Corporate Social Responsibility in Iceland
Benefits and Challenges

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Faculty of Life and Environmental Sciences
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Corporate Social Responsibility in Iceland
Benefits and Challenges

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60 ECTS thesis submitted in partial fulfillment of a
Magister Scientiarum degree in Environment and Natural Resources

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Reykjavik, February 2016
Corporate Social Responsibility in Iceland: Benefits and Challenges
CSR in Iceland: Benefits and Challenges
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Abstract

In a world that is changing faster than ever, corporations have to adapt their business strategies to cope with contemporary needs. The holistic approach of corporate social responsibility (CSR) addresses economic, environmental, and social aspects helping companies to contribute to sustainable development. Some studies that have been conducted in the field of CSR in Iceland, suggest that companies are behind in the process of handling business responsibly in comparison to other countries, especially Scandinavian countries. Contributing to the research on this subject in an attempt to broaden the understanding in this field, the present study examines seven companies in Iceland that vary in size and area of specialization to investigate how they perceive corporate social responsibility. To find out the understanding and views that employees in these companies have on CSR, semi-structured interviews were conducted. The focus of the study is on reactive versus proactive CSR and on what the benefits and challenges of becoming socially responsible organizations are. The sample, comprising different kinds of companies at different stages of progress in the adoption of CSR as part of their business strategy, provides an overview of the current situation regarding CSR in the Icelandic context.

Key words: Corporate Social Responsibility, sustainable development, benefits, challenges, reactive and proactive
Útdráttur

Í heimi sem breytist hraðar en nokkru sinni fyrir þurfa fyrirtæki að aðlaga viðskiptastefnu sina til að ráða við þarfir samtímans. Hin heildræna nálgun sem fálgir er í samfélagslegri ábyrgð fyrirtækja (SÁF) tekst á við efnahagslega, umhverfislega og félagslega þættir sem hjálpa fyrirtækjum við að leggja sitt af mörkum til sjálfbærrar þróunar. Sumar rannsóknir sem gerðar hafa verið á sviði SÁF á Íslandi gefa til kynna að fyrirtæki í þessu landi standa öðrum þjóðum að baki í ferlinu við að ráða fram úr viðskiptum sínum á ábyrgan hátt, einkum ef miðað er við skandinavísku þjóðírmar.

Sem framlag til rannsókna um þetta efni fjallar þessi rannsókn um sjö fyrirtæki á Íslandi sem eru mismunandi að stærð og vettvangi sérhæfingar til að kanna hvernig þau skilja samfélagslega ábyrgð fyrirtækja. Til að komast að því hver skilningur og afstaða starfsfölks muni vera til SÁF, voru viðtöl tekin sem skipulögð voru að hluta. Athygli rannsóknarinnar beinist að viðbrögðum eftir á samanbóði við framvirkni SÁF og því hvaða ávinning og hvaða prófraunir það hefur í for með sér að verða samfélagslega ábyrgð fyrirtæki. Úrtakið, sem samanstendur af mismunandi tegundum fyrirtækja á mismunandi stigum framvindunnar við innleiðingu SÁF sem hluta af viðskiptastefnu sinni, veitir yfirsýn yfir núverandi stöðu varðandi SÁF í islensku samhengi.

Lykilorð: Samfélagslega ábyrgð fyrirtækja, sjálfbær þróun, ávinning, prófraunir, viðbrögð og framvirkni
Dedication

To María Matilde, Sebastian and Eduardo
Table of Contents

Abbreviations ........................................................................................................................................... xi

Acknowledgements ................................................................................................................................. xiii

1 Introduction ......................................................................................................................................... 1
  1.1 The aim of the dissertation ................................................................................................................1
  1.2 Structure of the dissertation ............................................................................................................... 2

2 Literature review ................................................................................................................................. 3
  2.1 Corporate Social Responsibility ..................................................................................................... 3
    2.1.1 Reactive vs. Proactive CSR ......................................................................................................... 4
    2.1.2 Benefits of adopting CSR ........................................................................................................... 5
    2.1.3 Challenges in adopting CSR ....................................................................................................... 8
  2.2 CSR in Europe ............................................................................................................................... 11
  2.3 CSR in Iceland ............................................................................................................................... 12
    2.3.1 FESTA – Icelandic Center for Corporate Social Responsibility ............................................. 14
  2.4 CSR Initiatives ............................................................................................................................... 15
    2.4.1 The United Nations Global Compact (UNGC) ........................................................................... 15
    2.4.2 The Global Reporting Initiative (GRI) ....................................................................................... 16
    2.4.3 ISO 26000 ................................................................................................................................... 17
  2.5 Chapter summary ............................................................................................................................. 18

3 Methodology ...................................................................................................................................... 20
  3.1 Introduction ...................................................................................................................................... 20
  3.2 Objectives, Research Questions and Epistemology ....................................................................... 21
    3.2.1 Research questions .................................................................................................................... 21
    3.2.2 Epistemology ............................................................................................................................ 21
  3.3 Contacting companies and FESTA ............................................................................................... 22
  3.4 Data collection ................................................................................................................................ 22
  3.5 Analysis of Data .............................................................................................................................. 23

4 Results .............................................................................................................................................. 23
  4.1 From reactive to proactive ............................................................................................................... 24
    4.1.1 Regulatory Drivers ..................................................................................................................... 24
    4.1.2 Market Drivers .......................................................................................................................... 24
    4.1.3 Social Drivers ........................................................................................................................... 25
  4.2 Benefits of CSR as perceived by Icelandic companies ................................................................. 26
    4.2.1 Regulatory compliance ............................................................................................................ 26
    4.2.2 Risk management ..................................................................................................................... 26
    4.2.3 Market growth ........................................................................................................................... 27
    4.2.4 Strategic direction ..................................................................................................................... 27
  4.3 Challenges of CSR as perceived by Icelandic companies ............................................................. 28
4.3.1 Cognitive barriers .................................................................................. 28
4.3.2 Political barriers .................................................................................. 30
4.3.3 Analytical barriers .............................................................................. 30
4.3.4 Market operational barriers ................................................................. 32
4.3.5 Lack of direct pressure ........................................................................ 32

5 Discussion ................................................................................................. 33
  5.1 From reactive to proactive ..................................................................... 33
  5.2 Benefits of CSR .................................................................................... 34
  5.3 Challenges of CSR ............................................................................... 36

6 Contribution, limitations, future research, and conclusions .................... 40
  6.1 Contribution, limitations and future research ....................................... 40
  6.2 Conclusions ........................................................................................ 41

Bibliography ............................................................................................... 42

Appendix A – Interview template .................................................................. 53
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
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<tbody>
<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
</tr>
<tr>
<td>EAA</td>
<td>Environmental Assessment Act</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>GEMI</td>
<td>Global Environmental Management Initiative</td>
</tr>
<tr>
<td>GRI</td>
<td>Global Reporting Initiative</td>
</tr>
<tr>
<td>ISO</td>
<td>International Organization for Standardization</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
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<tr>
<td>UNEP FI</td>
<td>United Nations Environment Program Finance Initiative</td>
</tr>
<tr>
<td>UNGC</td>
<td>United Nations Global Compact</td>
</tr>
<tr>
<td>WBCSD</td>
<td>World Business Council for Sustainable Development</td>
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1 Introduction

1.1 The aim of the dissertation

Directly or indirectly, every single thing that humankind needs for its survival and well-being depends on the natural environment. The concept of sustainable development implies that there must be balance between men and nature accounting for the three dimensions of economic, environmental and social sustainability (Dyllick & Hockerts, 2002). Yet sustainable development has proved to be challenging to understand, because it involves a wide number of elements operating at different regional and time scales, and on different levels of human action (Köhn et al., 1999). Probably one of the biggest complications of tackling sustainability competently is to realize that sustainability does not aim to maintain a system in a static equilibrium, but rather to incorporate actions that aid the system to respond effectively to shifting conditions (Köhn et al., 1999).

For centuries, the main purpose of business has been business itself. By focusing exclusively on how to make the most profit, companies have left aside other elements that are also crucial for society aside from benefiting from the products and services provided by businesses. Such other aspects of relevance to society include taking care of the natural environment and the society as a whole, which translates into adopting a holistic approach to businesses operations that take into consideration the impact they have on stakeholders and the environment (Network for Business Sustainability, 2012). In order to adapt to the demands of the contemporary world, corporations must address diligently the realms of the social and environmental spheres apart from the economic one (Hawken, 1993). Corporate Social Responsibility (CSR) encompasses these three aspects.

Despite the fact that CSR is becoming increasingly popular around the world, and despite the view that it is advisable for businesses to incorporate sustainability as part of their business strategy for the recognized benefits, there is still a significant degree of vagueness and uncertainty about what the concept really involves. Or, more specifically, how to incorporate CSR successfully (Laszlo, 2008). Many companies around the world, as well as in Iceland, seem to be struggling to initiate the process of being profitable, yet socially responsible organizations. This dilemma is what inspires the research presented in this dissertation which will explore the reasons behind this struggle, with a focus on the difference between reactive and proactive CSR, and the benefits and challenges of implementing CSR in companies in Iceland.

Iceland makes an interesting case study as it is considered to be relatively environmentally sustainable since over 82% of its primary energy is derived from domestic renewable sources. However, when examining other aspects, Iceland’s environmental sustainability seems to be weak when it comes to aspects such as land and soil degradation, waste management and, as a whole, a very high carbon footprint (Olafsson et al., 2014). Also, the attention given to sustainability related issues, such as CSR, seems to be rather weak in comparison to other European countries, especially Scandinavia. Revealing views
regarding the benefits and challenges of incorporating CSR in companies in Iceland might explain to a certain extent why Iceland has taken comparatively long to make progress in this area.

The research questions formulated for the purpose of this study are:

What are the reasons that make a company switch from having a reactive approach to a proactive one in relation to handling business sustainably in Iceland?

What are the benefits that companies in Iceland perceive in adopting CSR?

What are the challenges that companies in Iceland face when attempting to adopt CSR into their strategy?

1.2 Structure of the dissertation

This dissertation is divided into six chapters:

Chapter one is the introduction of this work and it gives a glimpse of what CSR is, presents the aim of this dissertation, the research questions and its structure.

Chapter two presents the literature that has been consulted in order to have a general view of the theory related to the topic of this research. This chapter reveals information about CSR including the difference between reactive and proactive CSR; its benefits and challenges in a general context; CSR in Europe; CSR in Iceland; CSR initiatives; and a chapter summary.

Chapter three explains the methodology applied for the development of this study.

Chapter four displays the findings of the study organized according to the frameworks that are introduced in the literature review. This chapter is divided into three sub-chapters that correspond to each of the research questions.

Chapter five is an analysis of the points made by the participants in section four. The literature review and the findings are put together as to present the discussion of the study.

Lastly, chapter six includes the contributions and limitations of this study, suggested future research and conclusions.
2 Literature review

2.1 Corporate Social Responsibility

The concept of Corporate Social Responsibility as such is considered to have been suggested for the first time in the year 1953 by Howard R. Bowen in his book *Social Responsibilities of the Businessman* (Carroll, 2008). Bowen justified the ideas included in his book based on the assumption that the largest companies have great power and that their decisions touch the lives of people in many ways. The definition that Bowen gives of CSR is:

*Corporate Social Responsibility refers to the obligation that businessmen have to base their work on policies, decisions, and actions that are desirable in accordance with the beliefs and values of society* (as cited in Carroll, 2008).

