

CSR in Iceland

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Preamble

The Icelandic economy has developed rapidly in the past years, with market liberalization and diversification, from being largely dependent on fisheries to a multi-sector economy, including energy intensive industries (notably aluminium), tourism and financial services.

Although the concept of Corporate Social Responsibility (CSR) has received less attention in Iceland than in other Nordic countries, Icelandic companies operate in accordance with strict environmental and social standards in line with those of EU countries.

While the coming years will be economically challenging, Iceland benefits from a strong foundation of sustainable natural resources which, when moving forward, will be important for existing as well as new and innovative sectors. Increased focus on the sustainable aspects of Icelandic industries can help Iceland in reviving the economy and regaining the trust of the international community.

This article looks at CSR and sustainability in the Icelandic context.

CSR in Context

Historical context

Iceland is an island of 103,000 sq. km with around 320,000 inhabitants (as of 2009). Iceland has a legal system in line with those of Denmark and the other Nordic countries¹ with an emphasis on a strong social system and labour rights.

After centuries of poverty and poor living conditions, the twentieth century saw the Icelandic economy and welfare system develop quickly.

During the first part of the twentieth century cooperatives were a popular form of enterprise. The cooperatives embedded some aspects of CSR in their operations. For instance they provided financial support for the communities where they operated including support for education and culture.² The philanthropic aspects of the cooperatives (now a rare company form in Iceland) have remained prominent in Icelandic companies and form the basis of many CSR initiatives.

In the period 1960-80 living standards in Iceland improved dramatically with advancements in fisheries and the emergence of new industries, such as tourism and

¹ Iceland became independent from Denmark in 1944

² Guðmundsson, J 2002, p. 97

energy intensive industries, and by 1980 Iceland was in second place on the UN's human development index for the highest living standards in the world.³ Iceland joined the European Free Trade Agreement (EFTA) in 1970 and was a founding member of the European Economic Area (EEA) in 1993, which brought about fundamental changes to the Icelandic economy.

The EEA opened up the Icelandic economy to EU/EEA countries and at the same time required Iceland to comply with many EU directives, thereby bringing social and environmental standards largely in line with EU regulations.⁴ The last two decades have been characterized by free market capitalism, fostered by the dominance of Iceland's centre-right, *Independence Party* (Icelandic: *Sjálfstæðisflokkur*).

Current state of CSR

While CSR has become an important topic in western Europe in recent years little emphasis has been put on the concept of CSR in terms of voluntary corporate practices in Iceland to date. It has generally been considered sufficient that companies provide jobs, pay taxes and abide by rules and regulations, which are strict in terms of environmental and social protection. A noticeable exception to this, however, is the common practice of philanthropy by Icelandic companies. According to a study conducted by the European Commission in 2002, around three quarters of Icelandic companies were involved in "external community causes" (philanthropy). Only Finland and Denmark had a higher percentage.⁵

Possible reasons for the limited corporate focus on voluntary CSR practices, beyond philanthropy, include:

- The small size and generally limited international operations of Icelandic companies (with hardly any operations in the developing world).
- Generally high standards for environmental protection, labour and human rights.
- Limited demand for CSR from the stakeholders of Icelandic companies (largely Icelandic), beyond legal requirements.
- Dominance of centre-right politics with a key emphasis on economic growth and less on social and environmental issues.
- Iceland is outside of the European Union and although it adopts many of the EU's directives through the EEA agreement, it does not have the same exposure to CSR related guidelines, position papers (such as Green Papers of the European Commission) and relevant debate in the EU.
- The absence of serious corporate scandals involving Icelandic companies, until the collapse of the financial sector in 2008.

Priority Issues

Economic issues

In October 2008 Iceland was hit by the global financial crisis, which in Iceland started with the fall of the country's three largest banks. For the first time since Iceland joined NATO in 1949, the Icelandic public hit the streets and protested against the government

³ Ólafsson, S 2008, pp. 134-5

⁴ The EEA Agreement does not cover the EU's Common Agricultural Policy or the Common Fisheries Policy

⁵ European Commission 2002, p. 20

for insufficient oversight of the banks' operations and for failing to prevent the fall.

The roots of the crisis stemmed in part from failures in internal monetary and institutional management, but also from the growing financial troubles internationally.⁶ Given the weight of the Icelandic banking system (around 9 times larger than the Icelandic economy⁷), the impact of the fall of the banks was enormous, deeply affecting Icelandic society as well as foreign actors that were heavily vested in the fallen banks.

The situation will likely require a reorganisation of the Icelandic banking system and government measures to prevent a large number of companies and households from facing bankruptcy. After many years of a low unemployment rate, 8,2% were unemployed in January 2009, compared to 1,0% in January 2008.⁸ Resolving these economic issues is without a doubt the biggest challenge facing Iceland in the next few years.

