to the Icelandic economy. Recall that by the time the banks collapsed in 2008 their assets were worth (on paper) fourteen times the nation's GDP.

'Bad banking'

In an assessment report on the causes of the Icelandic banking crisis (focusing specifically on the financial regulatory framework and supervisory practices in Iceland) Kaarlo Jännäri, former Director General of the Finnish Financial Supervision Authority, summarised the causes of the crisis as consisting of a combination of three factors, *bad banking, bad policies and bad luck* (2009, p. 36). 'It is easy to say that *banking was bad*', Jännäri says, 'because the owners and managers of banks adopted an aggressive policy of rapid international growth based on high leverage and investment in growth areas that turned into bubbles' (ibid, bold face in original). In addition to risky expansion strategies, the abundance of credit led to policies of aggressive lending to the banks' customers, individuals and companies. Much of the savings and capital borrowed was likewise used for high-risk investments both in Iceland and abroad, following the banks' so-called expert advice. Many

[19] In February of 2007 US$ 1 equalled approximately IKR 67; in February of 2011 US$ 1 equalled approximately IKR 116.

of these investments then floundered as one after the other the bubbles burst, resulting in great losses for many of the banks' clients—depositors and borrowers alike (Hreinsson et al. 2010a). This type of bad—or irresponsible—banking may well be regarded as violation of the banks' negative fiduciary duties owed to their stakeholders—shareholders, clients and society at large—not to a) gamble, for lack of a better word, with their livelihood, their savings and loans, or b)—jeopardise macro-economic and social stability; to say nothing of their legal duties.

Not to overlook the role of bad policies and institutions it should be noted that bad public policy facilitated the fall of the Icelandic banks by creating a lax regulatory environment in which Icelandic bankers (owners and management) were largely left to their own devices. As Árnason points out, citing the findings of the WGE: 'The prevailing tone in politics was that "unnecessary laws and regulation" regarding the financial market had to be removed and that supervisory agencies should not make things difficult for the financial firms' (Árnason 2010, p. 109). The WGE further concluded that 'the most important lessons to draw from these events are about weak social structures, political culture and public institutions' (WGE 2010, p. 1). Indeed, Árnason traces the culture of self-regulation that undermined political will to curb the banks' reckless behaviour to an 'ideology of corporatism' that 'fed into crucial political decisions and sustained the belief of politicians and policymakers that things could work out in spite of warnings to the contrary' (ibid: 116). Árnason continues, '[t]he policy was not to narrow the leeway for bankers' action by regulation and sanctions but appeal to their *moral sensibility*' (ibid: 117, emphasis added).

Discussion

Given what we know about the Icelandic banks' approach to CSR in the years leading up to the banking crisis and about their 'bad banking' practices, it is worth considering whether the banks' conception of their social responsibility was not rather too focused on concerns about how their profit was spent and not enough on concerns about how it was earned in the first place. In other words, the banks seemed to quite readily embrace the notion of social responsibility as contributing of their wealth to charitable causes (a notion related to the concept of a positive duty, i.e. to do 'something good for another') whilst paying little or no attention to the notion of social responsibility as being about limiting risky and potentially harmful business practices (a notion more related to the concept of a negative duty i.e. to refrain from doing 'something that is bad').

That the banks seemed more attracted to the idea of CSR as philanthropy than the idea of CSR as, say, responsible banking is not particularly surprising if we accept the argument, presented at length earlier, that so long as the concept of CSR remains open to opportunistic interpretation and manipulation it has an inherent tendency to get reduced to a PR instrument. This might then be seen as owing to the conceptual indeterminacy of the scope and content of the duties that CSR is supposed to address: If we accept that CSR as a concept can rightly be interpreted anyway anyone sees fit—including as corporate philanthropy for strategic purposes—then we have no grounds on which to find fault with how the Icelandic banks conceived of and implemented their social responsibilities. On the contrary, if CSR is as much about philanthropy as anything else then the Icelandic banks can be seen as quite worthy of the accolades and positive image they generated through their social responsibility policies and practices; they did indeed implement their philanthropic CSR policies. But if that is the case then little progress has been made since 1975, when S. Prakash Sethi expressed his concern about 'social responsibility' that 'it has lost all meaning, Devoid of an internal structure and content, it has come to mean all things to all people' (1975, p. 58). If, on the other hand, we intend for CSR to be a more meaningful and useful concept then it cannot continue to mean all things to all people. This suggests that a way in which CSR might be conceived so as to have both more substantive meaning and a clearer purpose is by having it refer only to certain things, such as responsible business practices, and not to others, such as corporate philanthropy. The idea of 'responsible business practices' is, admittedly, still a broad one and open to interpretation, but it still seems superior to the idea of 'CSR as whatever', if only for the fact that as a consequence businesses that are more concerned about how to spend their profit 'responsibly' than how to earn it responsibly will find it harder to sustain an undeserved public perception of themselves as 'socially responsible'.

Hence, it is suggested here that the case of the Icelandic banking crisis can be seen as an illustrative example of the inadequacy of CSR as a concept as long as it can be taken to mean all things to all people. In so far as this is so, this may give us reasons to rethink CSR with an eye to reducing the scope for opportunistic use (or abuse) of the concept for mere PR purposes.

There is furthermore the potential risk, discussed earlier, that CSR can become a 'vehicle for soft law and company self-regulation' when, and for instance, stakeholders and policymakers confound strategic corporate philanthropy for PR purposes with actual corporate concern for the welfare of society. Recall that the tools of the PR industry are effective and that public perception and opinion easily manipulated. A consequence of such misperception is a false sense of security and unfounded trust in companies' ability and willingness to exercise the necessary care and self-restraint required by responsible business practices. Unfounded trust in business' benevolence can in turn encourage and perpetuate a culture of corporate self-regulation and lead to insufficient public and political pressure to regulate and restrain corporate behaviour. This is but one conceivable consequence of uncritical acceptance of 'CSR as whatever'. In any case it seems that there would be something to gain from a concept of CSR that prescribes responsible business practices (in line with the notion of negative duties) rather than corporate philanthropy. That might be one of many lessons learned from the Icelandic banking crisis.

Summary

This article has discussed the 'Icelandic banking crisis' in relation to the notion of corporate social responsibility. It has explored some conceptual arguments for the position that the Icelandic banking crisis illustrates the broad problem of the indeterminacy of the scope and content of the duties that CSR is supposed to address. In particular, it has been suggested that the way the banks in question conceived of CSR, i.e. largely in terms of strategic philanthropy, was gravely inadequate. Accordingly, it has been inferred that concepts of CSR that are so broad as to endorse virtually any approach deemed suitable by individual businesses or industries too easily reduce to mere PR strategies in the form of corporate philanthropy. Such concepts are therefore likely to be inadequate for the purpose of CSR as encouraging socially responsible business understood in terms of duties prohibiting business from doing 'something that is bad'.

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