In general terms, CSR consists of values, business strategies, responsibility policies, and control and management systems (Kujala & Kuvaja, 2002; Wilenius, 2005). The positive impact of CSR on the overall competitiveness of business is increasingly recognized (EC, 2013). The field of CSR evolves continuously and nowadays includes a variety of theories, approaches and terminology such as: corporate citizenship, stakeholder theory, corporate social performance, ethical theories, and sustainability (Carroll, 1999; Garriga & Melé, 2004; Utting, 2005; Chandler, 2006). The terminology of the CSR field is confusing, due to the fact that some of the theories combine different approaches while using the same terminology (Garriga & Melé, 2004). Matten and Moon (2008) wrote that to add to the confusion, CSR is perceived differently, for instance, in the US and Europe. One of the differences between them is the lower incidence of a variety of employee-related issues in European CSR, as they are already envisioned in the rules and laws in Europe or in their institutional framework (as cited in Pjetursdottir, 2011). For the purpose of this dissertation, it is the European and Icelandic perception of CSR that will be discussed further in following sections.

Corporate social responsibility is defined as the responsibility a company has for its total impact on society. It includes values within the operations, well-being of employees, environmental standards and other aspects that impact society directly or indirectly. However, if treated incompetently, CSR can be used as a means to influence public opinion regarding the company’s image by carrying some unconnected CSR projects without managing to incorporate it effectively into the organizational culture (Chandler, 2006). In order for CSR to be successfully adopted, it has to be incorporated into the organization’s strategy, so that both the organization and society can benefit. CSR encompasses principles and processes that aim to minimize the company’s negative impact and maximize the positive (Laszlo, 2008).

In general, the new notion of businesses and how they connect with society has become a focus of interest for governments, civil society, and companies that regard CSR as a platform to connect society and corporations (Frynas, 2005; Jenkins, 2005). There has been a growing consensus that businesses have a moral obligation as corporate citizens to assist the global community as the living conditions for the majority of the population have
worsened (Jenkins, 2005). Communication technology has played a key role as a tool for monitoring corporate wrongdoings and informing consumers.

There is an increasing number of groups of different kinds such as the World Business Council for Sustainable Development (WBCSD) that believe it is crucial to switch from handling business as it has been done traditionally. Making changes in governmental and economic structures as part of this process involves the modification of businesses and human behavior in order to create a sustainable world (WBCSD, 2010).

2.1.1 Reactive vs. Proactive CSR

Swanson (1995) identifies three main types of motivation for businesses to engage in CSR. First, following a utilitarian perspective (i.e. performance-driven), CSR can be reckoned as a tool to help attain the company's performance objectives regarding profitability, return on investment, or sales volume. Second, in consonance with the negative duty approach (i.e. stakeholder-driven), companies are obliged to adopt socially responsible initiatives aiming to conform to stakeholders. Third, the positive duty approach (i.e. value-driven), proposes that by own initiative businesses may intend to have a positive impact regardless of social pressures. When a positive duty approach prevails, CSR foundations shape the corporate identity which implies that organization's members acknowledge CSR principles to be distinctive to the firm (Hooghiemstra, 2000). On the contrary, the negative duty view entails that CSR initiatives are predominantly used as a mean to satisfy stakeholders’ expectations (Handelman & Arnold, 1999). Both the negative duty and the utilitarian approaches suggest that CSR can be utilized as a management tactic to have a positive influence on stakeholders' views in relation to the company’s operations (Hooghiemstra, 2000).

The aforementioned views on CSR also can be referred to as reactive and proactive CSR. According to the „reaction-defense-accommodation-proaction“ classification (Carroll, 1979; Wartick & Cochran, 1985; Wilson, 1975), organizations can be regarded as functioning along a continuum of CSR that ranges between being reactive and proactive in nature. The rationale behind this is that every company has a social responsibility and that it is the way in which each organization approaches CSR in order to meet that responsibility which will vary (Carroll, 1979; Wartick & Cochran, 1985).

Reactive CSR

Companies operating under a business case model that is strongly driven by the economic outcome of processes, usually follow a reactive approach towards CSR and may become involved in such activities as a response to the pressure from different groups (Research Methodology, 2012). More than corporate social responsibility, it could be referred to as corporate social responsiveness (Tulder & Zwart, 2006). Reactive CSR focuses on exercising the minimal level of effort necessary for non-voluntary regulatory compliance (Carroll, 1979; Du et al., 2007; Groza et al., 2011; Wilson, 1975).

Proactive CSR

Proactive CSR involves active and voluntary practices which translate into an organization engaging above and beyond regulatory requirements, with the intention of managing social responsibility as a competitive priority (Carroll, 1979; Du et al., 2007; Groza et al., 2011; Wilson, 1975) to actively endorse sustainable economic, social, and environmental
development. Proactive CSR encourages the design and advancement of sustainable products, operations, and production processes that anticipate the probable evolution of external regulations and social trends (Groza et al., 2011; Wilson 1975). Strategy scholars consider that engaging in proactive CSR is a value-creating move that can result in competitive advantage (Benn et al., 2006; Berry and Rondinelli, 1998; Klassen & Whybark, 1999; Sharma & Vredenburg, 1998).

Some differences between reactive and proactive CSR are the following (Tulder & Zwart 2006):

<table>
<thead>
<tr>
<th>Reactive</th>
<th>Proactive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don’t do things wrong</td>
<td>Do the right things right</td>
</tr>
<tr>
<td>Efficiency</td>
<td>Effectiveness</td>
</tr>
<tr>
<td>Negative duty approach: quarterly profits and market capitalization</td>
<td>Interactive duty approach: medium-term profitability and sustainability</td>
</tr>
<tr>
<td>Compliance</td>
<td>Discourse ethics</td>
</tr>
<tr>
<td>Business and society management</td>
<td>Business-society management</td>
</tr>
<tr>
<td>Trust me</td>
<td>Trust me, engage me, join me</td>
</tr>
</tbody>
</table>

### 2.1.2 Benefits of adopting CSR

A way to enlist the benefits of CSR that is widely recognized with slight variations is the following (Bonini & Görner, 2011):

**Facilitates Risk Management**

When handling business there are a number of risks that are at stake and by making adjustments related to the regulatory, reputation, and operational-risk management, it is easier to deal with the potential overall risks within the organization.

**Promotes Returns on Capital**

Supporting and taking part in sustainable value chains and sustainable operations (i.e. reducing emissions, energy and water use as well as reducing waste production), and developing green sales and marketing translates into returns on capital. There are empirical findings of the positive relations between CSR and financial performance (GEMI, 1998, 2001, 2004; Haanaes et al., 2011; Hart & Milstein, 2003; Lovins, 2007; Porter & van der Linde, 1995; Johannsdottir, 2012). A meta-analysis of 159 studies carried out throughout a 30-year period shows clearly a positive relationship between CSR and financial performance. The results expose that 63 percent of the studies display positive results, 22 percent mixed or neutral results and only 15 percent negative results (Network for Business Sustainability, 2011).
Boosts growth

By modifying the composition of the business portfolio and innovating in different ways, including developing new products and reaching new customers and markets, organizations increase their likelihood of growing. Companies regarded as being socially responsible increase their chances of being positively recognized by customers who feel satisfied by the way the company proceeds (Crane & Matten, 2007).

Another classification that is commonly used is the drivers of environmental strategy suggested by Hoffman. As part of the new strategy that modifies the traditional way of conducting business, it is Andrew Hoffman who proposes five drivers of establishing environmental strategy which can be considered to be external drivers that can benefit organizations aiming to become corporate social responsible in the current business conditions (Hoffman, 2000). He suggests that by identifying key business components that coincide with the environmental objectives of the organization, managers can grasp ways to combine environmental strategy and business strategy to create value for the organization. This is the core of competitive environmental strategy (Hoffman, 2000). The five drivers are:

**Regulatory Drivers**

Renewing the present regulatory system aims to protect the environment in ingenious ways, encouraging businesses to endorse environmental laws by offering them incentives to prevent pollution.

**International Drivers**

Administering the global natural resources is the reason behind the need to establish international agreements that support effective environmental strategies across national boundaries when it comes to business.

**Resource Drivers**

Increasing pressure from different sources urges companies to look closely at the value chain in order to manage environmental resources responsibly while lowering their financial risk.

**Market Drivers**

Considering that customers, competitors, trade associations and consultants are in one way or another putting forth environmental concerns, businesses are more pressured to act responsibly towards the environment to satisfy the market demands.

**Social Drivers**

Shifting values taking place in society and in new generations, particularly, regarding the environment, are key elements making the business world implement significant changes to comply with views and expectations of society.

The Global Environmental Management Initiative (GEMI), has elaborated a framework which includes six areas of value-creating opportunities for environmental strategy (Hoffman, 2000). According to the GEMI, addressing environmental issues promotes

The value creation areas that the GEMI has recognized can be considered as internal drivers for the organizations and are the following (GEMI, 1998, 2001, 2004a; Hoffman, 2000; Johannsdottir, 2012):

Value in Regulatory Compliance
Company policies and government regulations command certain environmental performance standards and activities that many times are perceived as a cost of doing business; however, they actually yield value to business. Protection of the license to operate, avoidance of penalties and boosted flexibility with regulators are some of the benefits that add value in regulatory compliance (GEMI, 1998).

Value in Operational Efficiency
The added value at the operational level comes from finding innovative ways of doing more with less resources. More efficient resources use, minimization of waste, reduced costs of hazard management and maintenance, enhanced processes innovation, and increased productivity and morale are examples of how environmental initiatives promote value in operational efficiency.

Value in Risk Management
Handling environmental risk can prevent important costs for the organization (Anderson, 2005; GEMI, 1998; Hoffman, 2000). By managing risks, corporations can reduce costs of emergency response, remediation costs, product liability costs and insurance premiums. Risk management is closely related to operational efficiency.

Value in Capital Investment
The purchase of new sites, construction of facilities, and start-up or redesign of manufacturing lines and new products are examples of capital investments that if addressed properly can benefit the company. Some ways in which the organization can benefit by incorporating environmental considerations into capital investment and changing processes are decreased uncertainty of corporate transactions, reduced time to market, and enhanced equipment purchase decisions and promotion of sustainable design in facilities construction (Hoffman, 2000).

Value in Market Growth
Consumers are increasingly inclining towards choosing environmentally friendly products, and therefore companies that are environmentally responsible. For this reason, environmental initiatives such as more beneficial suppliers’ relationships, enhanced environmental attributes of products and improved image and brand name, boost the marketability of products and services which translates into market growth (Hoffman, 2000).

Value in Strategic Direction
Environmental strategies will influence companies’ decision-making processes in a variety of ways (GEMI, 1998) which can help companies protect existing markets, and secure new
ones. In other words, if addressed properly, these strategies can signify future gains for shareholders (Ernst & Young, 2007). Product mixing, monitoring and managing strategic issues, redefining and expanding markets, and modifying the business mission are forms of adding value in strategic direction.

Ethical motivation is another important aspect when it comes to CSR since the ethical-legal dimension of CSR has the biggest impact on organizational commitment (Dhanesh, 2010). This is directly related to employees who might be more interested and feel committed to their work when the company is perceived as a socially responsible one (Greening & Turban, 2000). An emphasis on CSR is believed to enhance loyalty and engagement among employees (Risk Management, 2013; Johannsdottir, 2014); therefore, it can influence aspects such as employee’s productivity, motivation, absenteeism, and turnover rates (Dhanesh, 2010; Johannsdottir, 2014). It is the doctorate thesis of Lara Johannsdottir on Nordic non-life insurers’ interest in, and response to, environmental issues, that reveals that employees are receptive to the changes related to transforming into socially responsible companies (Johannsdottir, 2012). This same study explains that the leadership of managers is the key for such changes to be approached with positivism and with the understanding that it will bring benefits to all (Johannsdottir, 2012).

As a whole it could be said that the large-scale benefit of CSR is that contributing positively to society can turn into a long-term investment in a safer and more equitable community, which consequently translates into a more reliable context to do business (Crane & Matten, 2007). Nowadays, the companies that have taken a leading role at making business sustainable strive to maintain their status, both for environmental welfare, and because it is fiscally responsible for their bottom line.