Ethics in Icelandic companies

Ethics in companies has not been a focus in the national debate until the current economic crisis. A recent study of Iceland's 100 largest companies conducted by students at Reykjavik University, found that only 38% of the companies had a written code of ethics in 2008 which is less than the percentage found in a 1996 study. A majority (71%) of the survey's respondents stated that ethical standards were relatively or very high.⁹ Contrary to these findings, a survey conducted in 2004 by an Icelandic research company (Capacent) among the Icelandic public found that more than half of the respondents considered ethical standards to be low.¹⁰ A definite conclusion cannot be made from these two surveys but the findings imply a certain level of disconnect between Icelandic companies and their stakeholders when it comes to expectations of ethical standards. The current economic crisis has put the spotlight on ethics in Icelandic companies, notably in the bankrupt banks and associated companies. Relevant investigations have been launched to determine the causes of the failure of the Icelandic banks which may shed light on possibly questionable ethical aspects of the companies' management. It is likely that ethical standards will play a larger role in Icelandic companies in the future.

Sustainable usage of Iceland's natural energy resources

Iceland has abundance of natural energy resources, primarily in the form of geothermal and hydro power. In 2007 over 80% of the country's total energy usage originated from geothermal and hydro energy.¹¹ This abundance of energy for Iceland's small population has made the country an attractive location for foreign energy intensive industries, most notably aluminium production. Iceland currently has three aluminium smelters, all owned by foreign corporations.

Although hydro power is a clean and renewable energy source, it comes at the cost of disrupting the natural state of land and rivers. One of the most controversial power plants in Iceland is the Karahnjúkar hydropower project in the east part of the country, which entails the harnessing of glacial rivers from Iceland's largest glacier, Vatnajökull.

⁶ Danielsson & Zoega 2009

⁷ Ibid

⁸ Vinnumálastofnun 2009, p. 1

⁹ Hafsteinsdóttir & Hall 2008

¹⁰ Cited in Hafsteinsdóttir & Hall 2008

¹¹ Statistical Yearbook of Iceland 2008, p. 151

The energy from Karahnjúkar is used to power the aluminium smelter of Fjarðaal, owned by US based Alcoa. In 2005, Icelandic and international environmental activists heavily protested against the Karahnjúkar project. At present, the possibility of new aluminium plants is being debated in Iceland.

Sustainable fisheries

Although the relative size of fisheries compared to other industries has diminished in the last years, the industry still accounts for around half of Iceland's export income. To protect this valuable natural resource Icelanders put great emphasis on fishing in a responsible and sustainable way. Key steps towards the protection of Iceland's marine resources were taken in the 1970s when Iceland gradually extended its fishing limit to 200 miles. The Icelandic Marine Research Institute conducts research on the commercial fishing stocks, marine life and ecosystem and advises on sustainable fisheries¹², i.e. how much can be caught of a given species while ensuring sustainable maintenance of the stock. In order to communicate the sustainable management of Icelandic fisheries to the relevant stakeholders, a special logo has been designed for Icelandic seafood products with third party certification in accordance with the UN Food and Agricultural Organisation.¹³

CSR Trends

Coinciding with a limited CSR debate, little has been written on CSR and related topics in Iceland. However, there are signs of increased interest in CSR particularly among university students some of whom have chosen to write their dissertations on CSR related topics, notably in the last two years.¹⁴ The establishment of the first Icelandic CSR focused institute, Ethikos, has in the last year helped increase the CSR debate and awareness and created a forum for the exchange of best practices and facilitated bringing relevant expert knowledge to Iceland.

Although integrated CSR reporting, compliant with internationally recognized standards, is not yet practiced by Icelandic companies¹⁵, environmental reporting has become mainstream in companies operating in environmentally sensitive sectors and is required by national legislation on environmental reporting (green accounting) instituted in 2002.

Icelandic subsidiaries of large international companies, such as aluminium companies, put noticeably more emphasis on voluntary CSR than companies solely operating in Iceland. Both the international companies Alcoa and Rio Tinto Alcan have extensive CSR programs and practices at headquarter levels which are extended to their Icelandic operations. Alcoa's subsidiary, Fjarðaal, has initiated an ongoing multi-stakeholder sustainability initiative linked with its production (see case study). The project is one of its kind in Iceland and has been generally well received by Alcoa Fjarðaal's stakeholders.¹⁶ Alcan puts emphasis on CSR in various ways such as responsibility to its employees (training, competitive salaries, free meals etc.) and strict management of

¹² See website of Icelandic Marine Research Institute: <http://www.hafro.is>

¹³ See website of Information centre of the Icelandic Ministry of Fisheries and Agriculture <http://www.fisheries.is/home/nr/332>

¹⁴ Icelandic library database: Gegnir.is, <http://www.gegnir.is/>

¹⁵ No Icelandic companies report according to the sustainability reporting guidelines of the Global Reporting Initiative (GRI) according to the GRI database, <http://www.globalreporting.org/GRIReports/GRIReportsList/>, as of 20 Feb 2009

¹⁶ Ildi 2008

environmental impact (first company in Iceland to implement the ISO 14001 standard).¹⁷ Despite this emphasis on CSR aluminium companies remain a source of controversy in Iceland due to their environmental impact.