2.1.3 Challenges in adopting CSR

Despite the positive impact of CSR on the overall competitiveness of business, companies are still struggling with a number of elements identified as barriers or obstacles in the process of adopting CSR.

Understanding CSR holistically

A barrier in the process of adopting the CSR approach into a company’s strategy is to fully understand that CSR is not peripheral to business, but rather it should be the core (Porter & Kramer, 2011). Also, it seems to be difficult for some entrepreneurs to comprehend that CSR can be explained as the competence of organizations to respond to their short-term financial needs without compromising anyone’s’ possibility to meet their future needs (Bansal & DesJardine, 2014; Johannsdottir, et al., 2015). In other words, it might prove challenging to realize that it is about minding the environment and the society at the same time as being a profitable business. The acknowledgement of the importance of shared value (i.e. profit for the company in a way that also creates value for society) is a key element without which adopting CSR is impossible (Laszlo, 2008).

Managing to incorporate stakeholders’ demands into the company’s strategy

Many fail to realize that the priorities of stakeholders among other groups have changed, and therefore companies should strive to cope with the new needs and expectations in
order to be competitive. Most companies continue to view value creation narrowly, prioritizing their short-term financial performance, overlooking the needs of customers and other aspects that influence their long-term achievements (Porter & Kramer, 2011). This short-sighted perspective prevents companies from readily incorporating CSR.

**Convincing the people in key positions of the importance of CSR**

The people in the higher positions in the companies are expected to lead crucial changes within the organization such as the adoption of the CSR approach; however, studies show a continued sense of reluctance across senior leadership to merge the social and environmental with the corporate. According to Thomas and Lamm (2012), it is argued that success or failure in operating businesses sustainably is conditioned by the degree to which corporations’ leaders accept or resist this process (as cited in Johannsdottir et al., 2015). The leadership and support of CEOs in the process of becoming a socially responsible organization is decisive and declining to do so is still an obstacle to overcome by many companies (Laszlo, 2008).

**Learning how to report on the progress**

When it comes to start adopting CSR in the organization, picking what to report on, identifying how delicate different data are, grasping how to organize the content, and mastering how to correctly pitch quality are among the most often cited difficulties (EC, 2011).

**Striving for a figure to work on common challenges**

At a global level, one of the biggest hardships when trying to become CSR is the absence of some figure focusing on the common challenges. There is a lack of coordination, consultation and also awareness between how governments establish policies and how companies conduct business (EC, 2011).

In the year 2002, the United Nations Environment Program Finance Initiative (UNEP FI), proposed four types of barriers hindering companies from becoming active participants in addressing Anthropogenic Climate Change (ACC) (Johannsdottir, 2012).

These barriers are cognitive, political, analytical, and market operational barriers (Dlugolecki & Loster, 2003; Johannsdottir, 2012). Through personal correspondence with Lara Johannsdottir, Dr. Dlugolecki (2011) confirms that the aforementioned barriers are still relevant (as cited in Johannsdottir, 2012). A fifth barrier identified from the literature appears to be relevant for the analysis of the interviews made for the purpose of this dissertation, and therefore will be added to the list of four: lack of direct pressure (Johannsdottir, 2012):

**Cognitive Barriers**

Cognitive obstacles and barriers include, for instance, fear of the unknown, threats to one’s own interests or lack of trust (Hoffman & Bazerman, 2007). This is mainly an internal barrier caused due to the failure of realizing the interconnectedness between the environment, society and the companies’ bottom-line performance (Johannsdottir, 2012).
Political Barriers
This is an external barrier impeding actions of the private sector due to the lack of political frameworks addressing CSR related issues. This can also be regarded as a governmental leadership issue, and regulatory and policy issue (Johannsdottir, 2012).

Analytical Barriers
Regarded as both an internal and an external barrier, insufficient analysis and information in connection with topics such as climate change awareness is an obstacle (Johannsdottir, 2012); and this also applies to the CSR case.

Market Operational Barriers
Obstacles to market operations can be the result of inadequate government interventions through public policy, subsidies, and other structural incentives. Another market operational barrier is lack of information or inaccurate information flowing across producers in relation to nature of supply and demand, and between producers and consumers regarding product attributes (Johannsdottir, 2012).

Lack of Direct Pressure
Although it has been increasing with the passing years, the pressure of stakeholders on companies and their way of conducting business lacked determination, so companies could get away with carrying out business in the old-fashioned way for a long time without having to worry about the reactions and actions of the general public (Johannsdottir, 2012).

In the Icelandic context some likely reasons for the limited corporate focus on voluntary CSR practices might be (Thorsteinsdottir, 2009):

- The small size and often limited international transactions held by Icelandic companies;
- Commonly high standards for environmental protection, labor, and human rights;
- Little demand on CSR on behalf of the stakeholders of Icelandic companies beyond common legal regulations;
- Prevalence of center-right politics which sets as a priority the economic growth and pays little attention to social and environmental related themes;
- Limited exposure to CSR related issues taking place in other European countries such as “green” papers issued by the EC and debates held within the EU related to this topic;
- The absence of serious corporate wrongdoings implicating Icelandic companies, until the financial collapse in 2008.
2.2 CSR in Europe

The European Union (EU) defines CSR as a voluntary commitment by enterprises, to incorporate social and environmental concerns within their business activities and in their communications with stakeholders (COM, 2006).

The 2008 European Competitiveness Report concluded that CSR is becoming a competitive need for companies, but it recognizes that it must be incorporated into the business strategy for it to be an effective competitive differentiator (EC, 2008).

The European Commission (EC) established the following agenda for action on CSR from 2011 (EUR-Lex, 2011):

- To magnify the visibility of CSR and propagate good practices
- To ameliorate and trace levels of trust in business
- To enhance self- and co-regulation processes
- To increase market reward for CSR
- To intensify company disclosure of social and environmental information
- To further incorporate CSR into education, training and research
- To highlight the importance of national and sub-national CSR policies
- To better align European and global approaches to CSR

The EC has recognized three areas of European policy that can be leveraged to strengthen the market recognition for handling business responsibly (EC, 2011):

**Consumption**

The Sustainable Consumption and Production Action Plan offers an opportunity to identify new measures that encourage responsible consumption practices.

**Public Procurement**

In its review of the Public Procurement Directives, the Commission attempts to promote an improved integration of social and environmental considerations into public procurement.

**Investment**

The Commission will demand that all investors inform their customers about the responsible investment norms they implement.

Based on information provided in a study conducted by the EC in 2011, companies in Europe incorporate CSR to their strategy and report on it, because it strengthens their reputation, although it can augment their costs (EC, 2011).
The same study reveals that readers of CSR reports inquire for companies to honestly and realistically show their processes in a way that aids them to assess their sustainability (EC, 2011). The study shows that the expectations of the readers are best met when the reports are regulated, integrated with financial reports and stakeholders are more involved (EC, 2011).

According to the EC, SMEs (Small and Medium Enterprises) are the prevalent form of enterprise in the European Union, and although they might not use the term CSR, their close relations with employees, the local community and business partners point that they have a naturally responsible approach to business. For most SMEs, the manner in which they meet their social responsibility tends to be informal and intuitive (EC, 2013). This kind of companies are exempted from the obligation to create annual reports on non-financial performance (EUR-Lex, 2014).

For bigger companies, the Directive 2014/95/EU of the European Parliament and of the Council established that non-financial disclosure requirements should be mandatory for organizations with more than 500 employees (EUR-Lex, 2014).

The EC encourages companies to ground their approach on CSR on internationally recognized CSR guidelines and principles. Among them the following five are considered by the EC to represent an evolving and coherent framework for CSR around Europe: OECD Guidelines for Multinational Enterprises, ISO 26000 Guidance Standard on Social Responsibility, UN Guiding Principles on Business and Human Rights, International Labor Organization Tripartite Declaration of Principles concerning Multinational Enterprises on Social Policy and the ten principles of the United Nations Global Compact (UNGC) (EC, 2013). The latter, as well as ISO 26000, will be discussed more in detail in subsequent sub-chapters of this dissertation.

In addition, for questions related to reporting and transparency, the EC and enterprises in Europe often refer to the Global Reporting Initiative (GRI) (EC, 2013). The GRI will be referred to in an upcoming sub-chapter as well.

### 2.3 CSR in Iceland

In Western Europe, CSR has gained recognition increasingly during the last decades, while in Iceland limited attention has been put to date on the concept regarding voluntary corporate practices (Thorsteinsdottir, 2009). However, there are certain areas of CSR that have prevailed in the common practices within Icelandic companies as is shown in a study conducted by the EC in 2002. This study displayed that about three quarters of Icelandic enterprises were engaged in “external community causes” (Thorsteinsdottir, 2009). Although the concept of CSR has been less intensely developed in Iceland in comparison to other Nordic countries, Icelandic enterprises handle business based on environmental and social standards in line with those of the EU countries. The onset of this backdates to the year 1993 when Iceland became a member of the European Economic Area (EEA) which signified for the country the opening of the market to other European countries (Thorsteinsdottir, 2009).

A study conducted in 2006 reviewed the perceptions of internationally experienced Icelandic managers regarding practices of CSR in the Icelandic business scenario, and it
concluded that for a long time CSR in Iceland has been viewed mainly as charity (Steingrimsdottir, 2006). The same research suggests that one reason for the imprecise approach to CSR in Iceland is the lack of context, information and knowledge. It also recognizes that as sustainability related issues are gaining importance internationally, the pressure over Icelandic companies is likely to increase (Steingrimsdottir, 2006).

Yet a more recent research about CSR and business innovation in Iceland, suggests that in spite of the progress made in viewing CSR as something more than charity, and the fact that entrepreneurs recognize the value of CSR, it is still perceived as philanthropy by some of the participants that were surveyed at companies (Sigurgeirsdottir, 2013).

A survey conducted in 2004 by Capacent, an Icelandic consultancy and research company, reported that among the Icelandic public more than half of the respondents considered ethical standards at the companies to be low (as cited in Hafsteinsdottir & Hall, 2008). A study carried in 2009 by students of the University of Reykjavik pointed that out of the 100 largest Icelandic companies only 38% had a written code of ethics in 2008. Nonetheless, 71% of the survey’s respondents disclosed that ethical standards were relatively or very high (Hafsteinsdottir & Hall, 2008). These two contradictory results signal a detachment between the view of the Icelandic companies and the public regarding expectations on ethical standards. However, it is important to remark two points when looking at the results of these two studies: First, there is a lapse of five years between the two of them. Secondly, one of the surveys was conducted among companies, while the other aimed at the general public. It would also be important to know what the public think of when referring to ethical standards. Therefore, a definite conclusion on the real progress of ethical practices in Icelandic companies throughout this period of time cannot be reached from this information. A study on CSR in Iceland conducted in 2009 points at the necessity of a better analysis on the connection between companies’ operations and business ethics of socially responsible corporations in Iceland (Arnarsdottir, 2009).

It was the financial sector the one that brought to the light the weak ethics in business in Iceland (Thorsteinsdottir, 2009), therefore, it is understandable that this sector along with the non-life insurance companies have been researched the most. It is often mentioned that the 2008 financial collapse was a cornerstone that initiated worth noticing modifications in Icelandic companies including the reinforcement on the field of ethics. After the crisis banks have been working to regain people’s trust and attain financial recovery (Vol, 2012). However, it was not until the end of the year 2010 that one of the largest banks in Iceland formally adopted a policy of corporate social responsibility (Vol, 2012). The study conducted by Kristinsdottir a year later confirms that the banks recognize the emphasis that was placed on CSR after the onset of the crisis (Kristinsdottir, 2013).

In 2013, a research conducted among the 50 largest companies in Iceland in relation to their CSR practices, concluded that 66% of the Icelandic companies have a strategy about CSR. The same study shows that there is a parallel between having a policy on the matter and reporting on CSR (Leifsdottir, 2013).

Also in the year 2013, a study based on 20 questions that had been used in a survey conducted abroad, showed that in Iceland there was no significant relation between social responsibility and profit. However, the results shown by companies abroad pointed that there was often a positive relation between social responsibility and profit of the company (Thorarinsdottir, 2013).
In August 2013, Festa conducted a survey that shows that 43% of people in Iceland think that companies are doing neither good, nor bad at being socially responsible, 42% think they are doing bad and only a 15% think they are doing good (Festa & Capacent Gallup, 2013). These results are not so different to the outcome of the study conducted by Capacent in 2004 in which more than half of the participants say that ethical standards at companies in Iceland are low. Still, there seems to be a certain degree of progress.

There was a conference organized by FESTA on Performance and Responsible Business in Icelandic Companies that took place on January 29th 2015. The number of attendants was greater than ever before, which shows the increasing importance of CSR in Iceland (FESTA, 2015). What is still uncertain is how long time it will take for politicians to realize how important this issue is nowadays (FESTA, 2015). In the conference it was also mentioned that it is encouraging to see that there is a better understanding that CSR is not only about the environment or charity (FESTA, 2015). More people in Iceland are realizing that this is a win-win-win situation, that is, for companies, the society and the environment. There is still work to be done, for example, on how to report on this, but it will not take long for this to improve. Companies that keep CSR away from their strategy will be left behind (FESTA, 2015).

2.3.1 FESTA – Icelandic Center for Corporate Social Responsibility

Festa is the Icelandic Center for Corporate Social Responsibility which was established in October 2011 as a non-profit organization founded by six Icelandic companies (FESTA, 2013). However, its history dates back to the year 2008 when around eight companies were supporting members of an association called Ethikos which was a cooperative work of the law department of the Reykjavik University. The idea didn’t develop fully at that time, but the companies wanted to continue working on it. It took two years for the companies to define FESTA as an association independent from the government and the university (FESTA, 2014).

The mission of Festa is to be a knowledge center for CSR in Iceland, promote CSR related discussion in Iceland, support organizations which want to implement CSR strategies, establish a network of companies who are interested in adopting CSR, cooperate with universities by encouraging research and teaching of CSR, and work together with international CSR centers (FESTA, 2013).

Some of the benefits that companies in Iceland get from becoming members of Festa are participating in shaping the concept of CSR in Iceland, acquiring knowledge and support on their CSR strategies and learning from each other while showing their true commitment to being responsible companies (FESTA, 2013).

Festa recognizes that CSR as such is rather a new topic in Iceland; therefore, part of their research consists in finding more information on questions such as: How is CSR perceived in Iceland? What CSR related issues are particularly relevant in the Icelandic context? and how will CSR develop in Icelandic companies?, among other questions (FESTA, 2013).
2.4 CSR Initiatives

2.4.1 The United Nations Global Compact (UNGC)

Under pressure from civil society, companies have implemented codes of conduct, varied certifications, and monitoring mechanisms that are part of the field of CSR. There is a variety of initiatives that provide guidance and encourage better corporate practices and the UNGC is the largest of them.

It was the UN-Secretary General Kofi Annan who challenged the business community to be part of the solution of reversing the effects of globalization (UN, 1999). The initiative meant that the UN could assert itself as a stabilizing force to collaborate to a more stable and inclusive process of global economic development that recognizes the relevance of social and environmental concerns (UNGC, 2013).

The UNGC is a strategic policy initiative that provides management instruments and resources aimed to aid advance sustainable business models and markets (UNGC, 2013) to aid shaping the CSR agenda and move CSR away from being regarded as philanthropy and into being understood as a strategic approach (Rasche & Kell, 2010) that addresses the four focus areas of human rights, labor, environment, and anti-corruption (UNGC, 2013).

The UNGC’s model is collaborative which means that it combines the efforts of the private sector, a range of stakeholders. NGOs, business associations, academia, and the public sector along with the UN (UNGC, 2013). „When a company adheres to the UNGC it is supposed to adopt the Global Compact and its principles as part of its business strategy, decision-making processes at all levels, daily operations, and organizational culture; contribute to development objectives such as the Millennium Development Goals through key business activities, advocacy, philanthropy, and partnerships; disclose publicly its progress on the implementation of the Global Compact principles and pursue of development objectives; as well as forward the Global Compact and the case for responsible business practices through advocacy and active communication with peers, partners, customers, consumers, and the general public“ (UNGC, 2013). These enterprises are committed to report on their progress by issuing an annual Communication on Process (COP) report. The aim of this obligatory report is to advance transparency and accountability. Failing to comply with this requirement might cause the expulsion of the member (UNGC, 2013).

In relation to Iceland, according to a study conducted in 2011, the UNGC is perceived as a good framework to carry out CSR related activities; however, the Icelandic participants are very focused on the business side of the Global Compact (Pjetursdottir, 2011). The participation of these companies does not aim to meet broader UN goals, or implement behavioral norms within the business community. According to this study, the influence of the UNGC in Iceland is minimum due to the fact that it is not bridging the gap between aspirations and reality in the country. It is not concluded whether the reason for this is that CSR is perceived as not important in Iceland, or, because companies are not committed to a proactive approach to CSR (Pjetursdottir, 2011).
The United Nations Global Compact: Critique

While the UN Global Compact supporters claim that the initiative can contribute to economic and social development and better distribution of global wealth, critics argue that the initiative has widened the division between the rich and the poor. According to Soederberg (2007), the Global Compact does little to reduce poverty or help those hardest hit by the effects of globalization. The rational behind this is that companies are not the solution in reducing poverty as their interests are not in line with the interests of the developing countries since most fundamental problems fall outside the scope of the private sector (Thérien & Pouliot, 2006).

Also, the UN Global Compact’s focus on the private-public partnerships is privatizing the development process, which as a result might decrease the capacity of governments to reduce poverty. In other words, the power is being transferred to the private sector and this can be seen as a problem, if sticking to the view that assures that the most basic issues in relation to poverty reduction are not in the best interest of companies (Thérien & Pouliot, 2006).

Another critique made to the UNGC is that it is up to each company to decide what elements will be reported on and which ones will be omitted since there are no formal reporting requirements. Being a non-binding initiative, it gives companies ambiguous parameters to measure their progress (Chen & Bouvian, 2009) which means that the continued adhesion of companies to the UNGC does not hold a correlation with their progress (Kuper, 2004; Runhaar & Lafferty, 2009; Thérien & Pouliot, 2006; Williams, 2004).

Finally, it is argued that many companies use their adhesion to the UNGC for bluewashing which means they participate mainly for image purposes and to overcome previous issues with stakeholders rather than for taking a strategic approach on CSR (Pjetursdottir, 2011).

2.4.2 The Global Reporting Initiative (GRI)

„The Global Reporting Initiative is a non-profit organization that works to help create a sustainable global economy by providing sustainability reporting guidance“ (GRI, 2013). The GRI can be adopted by corporate businesses, public agencies, smaller enterprises, NGOs and industry groups (GRI, 2013).

Sustainability reporting is the way in which organizations measure their impact on the environment, reflect on their performance and make the results available to the public integrating the economic, environmental, social and governance areas. The aim of doing this is to identify the accomplishments and failings of the organization, so that from those observations, the necessary changes can be made to grow as an organization while promoting a favorable influence on the environment and society as a whole (Orts, 1995).

The GRI’s services for its users and network broadened to comprise coaching and training, software certification, guidance for SMEs at the beginning stages of reporting, and certifying completed reports. Organizations many times use the GRI guidelines along with other sustainability frameworks and guidelines (GRI, 2010) such as ISO 26000 which will be briefly discussed in the upcoming subchapter.
In Iceland, on March 20th, 2012 the following was established by the Parliament regarding the GRI (Leifsdottir, 2013):


Presumably, the pressure put by this parliamentary resolution called the Green Economy, has been an important element in the progress that both the public and private sector in Iceland have made to become environmental and social responsible. Organizations have the common objective of complying with the non-legally binding resolution that the Parliament established in 2012 about companies and government institutions issuing reports following the guidelines of the GRI.

### 2.4.3 ISO 26000

ISO 26000 is becoming one of the most influential standards incorporated by organizations and is widely identified by stakeholders (Castka & Balzarova, 2008; Vol 2012).

Its most distinctive characteristic is that it offers guidance on how to operate businesses and organizations in a socially responsible way (ISO 26000, 2010), but does not provide precise instructions or request for specific outcomes which means it cannot be certified (ECOLOGIA, 2011). Instead, it gives organizations an instrument to regulate the changes required to embed the principles of CSR into their strategy (Castka & Balzarova, 2008).

Its purpose is to bring companies to terms with what social responsibility is, aid businesses and companies to translate principles into efficient actions and share best practices in connection to social responsibility. All kinds of enterprises regardless of their activity, size or location can benefit from the guidance of ISO 26000 (ISO 26000, 2010).

Besides encouraging sustainable development, adopting ISO 26000 into a company’s core business model intends to benefit the organization by helping it recognize paths of innovation, lower long-term risks, and boost competitiveness (ECOLOGIA, 2011).

In order to set priorities for improvement, ISO 26000 point seven core areas that socially responsible businesses should focus on (ECOLOGIA, 2011):

- Organizational Governance: developing accountability and transparency at all levels within the company by developing an organizational culture centered on values of social responsibility when making business decisions;
- Human rights: respecting all individuals while helping particularly the vulnerable groups;
- Labor practices: addressing workers’ concerns and granting just, safe, and healthy conditions for them;
- Environment: minding environmental impacts of the company’s operations including resources use and waste disposal;
• Fair operating practices: adhering to the law, exercising accountability and fairness when dealing with suppliers and other businesses;

• Consumer concerns: offering healthy and safe products, providing proper information and encouraging sustainable consumption;

• Community involvement and development: getting involved with the communities that the company deals with.

ISO 26000 seems to be an utterly comprehensive guide to CSR; however, in Iceland, there seems to be few companies that have implemented it.

2.5 Chapter summary

Corporate Social Responsibility is defined as the responsibility of a company in relation to the total impact it has on society including values within the operations, health and safety of employees, environmental standards, among other areas that have an impact on the society. If handled adequately, CSR encompasses principles and processes that intend to minimize the company’s negative impact and maximize the positive (Laszlo, 2008). In general, the new perception of the role of businesses in society has become a theme of interest for governments, civil society, and businesses that regard CSR as a platform to connect society and businesses (Frynas, 2005; Jenkins 2005).

Studies conducted for prolonged periods of time show a positive correlation between CSR and financial performance (Network for Business Sustainability, 2011a). By being socially responsible, organizations are positively recognized by customers (Crane & Matten, 2007), as well as employees who might feel more committed to their work when the company is perceived as a socially responsible one (Greening & Turban, 2000). Risk management is another important characteristic of CSR (Bonini & Görner, 2011). A positive impact on the overall competitiveness of business is a benefit of adopting CSR (EC, 2013).

The five drivers of environmental strategy proposed by Andrew Hoffman can be regarded as external drivers for organizations aiming to become corporate social responsible and they are: Regulatory Drivers, International Drivers, Resource Drivers, Market Drivers and Social Drivers (Hoffman, 2000).

The Global Environmental Management Initiative has elaborated a framework which includes six areas of value-creating opportunities considered as internal drivers for the organizations aiming to be socially responsible: Value in Regulatory Compliance, Value in Operational Efficiency, Value in Risk Management, Value in Capital Investment, Value in Market Growth and Value in Strategic Direction (GEMI, 1998, 2001, 2004a).