Apart from the environmental side, which is covered by national regulations, there has been little pressure from stakeholders for company practices and initiatives exceeding legal requirements. This is likely to change in light of the recent turmoil in the Icelandic economy, which has focused attention on accountability of companies, the need for transparency, sound ethical standards, and good governance. Given the sudden importance ascribed to CSR in Iceland and the critical need for the country to redeem its business sector in the eyes of the world, the stage is now set for a concerted effort being made to promote CSR in Iceland. During the preparation of this article, Ethikos together with leading business associations and ministries were considering the possibility of developing a national CSR strategy.

CSR-Related Legislation

Environmental legislation

The key environmental laws in Iceland include the following:

Law for the scientific conservation of the continental shelf fisheries

The law states that the Ministry of Fisheries will issue regulations regarding areas protected against fishing within the Icelandic continental shelf and that the areas will be subject to Icelandic control aiming for scientifically based protection of fish stocks. Extensions of fishing limits after 1948 (up to the current 200 miles) were based on this law.

Law on Environmental Impact Assessments

The objective of the law is “to ensure that an environmental assessment is conducted before a license is issued for any project which can have material impact on the environment because of its location, nature, operations or scope.”

Law on greenhouse gas emissions

The law gives a framework for Iceland’s obligations associated with the signing of the Kyoto Protocol of the UN Framework Convention on Climate Change of 1992.

Other key environmental laws concern pollution mitigation and waste management.

Social legislation

Key social legislation in Iceland, include the following:

Act on Social Security

The act covers law on health insurance, unemployment benefits and pension funds for all residence in Iceland.

Law on maternity and parental leave

The law covers the right of parents to 9 months in total of paid parental leave.

¹⁷ See Icelandic website of Rio Tinto Alcan <http://www.riotintoalcan.is/>

CSR Organisations

Ethikos www.ethikos.is

The first and only CSR focused institute is Ethikos, founded by several Icelandic companies and the Icelandic Ministry of Foreign Affairs in May 2008. The activities of Ethikos include supplying companies and the government with information regarding CSR, organizing conferences and seminars and facilitating the connection between international and national experts on CSR. The goal of Ethikos is to “increase the knowledge of CSR in Iceland and help companies to become more responsible towards society, the environment and to respect human rights in their daily operations.”¹⁸

Best practices

A few companies in Iceland have shown leadership by emphasizing CSR in their operations in an innovative manner. The companies below are chosen from different sectors as good examples.

Auður Capital

Audur Capital is a financial services provider founded in 2008 by women with a vision to incorporate feminine values into the world of finance. The values of Audur Capital include integrity, CSR, risk awareness and long term sustainable profits with social benefits. The company’s website states that the difference between Audur Capital and other financial services companies is not the what services it provides but how they are provided.¹⁹

Alcoa Fjarðaal

Alcoa Fjarðaal is fully owned by the US aluminium company Alcoa. Together with the energy company Landsvirkjun, Alcoa Fjarðaal launched a Sustainability Initiative, with the aim of monitoring the social, environmental and economic impacts of the Karahnjúkar dam (mentioned earlier in this article), as well as the two linked transmission lines and the Fjarðaal aluminium smelter. According to the project’s website the project is the only one of its kind worldwide.²⁰

Marorka

Marorka develops energy management systems for the maritime industry. Marorka’s mission is “to deliver high quality products and services that save energy, increase profitability and reduce harmful emissions”.²¹ The company won the Nordic Council’s Nature and Environmental Prize 2008.

Education

University of Iceland

Faculty of History and Philosophy:

- Applied Ethics (course)
- Business Ethics (MA Degree)

¹⁸ See Ethikos website www.ethikos.is

¹⁹ See website of Audur Capital: <http://www.audur.is>

²⁰ See website of Alcoa Fjarðaal’s Sustainability Initiative
<http://www.sjalfbaerni.is/EN/default.aspx?catID=1646>

²¹ See website of Marorka: http://www.marorka.is/vision_mission.asp

Reykjavik University

School of Business:

- Ethical and moral questions related to the Icelandic banking crisis and economic collapse (course)
- Business Ethics (course)

School of Law:

- Human Rights in Business (course)

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