There are also identified barriers when it comes to adopting CSR among which the following can be mentioned: difficulty to understand that CSR is not peripheral to business, but rather it should be the core (Porter & Kramer, 2011); realizing that the priorities of stakeholders and others group have changed, and striving to cope with those new needs and expectations; substituting short-term perspective for long-term perspective by creating shared value; convincing the people in high positions of the importance of becoming a socially responsible organization (Laszlo, 2008); managing to report on the
organization’s process clearly and comprehensively enough (EC, 2011). At a global level, one of the biggest challenges regarding CSR is the absence of some figure addressing the common challenges and a lack of coordination, consultation and awareness between how governments establish policies and how companies handle business (EC, 2011).

In 2002, the United Nations Environment Program Finance Initiative proposed four types of barriers hindering companies from becoming active participants in addressing Anthropogenic Climate Change. These barriers are: Cognitive, Political, Analytical, and Market Operational (Dlugolecki & Loster, 2003) and they can be similarly applied to the sustainability business case. For the purpose of this dissertation a fifth barrier identified from the literature has been included: Lack of direct pressure (as cited in Johannsdottir, 2012).

In Europe, the European Commission exhorts companies to ground their approach to CSR on internationally recognized CSR guidelines and principles (EC, 2013). The prevalent type of company in the European Union is the SMEs and for most of them the way they show social responsibility tends to remain informal and intuitive (EC, 2013). The EC has identified three ambits of European policy that can be improved to strengthen the market recognition for responsible business conduct: Consumption, Public Procurement, and Investment (EC, 2013).

In Iceland, CSR has been gaining recognition gradually, but is behind in comparison to other Nordic countries (Johannsdottir, 2012; Thorsteinsdottir, 2009). For a long time, CSR in Iceland has been viewed mainly as charity (Steingrimsdottir, 2006); despite the progress made towards a more comprehensive understanding of CSR, it is still perceived as philanthropy by some companies (Sigurgeirsdottr, 2013). The lack of context, information, and knowledge is one way to explain the imprecise approach to CSR in Iceland (Steingrimsdottir, 2006). Other likely reasons for the limited corporate attention on voluntary CSR practices in Iceland might be: the small size and usually limited international transactions held by Icelandic companies; usually high standards for environmental protection, labor, and human rights; lack of pressure from stakeholders; lack of support on behalf of the Icelandic government; limited exposure to CSR related issues occurring in other European countries; and the absence of critical corporate wrongdoings implicating Icelandic organizations until the year 2008 (Thorsteinsdottir, 2009). The banks recognize the emphasis that was placed on CSR after the onset of the financial crisis in 2008 (Kristinsdottir, 2013). The leadership of managers and other people within the companies is the foundation for changes to take place at organizational level, and for those changes to be approached with positivism and with the understanding that it will bring benefits to all (Johannsdottir, 2012).

Festa is the Icelandic Center for Corporate Social Responsibility which was established in October 2011 as a non-profit organization founded by six Icelandic companies (FESTA, 2013). The mission of Festa is to be a knowledge center for CSR in Iceland, promote CSR related discussion in Iceland, support companies that would like to introduce CSR strategies, establish a network of companies who are interested in adopting CSR, cooperate with universities by encouraging research and teaching of CSR and work together with international CSR centers (FESTA, 2013).

In January 2015, a conference on Performance and Responsible Business in Icelandic Companies had a number of attendants that was greater than ever before which shows the
increasing importance of CSR in Iceland (FESTA, 2015). More people are realizing that being socially responsible is a win-win-win situation, that is, for companies, the society and the environment. There is still a lot of work to be done, for example, on how to write the reports, but it was recognized that companies that keep CSR away from their strategy will be left behind (FESTA, 2015).

A brief overview of The United Nations Global Compact, which is the world largest initiative on CSR; the Global Reporting Initiative, which is a non-profit organization that offers sustainability reporting guidance; and ISO 26000, which provides guidance on how organizations can handle business in a socially responsible way are included as CSR initiatives in this study.

3 Methodology

3.1 Introduction

In this chapter, the researcher describes the process followed while conducting the study that led to answering the research questions. The process includes: defining the objectives and research questions; contacting potential participants for the study (organizations); contacting FESTA (Icelandic Center for Corporate Social Responsibility); contacting companies that FESTA suggested could be interested in participating in the research;
visiting fields to gather data through interviews and observations (data collection); presenting the collected data and analyzing it.

3.2 Objectives, Research Questions and Epistemology

The empirical objective of this study was to examine some companies in Iceland to investigate how they perceive corporate social responsibility with a focus on reactivity versus proactiveness and on what they find to be the benefits and challenges of becoming or being socially responsible organizations.

The theoretical objective of this study is to set a foundation for future research and theorization on the situation of corporate social responsibility in Iceland and other related topics that address sustainable development too.

3.2.1 Research questions

The research questions answered in this study are the following three:

What are the reasons that make a company switch from having a reactive approach to a proactive one in relation to handling business sustainably in Iceland?

What are the benefits that companies in Iceland perceive in adopting CSR?

What are the challenges that companies in Iceland face when attempting to adopt CSR into their strategy?

Even though, the three research questions of this study are formulated using the interrogative word „What“, the three of them together when responded by the participants and analyzed by the researcher, answer the question „How“ CSR is perceived by some companies in Iceland. This is a kind of question that is commonly used in case studies (Yin, 2009) such as the present one.

3.2.2 Epistemology

The aim of the present study is to broaden the understanding of a current phenomenon and the epistemological root is from social constructionism.

The eight principal elements of social constructionism are: the observer is a part of what is being observed; human interests are the main drivers of science; findings aim to widen the general understanding of a situation; the research develops through the collection of data from which ideas emerge; concepts should include stakeholder viewpoint; units of analysis represent the complexity of the given situation; generalization is done through theoretical abstraction, and sampling requires small numbers of cases chosen for particular reasons (Easterby-Smith, et al., 2002).

Since the objective of this research is to identify the understanding and views that employees in different companies in Iceland have about CSR, the theoretical perspective of
the research is rooted in *phenomenology* which is an approach that seeks to understand the world from people’s perspective (Taylor & Bogdan, 1998). The paradigm behind the research is *pragmatism* meaning that it focuses on the outcome of the research (Creswell, 2007).

In order to gain understanding of the subject of research, qualitative methods were used in the present multiple-case study (Creswell, 2007). This includes designing of the research, collecting data, analyzing, and presenting the data (Creswell, 2007). The primary source of data was interviews.

### 3.3 Contacting companies and FESTA

In relation to the companies chosen to be interviewed for the purposes of this research, in the beginning a few small and medium enterprises were contacted randomly by the researcher, but since the potential interviewees either refused to talk about CSR or simply accepted they knew nothing or little about the topic and declined to participate, the researcher decided to ask FESTA for orientation. FESTA being a consultancy agency in Iceland specialized in CSR pointed out some information that helped the researcher reach for companies that consented to collaborate with the study.

The fact that the small and medium companies that were chosen randomly preferred not to participate in the study opens the door to make inferences about the stage of progress in relation to CSR practices at this level in Iceland.

Having contacted FESTA changed the original course of the study since the sample of companies turned out to be one that had already had contact to some extent with the CSR approach. However, this does not necessarily mean that all the participants were experts on the subject, and it could be seen throughout the field investigation the different degrees of familiarity that each of the companies has with CSR. In the end the number of organizations included in the research is seven out of which one is small, three are medium, and three are big-sized. They are also different in their legal forms, ownership, and core focus (Johannsdottir, 2012). This means that the sample is varied and it gives the opportunity to come closer to having a general view of the evolution of CSR practices in Iceland.

### 3.4 Data collection

Data was collected in the participants’ natural work environment (Creswell, 2007), and the interviewees were promised anonymity; therefore, reference to them is made by using the initials of a name that does not correspond to their real names. Interviewees were either executives or specialists who have had at least some degree of contact with the CSR approach within the organization that they represented at the moment of the interviews. They were contacted in the first place either by phone or via e-mail. During this first communication, the researcher introduced herself and explained the purpose of the research and the reason why they were being asked to participate. Some people demanded for more details than others. After the formal introduction, a date and time was agreed for the researcher to come to the participants’ office to make the interview. The interviews which were of a semi-structured kind, lasted between 30 and 40 minutes and were recorded.
entirely with the previous authorization of the interviewees. None of them read the questions previous to the interview. Interviews took place during the months of April and May 2013. In total, seven people were interviewed; that is one person for each company.

3.5 Analysis of Data

The analysis of data started alongside the collection of data (Johannsdottir, 2012). Having been recorded, the interviews were listened to by the researcher in several occasions to create a word by word transcript of each of them making sure that all details were covered. Listening to each interview many times allowed the researcher to realize elements that had escaped her during the interview itself. Comments and observations were added in a separate notebook.

Afterwards, the transcripts were read thoroughly, but then the attention was focused on classifying themes that emerged from the data. Initially the big themes were: economy, society, and environment. Eventually, those three big themes were sub-grouped to see if they belonged to any of the research questions (i.e. proactive and reactive CSR, benefits, or challenges). Finally, each item was identified in the classification of the five external drivers proposed by Hoffman, the six value-creation classification proposed by the GEMI and the four types of barriers when addressing ACC proposed by the United Nations Environment Program Finance Initiative. This way of classifying the information made it easier to organize and present the findings of the research.

4 Results

In this section, the findings derived from the interviews will be presented. The chapter is divided into three sub-chapters, each corresponding to one of the three research questions which are: what the reasons that make a company switch from having a reactive approach to a proactive one in relation to handling business sustainably in Iceland are; what the benefits of adopting CSR are; and what the challenges in adopting CSR are as perceived by companies in Iceland.

The five drivers of environmental strategy proposed by Hoffman, the Global Environmental Management Initiative (GEMI), and the four types of barrier hindering companies from engaging in addressing Anthropogenic Climate Changes (ACC) proposed by the UNEP FI (United Nations Environment Program Finance Initiative), are the frameworks used to portray the findings gathered from the interviews for the purpose of this dissertation.
As suggested by Corden and Sainsbury (2006), the findings are introduced by using quotations. The rationale behind this is that quotations from the direct source help the reader reach a deeper understanding of the topic since quotations provide examples and display evidence that reinforce the validity of the study (Johannsdottir, 2015).

### 4.1 From reactive to proactive

The aim of this first results sub-chapter is to present the response obtained from the interviews made to the participant Icelandic companies regarding the reasons why organizations evolve from a reactive to a proactive approach when it comes to CSR.

The framework that will be used to organize this part of the results is the drivers proposed by Hoffman that have been described in section 2.1.2.

#### 4.1.1 Regulatory Drivers

Businesses are subject to regulations of different kinds depending on their characteristics and it is their obligation to comply with them. Some of the people interviewed explained that following regulations is essential, but, when it comes to CSR there should be also conviction to be proactive, not only obligation. One of them mentioned:

*There are many regulations which the company has to follow, but we want to go further than that (H.)*

When organizations realize that complying with environmental and societal standards and regulations adds value to business rather than only representing a cost to it, companies stop acting exclusively out of obligation since doing so, as one of the interviewees affirmed, is not the same as being corporate social responsible:

“No CSR is what companies do on a daily basis out of the conviction that being socially responsible, more than signifying a cost, it brings value to the company. Just following legislations without realizing the value it adds, is not CSR. It might be a pre-requisite for being socially responsible, but is not enough” (B.)

#### 4.1.2 Market Drivers

Strong tendencies in relation to customers, competitors, trade associations and consultants are decisive for the development of companies; therefore, it is in companies’ best interest to listen to what the tendencies are, learn, and adapt to them in order to be competitive. An interviewee said:

*People follow a positive image. If they don’t see us as a natural and responsible company, they will not be so interested in reaching for us (E.)*

Similarly, another participant expressed:

*The market in Iceland is changing. We can feel it because there are customers that call or send electronic mails asking about the processes within the company (H.)*
Trade associations are also considered to be a market driver and some companies mentioned them as a strong reason to approach CSR proactively:

Companies also want to trust other companies. In order to deal with them they also have to be responsible (S.)

### 4.1.3 Social Drivers

The significance that the onset of the economic crisis in 2008 had in companies in Iceland was mentioned repeatedly during the interviews using different examples. The modifications that companies had to make to cope with the changes and become proactive came partly from society’s demands. As one of the respondents stated:

*It is not enough to be profitable and pay taxes, it is not enough. I think it started after the crisis that there were more demands from society for companies to act responsibly towards employees, the community, customers, etc.* (J.)

Another interviewee said:

*After 2008 people stopped trusting companies, yes especially the banks, but not exclusively. And if people don’t trust companies, companies are in big trouble. Companies have to comply with society’s demands* (L.)

Also, regarding how important it is for companies to act proactively being responsible, adapting to what society requests, another participant mentioned:

*“There is an increasing amount of people that want products that are not made by kids in Asia. They want healthy products made by responsible companies. By being CSR, companies show people what they are doing, become more transparent and people want that in Iceland now”* (R.)

The influence that social drivers has on companies which help them to realize the importance of adopting CSR proactively, was explained as follows:

*By adopting CSR, showing people what we are doing, that we are not draining their money and giving it to the executive, people will trust us more, buy our products. We want that. It is a more than enough good reason to do this and do it the right way* (E.)

Regarding the work force, it was mentioned by the interviewees, the importance of employees as one of the stakeholder groups that has a very direct influence on the company’s operations, and therefore a great impact on the decisions. One of the respondents said:

*By incorporating CSR into the company’s way of proceeding, employees are happier and prouder and satisfied. Both because of how they are treated in the company and because it makes them proud that they work for a responsible company* (S.)

Yet another participant said:

*It is easier to get better employees if the company is working with CSR* (B.)
In general, the interviewees emphasized that by behaving responsibly towards society as a whole, businesses nowadays become pioneers which brings along recognition and a positive reputation.

According to the interviewees, the main reason for becoming proactive in relation to CSR, rather than taking action out of obligation is that when understood properly and acted upon accordingly, CSR can only signify benefits for the company and for society. As explained by one of the respondents:

“It is about doing right from the beginning. Regardless of whether you are a small or big organization, if you have a robust, scientific definition of what sustainability and CSR is, it is very easy to start with the steps and it will only save you money. It is understanding what it is. It is being part of the solution instead of adding to all the problems like we see in the unsustainable linear production pattern that is predominant still” (S.)

4.2 Benefits of CSR as perceived by Icelandic companies

This sub-chapter shows the views of the respondents regarding the benefits that CSR signifies for companies in Iceland. It is structured according to the GEMI classification described in the literature review of this dissertation in section 2.1.2.

4.2.1 Regulatory compliance

The results demonstrate that companies see a benefit in pursuing CSR, because they recognize that complying with regulations implies saving money for the company and yielding value to business, particularly, once the necessary changes have been implemented which, eventually, translates into economic profits. In the words of one of the interviewees:

We need CSR because what we get out of it is a better company, of course. By complying with the regulations we benefit in many ways including being more profitable which is a good goal in itself (L.)

Yet another participant affirmed:

A benefit of CSR is that when companies follow the rules, it brings value to the company (S.)

4.2.2 Risk management

It is observed from the present research that the people interviewed agree on the idea that the financial collapse in the year 2008 was a driver of change by making companies realize the benefit derived from risk management at organizational level in order to handle business successfully:
If banks in Iceland hadn’t collapsed in 2008, companies might have taken longer to realize that they benefit from managing risk and acting responsibly in general. The whole process would have taken longer (H.)

To explain how risk management plays an important role on how companies regard CSR as beneficial one of the respondents said:

„If we understand better our own processes, the forces that affect our clients and the corporation, we can better tackle the risks, we can better deal with the risks, evaluate our projects, and what affects society. We are reducing our risk by dealing with society-related issues, reducing our reputation risk and that is the main benefit of CSR: being responsible, thus, minimizing everybody’s risk” (J.)

4.2.3 Market growth

Adopting CSR is beneficial for companies, because it propitiates market growth by becoming trustworthy organizations that incorporate environmental initiatives, which are increasingly important for many consumers. An interviewee said:

„Market growth is the result of handling business with transparency, accountability, fair operational practices and anti-corruption. But, market growth is also the result of addressing costumer preferences. For example, environmental friendly products are becoming more and more popular and this is a tendency that cannot be ignored by companies in general. Businesses benefit from being transparent, accountable, and from satisfying consumers’ preferences” (R.)

The investors, employees and customers develop a stronger bond with the company if they believe that society´s needs and well-being and the environment are considered seriously in the decision-making and else processes within the company:

*If people trust the company, they will buy their product which translates into market growth (H.)*

Similarly, another respondent explained:

*The company benefits, because we are making our customers more satisfied and more loyal, and also, attracting new customers, because we are doing business the good way (S.)*

4.2.4 Strategic direction

By adopting CSR as part of the company´s strategy, organizations attract investors and enhance their market positioning that accordingly implies more business opportunities which closes the circle by resulting in profitability for the companies.

*We have to earn money and CSR as part of the strategy is a way to increase our market and competitiveness as a whole (J.)*

Another interviewee expressed:
The benefits of CSR can only be perceived if it becomes part of the company’s strategy. This includes setting goals, taking action in respect to the goals, observing the progress, then measuring the progress and reporting on it. Of course, that takes time (L.)

4.3 Challenges of CSR as perceived by Icelandic companies

This third and last sub-chapter of the results section is built upon the framework proposed by the UNEP FI which includes four types of barriers that hinder companies’ actions to address ACC as described in section 2.1.3. These four kind of barriers plus one (i.e. lack of direct pressure) is used to organize the results regarding the challenges that companies in Iceland face when it comes to adopting CSR into their business strategy.

Even though, the challenges disclosed in the interviews expose many of the obstacles acknowledged in the literature, there are some others that seem to be particularly related to the Icelandic context. This will be further referred to in the discussion section.

4.3.1 Cognitive barriers

According to the interviewees, one of the challenges that companies in Iceland face is to really understand what CSR is about:

*The idea is new. People do not know it. It is an issue that takes time. It is like offering a new service. Some people buy it right from the start and some people do not do so (E.)*

Related to the statement made above, it was also brought forth in the interviews that:

*People are afraid to start because they feel completely ignorant about sustainability and CSR related topics and they have a hard time accepting it (R.)*

Cognitive barriers include threats to one’s own interests, distrust or overconfidence, and fear of the unknown. One of the participants said:

*I think people are afraid of it (CSR). They don’t know enough about it. It scares people off (B.)*

As expressed by some of the interviewees, it difficulties things the fact that there are many labels, constantly emerging new terminology, and other elements to take into consideration along with having to be able to distinguish the real from the fake within the field. One of the interviewees stated:

*It is like a forest where it is hard to find your way through. The more I speak about CSR, the more I am lost. There are so many terms and it gets very bureaucratic. It is a good idea, but complicated (S.)*

In order to act accordingly to the norms established by CSR, the necessary modifications require deep changes at all levels (i.e. individual and organizational). This demands will, true commitment and effort:
It is much about discussing, changing the organizational culture, changing the way people think and that is not an easy thing to do (J.)

Some of the participants mentioned that one of the biggest challenges to overcome is the difficulty to cope with changes:

“There is people who say they don’t believe in any of this. There is no need to recycle, there is no such thing as climate change, etc. But they say this because it is easier. If there is no problem, there is no reason to change. Change is always painful. People kind of hide behind it” (H.)

Usually, changes within an organization are suggested and encouraged by people in high positions like CEOs. A few participants emphasized the importance of the CEOs’ initiative to implement CSR as part of the company’s strategy and the obstacle it represents not having that support. One of the interviewees said:

The CEOs and the managers have to be convinced that CSR is something we need to focus on. This matters. Otherwise, no significant changes will occur (L.)

Regarding why it has taken long time for the CEOs to adopt the CSR approach into the organizations one of the respondents expressed:

How you tackle your business is a huge task on its own and then you have to think of how to influence the environment external to the company. It is a demanding effort and it takes time to understand and assimilate it (E.)

Statements made by the interviewed people reflect that one of the things that companies and the general public finds difficult to understand at first is that CSR is not exclusively related to protecting the environment, but also to benefiting the business itself. As one of them said:

Most Icelandic people think that CSR is something related exclusively to the environment; good for the environment, but not something that is beneficial for the company also (R.)

A lack of conscience regarding how it has become seriously important for humankind to behave responsibly towards the natural environment, has been another reason why companies have failed to take action more rapidly. In the case of Iceland, according to some of the interviewees, the fact that Iceland is an isolated country surrounded by almost untouched nature, has made it difficult for Icelanders to recognize the urge to act upon:

Many people in Iceland believe environmental problems are other countries’ problems. We have the luxury of having a big country where there has always been enough space to pile up the trash (L.)

As part of the difficulty that it represents to understand the holistic nature of sustainability, another point observed from the interviews was that in the early stages towards adopting CSR, some companies fail to see the difference between philanthropy and being socially responsible. One respondent shared:

In Iceland, unlike other Scandinavian countries, there is still a spread belief that philanthropy and CSR is the same. It is changing, though (S.)
The challenge it represents to make people realize that philanthropy and CSR is not the same was also brought up as follows:

“In our company, we understand that thinking of the society is not only about giving away money for this or that. There are many ways for a company to show social responsibility. Unfortunately, not everybody understands this, or they lack the creativity to do something different on this respect” (E.)

4.3.2 Political barriers

Lacking some kind of political framework addressing CSR related issues, the actions of the private sector can be delayed or impeded. For this reason, among others, it is the case that CSR might be in the agenda lingering for quite some time before it becomes feasible for certain companies:

“We are aware that we should adopt CSR, but not having some kind of encouragement or support from the government it is hard to get started. For instance, we were thinking about the UNGC’s ten principles since 2007, but it was not until April this year (2013) that we signed and became members of it” (J.)

In order to help companies adopt CSR more effectively, people recognize the importance of overcoming the division between the public and the private sector to work jointly instead:

*Things work better when companies and the government work together* (H.)

Another interviewee expressed:

“It is important to work together with the government at more than one level. For instance, let’s just talk about a very simple situation: A company and the government cooperating to fix a playground close by so that the whole community can benefit. When companies and the government work together many things can be done. We know that. But the existent cooperation is not strong enough” (E.)

The government putting sustainability related issues aside is believed to be one of the reasons why companies in Iceland have taken a longer time to consider CSR in a serious manner in comparison to other countries:

*If you just look at politics in Iceland, “green” issues are not at the top of the agenda. They are not a priority* (S.)

4.3.3 Analytical barriers

It was mentioned by the respondents that it is sometimes hard to get the workers to be as fully involved as it is necessary in the process of infusing CSR in the organizational culture. In spite of the efforts there is always people that are more reluctant than others to cooperate. This reluctance on behalf of some employees, though, can be attributed to insufficient information and analysis in connection with the CSR topic:
“The reason why people are living unsustainable lives and taking a lot of unsustainable decisions each and every day privately and professionally, is not that they are stupid or mean. It is just that they lack the knowledge. When people, for example, our employees acquire knowledge about sustainability and CSR they want to contribute almost automatically. Both educated and uneducated people. They all want to survive, want to contribute to society, want their kids to have a healthy life. They just need the tools to do so” (S.)

The importance of offering clear understandable information to employees as a step to surpass analytical barriers was mentioned more than once:

*We have to work with employees, try to change their behavior by making them understand CSR* (R.)

According to the interviewees, it is necessary to find an effective way to overcome the lack of education on CSR matters within companies. It is not enough only to instruct employees to do things differently, but it is utterly important to provide them with a steady foundation on what the rational behind CSR is:

*Organizations have to have a talented presenter explaining sustainability and CSR in a good, clear, and engaging way for employees to buy in the concept* (L.)

Education is one of the words most often mentioned by the participants of this study as they refer to it as the key factor to adopt CSR successfully. One of them said:

*What I think is that whether you are a one-man company or a big company, it is a question of leadership and education. The rest will follow* (J.)

From the interviews it is also possible to perceive that another element that organizations consider to be an obstacle when having the intention to adopt CSR into their way of handling business is that, particularly, the smaller companies cannot afford or are not willing to pay the wage of a specialist to focus on this. The size of the company does not matter when it comes to CSR, but this is not understood by everyone. A participant expressed:

*You want to do things right, but when you have little money in your hands you say: „I can’t afford thinking about this stuff (CSR) “*(E.)

According to one of the respondents, one of the reasons why companies find it challenging to introduce the concept of CSR is that:

*It is too complicated or too risky to put so much time and effort on it being the situation as it is. We are dealing with an uncertain market in the current world scenario* (H.)

Lack of sufficient information and analysis in combination with some cultural traits was mentioned as part of the challenge that is represents for companies in Iceland to adopt CSR. An interviewee said:

“…CSR is a concept that requires long-term thinking and businesses in Iceland have always tended to operate with short-term thinking. We are not like Chinese people thinking
two hundred years ahead. Especially after the economic crisis in 2008, companies in Iceland want to make it to the next month” (R.)

Through the interviews it was revealed that another problematic constituent of adopting CSR is how to measure the progress made and this is also due to missing knowledge and experience. A participant brought forth:

*It has also been difficult to measure the progress. From the beginning thinking of having to measure the progress felt like a big challenge* (H.)

Yet another respondent mentioned:

*The question of how to measure it, we are still figuring it out. We lack the experience* (L.)

The participant companies are aware that there is a variety of tools available to introduce them to measurement methods such as the ones provided by the UNGC, the GRI, and ISO 26000. Some of them referred to these measurement methods as easy to handle:

*The UN Global Compact is clear and accessible. Their work is really great. They are very efficient at answering our questions, for example. I am glad we are going this road* (H.)

However, some other participants referred to these tools as complicated. According to them, ISO 26000 is especially difficult to learn. They fear failing to handle the tools properly. In the words of one of them:

*ISO 26000 is complex. You really do not know where to begin, where to end* (B).

### 4.3.4 Market operational barriers

It was expressed in the interviews that another challenging aspect for businesses intending to adopt CSR is how to communicate with stakeholders. One interviewee explained:

*What we found in the beginning to be difficult was to communicate with customers to let them know what we are doing* (H.)

In this respect it was stated that it goes in both directions: It is difficult to show stakeholders concisely the methods and processes followed by the company to demonstrate that they are proceeding responsibly, and also, it seems complicated for companies to get to know specifically what stakeholders expect from them:

*We have an idea of what stakeholders expect from companies in general; however, it would help to have a clearer understanding of their priorities regarding the particular kind of products and services we offer, in order to focus on that to start with* (J.)

### 4.3.5 Lack of direct pressure

According to the respondents, the majority of people in Iceland still prefers lower prices over responsible buying. One of them affirmed:
In surveys we have asked people if they would be willing to pay more for “green” products and the predominant answer is: no (S.)

Similarly, another interviewee said:

If the products will cost more, people will not pay for them. Not even if they are better products like organic, fair trade, etc. (J.)

5 Discussion

In this chapter, the results presented in the previous section will be discussed and it will be divided, for purposes of clarity, in the same way as the rest of the dissertation: The first sub-chapter will focus on the reasons behind moving from acting out of obligation to taking a voluntary and strategic approach to towards adopting CSR, the second sub-chapter will discuss the results related to the benefits of CSR and the third sub-chapter in this section will refer to the challenges of adopting CSR in companies in Iceland.

5.1 From reactive to proactive

Regulatory drivers aim to encourage businesses to endorse environmental laws by offering them incentives to protect the environment (Hoffman, 2000). According to the findings, the importance of complying with regulations is clear; however, the trait that makes a real difference is doing it out of conviction rather than exclusively out of obligation. This is the turning point from having a reactive to a proactive approach on CSR. Once the companies realize that following the rules regarding both the environment and society adds value to the corporation the shift occurs.

Supporting already published literature that reveals that socially responsible organizations increase their chances of being positively recognized by customers (Crane & Matten, 2007), market drivers were often mentioned by the interviewees as one of the good reasons to become proactive in the approach to CSR. Customers, was actually the group of
stakeholders that the participants of this study referred to predominantly. The importance of trade associations and competitors as a market driver was also mentioned, although, not as much. Consultants are also putting environmental concerns as a priority, pressuring companies to act responsibly to satisfy the market demands (Hoffman, 2000); however, this group was not mentioned often in the interviews. It is not possible to establish whether this is because they are not considered to be decisive, or because a broader view on market drivers is missing in companies in Iceland. This could be connected somehow to the lack of pressure that companies feel, which in turn, is one of the possible causes for the delayed progress of companies in Iceland to become socially responsible.

Corporate social responsibility is defined as a company’s responsibility for the total impact it has on society (Laszlo, 2008). The Icelandic companies that took part in this study show a considerable degree of awareness about the importance of satisfying society’s demands as a way of promoting growth for their business; therefore, adopting CSR is regarded as a good option. In this respect, according to the interviewees, and in accordance with the literature, the economic collapse in 2008 was a turning point in how companies in Iceland handle businesses (Kristinsdottir, 2013; Vol, 2012). As it was mentioned by several respondents, it was not until the onset of the crisis that some companies started to contemplate CSR as an option to be considered seriously and since then the number of organizations heading in this direction has been increasing slowly, but steadily. The participants made clear that many companies acknowledge the growing importance of acting responsibly towards society in general which includes their employees, costumers, the community, etc.

Employees, being a key stakeholder group, tend to be more interested and feel committed to their work when the company is perceived as a socially responsible one (Greening & Turban, 2000). This statement was supported by the interviewees who see a connection between the company’s way of proceeding and the level of satisfaction and commitment of the employees towards the company, both because of the way they are treated and because they feel proud of working for a responsible organization. When a company is socially responsible, its work force enjoys a healthier work environment which consequently encourages them to perform better. It could be said that it creates a cycle of: feeling proud–performing better–feeling proud.

As one of the reasons to approach CSR proactively, the interviews reveal that the participants are aware of the fact that sustainability related topics such as CSR are becoming an intrinsic part of the business world at a global level, thus leaving Iceland with not much of an alternative than to follow the trend in order to remain competitive instead of being left behind.

It can be noticed that out of the five drivers proposed by Hoffman, there are two that were not mentioned by any of the participants: International Drivers and Resource Drivers. This calls for attention and only further research in this respect might clarify the reasons why these two drivers seem to be less decisive than the other three in the Icelandic context.

5.2 Benefits of CSR

It can be seen from the literature review, as well as from the findings derived from the interviews, that CSR is believed to be advantageous for organizations and for society when
it is rightly understood and adopted. It might take time to adapt to the processes of CSR, but it is achievable and worthy when companies set clear goals, take action in respect to the goals, measure the progress and report on it.

Regarding the aspect of regulatory compliance, some participants support the literature when it comes to the positive connection between CSR and financial performance (Network for Business Sustainability, 2011). It seems to be that before the crisis, many companies that were following some regulations connected to CSR, did it mainly out of obligation, which is not the same as CSR. Since then, many organizations in Iceland have come to understand that regulatory compliance founded on CSR signifies benefits for them. Once people reach an understanding of what CSR is, they recognize that it promotes returns on capital, which according to Bonini & Gorner (2011) is one of the three most important benefits of CSR.

The interviews show that one of the benefits of adopting CSR into the strategy of companies is the value-creating opportunity derived from risk management. Controlling environmental risks can prevent important costs for organizations (Anderson, 2005, GEMI, 1998, Hoffman, 2000). If companies understand their own processes, they can better tackle the risks and reduce them. Being responsible, thus, minimizing everybody’s risk, said one of the participants, is the main benefit of CSR.

Consumers are increasingly preferring environmental friendly products and, in general, companies that are socially responsible, which means that companies that adapt to this new demand from customers will boost market growth reaching new markets by innovating in this direction (Bonini & Gorner, 2011). In Iceland there seems to be a divided opinion on this. The majority of the participants agree that customers are starting to prefer environmental friendly products and companies; therefore, they emphasize the urge of coping with this demand to boost market growth. For these companies, it appears that the most important stakeholder group is customers, but they acknowledge that through being responsible organizations, they expand their possibilities for doing business by improving their image among all kinds of stakeholders including qualified working force. Nevertheless, there are other participants that affirm that a big part of the Icelandic public chooses lower prices over “green” or responsibly manufactured products. It might be the case that people care to a certain extent, but not enough to be willing to pay higher prices for such products. Research in relation to patterns of consumption in Iceland might be interesting and helpful to reach a better understanding in this respect.

The value-creating opportunity derived from operational efficiency was not mentioned directly by any of the participants in this study. Value from operational efficiency can be summarized as the value added at operational level that results from finding innovative ways of doing more with less resources and handling resources more efficiently (GEMI, 1998, 2001, 2004a, Hoffman, 2000, Johannsdottir, 2012). One possible explanation for why this aspect was not mentioned is the presence of analytical barriers, which means there is still insufficient flow of information and analysis on CSR matters. However, the participants did refer to the value added in relation to risk management which, according to the literature, is closely related to operational efficiency (Anderson, 2005; GEMI, 1998; Hoffman, 2000).

Value in capital investment was not mentioned either by the interviewees. The purchase of new sites, construction of facilities, and start-up or redesign of manufacturing lines and
new products are examples of capital investment which can lead to reduced uncertainty of corporate transactions and improved equipment acquisition decisions (Hoffman, 2000). It might be the case that the participants in this research assume that by identifying CSR as beneficial as a whole, aspects such as value in capital investment are naturally included as part of it. Another reason could be that the lack of incentives on behalf of the Icelandic government and banks to organizations that aim to be socially responsible discourage them.

5.3 Challenges of CSR

Despite the fact that many companies recognize that in the long-term CSR will only add value to the firm, in the beginning it might seem overwhelming having to add to the well-known routine, the thinking of how to influence positively the environment and society outside of the organization. The findings reveal that in Iceland companies in general are aware that adopting CSR is beneficial for them; however, after this recognition a lot of research has to be carried out in order to adopt CSR appropriately. Companies face different challenges along the way towards becoming socially responsible as it can be seen in the results.

Out of the five different kinds of barriers that were used to divide the results obtained from the interviews the two areas that were brought to the surface consistently belong to the denominated cognitive barriers and analytical barriers. This in itself says a lot about the study as a whole, since it seems like lack of comprehensive understanding of CSR is the root of the other issues that are perceived as challenges or obstacles.

Cognitive barriers being described as internal barriers caused by fear of the unknown (Hoffman & Bazerman, 2007), include the failure to realize the interconnectedness between the environment, society and companies’ bottom-line performance (Johannsdottir, 2012). According to the participants, CSR as such is new or relatively new in Iceland; therefore, a concept that many still feel “afraid” of because they feel ignorant about it. Apparently, the better people understand CSR the more likely they are to head in that direction.

Interviewees emphasized the decisiveness that CEOs play when it comes to changing the strategy of the company in order to adopt CSR proactively. This view goes in accordance with the literature which presents the issue of convincing the people in key positions of the importance of CSR as one of the biggest barriers towards becoming responsible organizations. Leadership and support from CEOs is decisive and neglecting this fact is still a challenge to overcome by many companies around the world (Laszlo, 2008). Iceland is not the exception. It might be the case that for CEOs it is not always easy to accept that they know nothing or little about certain topics such as CSR or sustainability in general. It is a cornerstone in the process of becoming socially responsible to admit that there is a knowledge gap and work to fill that gap from the highest positions down within the organization. The leadership of managers is the key for changes in connection with CSR to be approached with positivism and with the understanding that it will bring benefits to all (Johannsdottir, 2012).

Another barrier in the process of adopting the CSR approach into the strategy of a company is to fully understand that CSR is not peripheral to business, but rather it should
be the core (Porter & Kramer, 2011). It is revealed in the interviews that many companies in Iceland still see CSR mainly as a way to protect the environment and fail to understand the interconnectedness between this and promoting better business opportunities. Similarly, some of the participants expressed that for a long time CSR in Iceland has been viewed mainly as charity. It is not clear enough yet that CSR is more than only thinking of the society and the environment (FESTA, 2013). All of this together, suggests that it is necessary to increase the knowledge of what CSR is, so that both the companies and the public can change their views on it. Nevertheless, as some other aspects that have been treated throughout this study, progress is being made steadily in this direction.

A more successful inclusion of the CSR approach within organizations might be expected if all employees are acquainted with the reasons why it is positive to make changes, how each of them is an important part of the process (Dhanesh, 2010), and therefore required to be committed to the cause. Some interviewees mentioned the necessity of providing the employees at all levels with a steady foundation of what the rational behind CSR is in order to succeed. According to the participants, it is not enough to instruct the work force only on how to do things differently, but also to educate them so that they can understand the reasons why it is crucial for companies to start doing things differently. Doing so is necessary to change the organizational culture.

Another aspect that surfaced throughout the interviews is that some organizations believe that the size of the company represents a challenge for the small ones. It is revealed from the responses that people think that shifting to become a socially responsible organization costs a lot of money, therefore, the small ones that in many cases are struggling to make it to the next month, see this as an unviable option for them and do not look further. This issue falls within the category of analytical barriers, because it shows lack of understanding that prevents people from finding out information related to CSR that suits the characteristics of their company. The GRI and ISO 26000 have guidelines that are applicable to corporate business, public agencies, smaller enterprises, NGOs and industry groups which are interested in becoming more sustainable regardless of their activity, size or location (GRI, 2013 & ISO 26000, 2010). Companies that still believe that CSR is suitable exclusively for the big companies that can afford it, and which do not search for alternative solutions such as consultancy, for instance, they create some kind of imaginary barriers between them and the possibility of becoming sustainable businesses.

Related to the aforementioned, it is revealed that lack of financial resources is one reason why, in particular small organizations, refrain from creating a permanent position for a CSR specialist within the company. Consultancy has been gaining recognition and this seems to be a viable option for companies which have experienced this as a challenge. FESTA, the Icelandic Center for corporate social responsibility, provides information about available consultancy services in Iceland. One of the positive aspects of considering this kind of service is that it shows that people are increasingly recognizing the significance of cooperation and working together to achieve goals that are beneficial for everyone.

Most companies continue to view value creation narrowly, prioritizing their short-term financial performance, overlooking the needs of customers and the broader influences that affect their long-term achievements (Porter & Kramer, 2011). Short-term planning, rather than long-term planning, described as a characteristic trait of the way Icelanders handle businesses was another reason mentioned in connection with why adopting CSR has
proven to be challenging for many companies in Iceland. A couple of interviewees compared Icelandic people with other cultures such as the Chinese to exemplify the difference between short-term planning and long-term planning in relation to businesses. This brings forth an interesting question for future studies regarding how much influence it can have in the culture of the country if more and more companies succeed in changing the culture at organizational level.

Also, measuring the progress was one of the challenges mentioned by more than one of the participants of this study. The literature review of this dissertation mentions a study conducted in 2011, which shows that companies incorporate CSR to their strategy and report on it, because it ameliorates their reputation, although it can augment their costs (EC, 2011). Regarding the challenge that measuring the progress and reporting on it represents, two aspects surfaced in the present study: on one side the costs that it involves and on the other side the difficulty in the creation itself of the reports. As described in the literature, the costs it represents to measure the progress and create CSR reports, in the end will add value to the company as a whole (Hoffman, 2000). In relation to the challenge of creating the reports there seems to be more than anything else a lack of experience on it, but the participant companies are trying to overcome this obstacle by getting familiar with different initiatives such as the UNGC, the GRI and ISO 26000. Companies find it difficult, for instance, to select what to report on, to identify how sensitive different data are and to learn how to organize the content (EC, 2011).

Consultation and coordination between the government and the private sector is an important aspect for organizations to get involved with CSR (EC, 2011). Regarding the so-called political barriers, the participants of this study expressed that companies in Iceland realize that when companies and the government work together, the processes evolve more easily. They also acknowledge that the lack of a political framework addressing CSR related issues in the country is one of the reasons why companies in Iceland have taken a longer time to adopt CSR in general. The participants, alike the literature, mentioned in this respect that the dominance of center-right politics, which sets economic growth as a priority and pays less attention to social and environmental issues, has slowed down the progress (Thorsteinsdottir, 2009). They claim that “green” issues have not been a priority for the government and companies resent the missing cooperation. Although it was not mentioned explicitly, it gives the impression that companies in the private sector which have made progress towards becoming socially responsible have done it mainly out of own initiative. However, after the Parliament set a time framework for all kinds of organizations in Iceland to make reports based on the GRI (The Parliament, 2012), there is more pressure. It seems that what might be in need of improvement is managing to join the efforts of the public and the private sector.

According to the literature there are different aspects that are considered within the so-called market operational barriers. They can be the result of inadequate government interventions through public policy, subsidies, and other structural incentives, but they can also derive from lack of information or inaccurate information flowing across producers in relation to nature of supply and demand, and between producers and consumers regarding product attributes (Johannsdottir, 2012). Out of this, it was mainly the difficulty of communicating the product attributes to the consumers the aspect that surfaced in some of the interviews in this study. For some companies in Iceland it has represented a challenge both to get to understand what their customers and stakeholders in general expect from them as organizations and, also, to communicate to customers the progress they have made.
in becoming socially responsible. Nevertheless, it seems that this is not a difficult challenge to overcome. It only requires finding the best ways to share information adequately.

From the interviews it can be said that lack of direct pressure seems to be another aspect holding Icelandic companies behind in the process of adopting CSR. In Iceland the needs of customers regarding environment and society friendly products and services is still unclear. As it has been discussed previously, there are contradictory views regarding consumers’ demands in Iceland and companies seem to still go predominantly for the short-term planning without putting as much effort as they could on getting ahead. It was mentioned by some of the interviewees both indifference and ignorance as causes that could explain why consumption behavior in Iceland has taken a long time to start shifting towards responsible consumption. Nevertheless, it was mentioned by other participants that customers’ demands are changing and that this is a tendency that companies have to take into account seriously if they want to remain in business. Explanations for these opposite views are not provided in this study; however, from the interviews it seems that the two main causes of indifference are lack of knowledge and insufficient financial resources, since products that are sold by socially responsible companies have often higher prices than the rest. It might be the case that for some people this represents a moral dilemma, because they would like to purchase products and services provided by socially responsible organizations, but it is out of their budget reach. Some other people might not care enough as to be willing to pay.

It has been previously mentioned that historically Iceland has had strong labor legislations (Thorsteinsdottir, 2009), and for this reason it has not represented a challenge for companies in this country to cope with this requirement of CSR. It can be inferred even, that companies which are not yet CSR are still in a good position in this respect. According to the interviewees, when it comes to labor legislations the attention has to be on suppliers abroad, since that is an important way in which Iceland can deal with human rights issues even if only indirectly. Being a country which imports the majority of the products consumed within it, Iceland does have a great deal of decisions to make in relation to where to import the products from and to do so basing the decisions on well researched information and high standard ethics. Managing to do so can be regarded as a challenge.
6 Contribution, limitations, future research, and conclusions

6.1 Contribution, limitations and future research

Most of the research about CSR in Iceland has been done in relation to the financial and insurance sectors. However, Iceland is a country where SMEs is predominant, and therefore it is important to include this type of business too as it was done in the present study, in order to have a broader view of the current situation in this country. By having interviewed companies of different sizes and at different stages of progress in the adoption of CSR as part of their organizational culture, this research gives business people, students, and the general public, an opportunity to take a look at where Iceland stands at this point in time when it comes to corporate social responsibility. People interested in this topic can as well compare this information with what is being done in other countries, to find similarities and differences in order to learn from each other.

Also, having interviewed companies with different backgrounds, other companies that are considering to follow the CSR approach, but are not doing so yet, can realize by reading the information presented in this dissertation that CSR is not exclusive for the big organizations, but that all companies that are interested in adopting CSR can do it. The observations made in this research might be a source of inspiration for people in Iceland to keep on working towards being a country that gives corporate social responsibility the level of importance that it deserves. Ideally, it would serve as some sort of encouragement for companies, so that they can join the list of organizations in Iceland and the world who handle socially responsible businesses.

Academically, this study adds to the foundation of CSR research in Iceland, and provides a bridge to further studies. In the world we are living today, scenarios change too rapidly and some areas of study such as the ones related to business have to update almost constantly, which translates into the need of carrying out ongoing research. The present work offers a general view on CSR in Iceland from which future studies can develop in a wide range of directions.

Regarding the limitations of the research, it could be said that in order to make this study a more complete one, it would have been necessary to have a bigger sample which would have allowed to compare the views, for example, based on the industry size.
Also, suggestions on how to overcome the challenges as well as practical ideas on how to deal more efficiently with the process of adopting CSR as part of the organizational culture is not revealed through the conducted interviews and it makes an interesting topic of research that can be done in a variety of ways.

The focus of this research is on CSR in the Icelandic context; however, there is the possibility that some of the challenges faced by this country in relation to adopting CSR is not exclusive to Iceland, but it might be common to countries that are behind in this process as well. Further research on this aspect might be worth doing to understand better the current situation regarding CSR at a regional or global level.

6.2 Conclusions

It could be said that in the opinion of the people interviewed, the transition from generalities to particularities is what represents a challenge when it comes to adopting CSR. There are some companies that are still figuring out what CSR is about exactly; nevertheless, there are some other companies that have a clear understanding that the aim is to be a profitable business whose actions are embedded with a responsible attitude to protect the natural environment and society. The question for many remains: Where and how to start?

Many companies in Iceland understand the importance of adopting CSR into their corporations, but have been in that stage for a long time before deciding to move in that direction. The so-called cognitive and analytical barriers are an important reason for this delay. Corporate social responsibility in Iceland has to be better understood, not only by companies, but also by stakeholders such as customers who are the ones who can put pressure on the companies.

Before the crisis in 2008 some companies were doing CSR related activities, however, it was not a formal part of their business strategy. The financial crash was the event that made companies in Iceland implement changes in the way they conduct business to act more responsibly towards the environment and society. Sectors such as the energy, heavy industry and financial sector has progressed in measuring and implementing actions in connection with sustainability and CSR. There are companies in other fields that have also made significant advancements in Iceland.

In spite of the fact that the participants in this study spent more time referring to the challenges than to the benefits of adopting CSR, it seems like the perceived benefits make such a positive difference in the overall competitiveness of organizations that it compensates for all the challenges necessary to surpass along the way to become socially responsible.

From the results obtained in the present research, it could be said that some companies in Iceland are facing challenges and obstacles in their path towards adopting the CSR approach, but they are generally optimistic and they express a feeling of satisfaction for being heading in the direction of corporate social responsibility. For these companies, the question is no longer whether it is a good idea or not to adopt CSR, but what the best way to do it is.
Bibliography


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Appendix A – Interview template

How would you define a corporate social responsible business?

Why is social responsibility an important component of the company’s strategic thinking?

How is it possible to initiate change towards adopting CSR?

What are the benefits of CSR for businesses?

What are the challenges that the company has to overcome in order to adopt CSR?

How has the economic crisis impact the way the company conducts business?

How do you measure the progress you are making within the company? (Do you have milestones?)

Do you have any particular reference(s) that serves you as a “model” when planning changes related to CSR?