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# A Critical Corporate Profile of Li & Fung

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## **Abstract**

Behind the prominent Brand names and Retail stores of global supply chains are intermediaries who provide services to large volume buyers. A key feature of the global apparel industry is complex supply chains with many contractors and subcontractors and intense competition among factories – induced by the buyers – to reduce cost and increase speed. Over the past two decades, scholars have noted the dramatic increase of market power of international retail corporations gained at the expense of the fragmentation of centers of production. Enter Li & Fung, a Hong Kong based firm which is the largest sourcing agent in the global apparel business. Li & Fung’s central role in shaping the supply chain of apparel potentially affects the lives of millions of workers in their direct supply chains and the labor markets in which they are such a commanding force. Their strategy of sourcing emphasizes the cutthroat competition among factories that is the source of apparel workers’ conditions. Our analysis also indicates that already an “unseen giant” Li & Fung appears to have decided to move towards higher value-added processes in the supply chain. Understanding the complex implications of Li & Fung’s business strategy for workers’ rights is crucial for securing decent conditions for workers in the apparel industry over the coming years.

## **Keywords**

Global apparel, Global supply chains

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## **A Critical Corporate Profile of Li & Fung**

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### **Abstract**

Behind the prominent Brand names and Retail stores of global supply chains are intermediaries who provide services to large volume buyers. A key feature of the global apparel industry is complex supply chains with many contractors and subcontractors and intense competition among factories – induced by the buyers – to reduce cost and increase speed. Over the past two decades, scholars have noted the dramatic increase of market power of international retail corporations gained at the expense of the fragmentation of centers of production. Enter Li & Fung, a Hong Kong based firm which is the largest sourcing agent in the global apparel business. Li & Fung’s central role in shaping the supply chain of apparel potentially affects the lives of millions of workers in their direct supply chains and the labor markets in which they are such a commanding force. Their strategy of sourcing emphasizes the cutthroat competition among factories that is the source of apparel workers’ conditions. Our analysis also indicates that already an “unseen giant” Li & Fung appears to have decided to move towards higher value-added processes in the supply chain. Understanding the complex implications of Li & Fung’s business strategy for workers’ rights is crucial for securing decent conditions for workers in the apparel industry over the coming years.

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## Strategic Overview

Li & Fung works with its customers to design, develop, source, and distribute products which are then sold in over 40 markets worldwide (Li & Fung Annual Report 2014b). Some of Li & Fung's notable clients include Walmart, Sears, Target, Juicy Couture, Lucky Brand Jeans, Quiksilver, Calvin Klein, Coach, Hudson's Bay, Tommy Hilfiger, DKNY Jeans, Kate Spade, American Eagle, Aéropostale, and Sean John (Birchall and Mitchell 2010). In 2013, Li & Fung Ltd. employed 28,210 individuals in over 300 offices and distribution centers worldwide: 4,153 employees in Hong Kong, 9,428 in the Chinese Mainland, and 14,629 abroad. Li & Fung maintains access to a network of over 15,000 suppliers from which it sources products for its customers (Li & Fung Annual Report 2013). An additional 18,000 employees (for a total of 45,800) were employed in other divisions of the Fung Group (Fung Group 2014a). Compare Li and Fung's revenue of \$20.7 billion to Nike \$27.8 billion, and H&M (the world's second largest clothing retailer) \$19.1 billion<sup>2</sup>.

Before the Great Recession, Li and Fung had apparently decided upon the strategic objective of moving up the value chain, buying brands, entering the US market with its own signature. The Recession did not treat this plan tenderly. As of its 2013 Annual Report (p. 13-14) 62% of Li and Fung profit is still located in its sourcing business; and indeed, it has an entire business unit (DSG) which is dedicated to Wal-Mart business – in 2012 Bloomberg reported this at \$2 billion in revenue – roughly ten percent of Li and Fung's business (Wong and Longid 2012).

In July 2014 Li and Fung spun off its Global Brands division as a separate corporation

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<sup>2</sup> Li and Fung revenue of \$20.7 billion: <http://www.lifung.com/eng/ir/finhigh.php>

Nike revenue of \$27.8 billion:

[http://investors.nikeinc.com/files/doc\\_financials/AnnualReports/2014/index.html#select\\_financials](http://investors.nikeinc.com/files/doc_financials/AnnualReports/2014/index.html#select_financials) H&M revenue of \$19.1 billion:

[http://about.hm.com/content/dam/hm/about/documents/en/Annual%20Report/Annual-Report-2013\\_en.pdf](http://about.hm.com/content/dam/hm/about/documents/en/Annual%20Report/Annual-Report-2013_en.pdf)

Accessed ~~October 23, 2014~~ ~~October 23, 2014~~ September 8, 2014.

with \$1.3 billion in revenue and the owner or controller of 250 globally recognized brands in particular situations, including:

Quiksilver, Under Armour, Disney, and Calvin Klein, which we license the intellectual property from the brand owners or licensors for use in select product categories and geographies. ... and Controlled Brands: ... such as Frye and Juicy Couture, which we either own or control the intellectual property under a long-term license, giving us control over development and marketing. (Global Brands Group 2014a)

Returning to its core sourcing business, and its overall strategy of production, Li and Fung's leadership has articulated a particular sourcing strategy which is poignantly relevant to stakeholders concerned with working conditions and labor rights. Victor Fung – who heads the Li and Fung empire – calls this a strategy of dispersion (Fung 2011).

### *History*

Li & Fung was founded in 1906 China by Fung Pak-liu and Li To-ming (Li & Fung 2014a). In 1937, the company relocated from Guangzhou China to Hong Kong and formally became a company. After the Second World War, Li To-ming sold his portion of Li & Fung to the Fung family. The company underwent a number of changes throughout the years, shifting from public stock ownership to private ownership, then ultimately back to publicly listed ownership in 1973. In 1988, the company conducted a management buyout within the Fung Family and changed the functions of the company, allowing it to focus on export trading and retail. During the wave of globalization in the 1990s, Li & Fung expanded their business past Southeast Asia to the rest of the world.

Li & Fung's past and present business model does not include the ownership of any

means of production.<sup>3</sup> Rather, as a global sourcing and supply chain management firm, their expertise includes “product design and development, raw material and factory sourcing, production planning and management, quality assurance and export documentation to shipping consolidation.” (Li & Fung Annual Report 2004).

### *Geographic and Industrial Focus*

Headquartered in Hong Kong, the United States comprised 62% of Li & Fung’s exports in 2013. The main focus of Li & Fung’s Distribution Network in US operations has been cost reduction while strengthening their relationships with client brands, enhancing their portfolio of licensed brands, and improving their management and design of controlled brands (Li & Fung Annual Report 2013). Costs of Li & Fung’s US operating group under their distribution network decreased by 14% over 2013 and all operating groups combined resulted in a profit of US \$296 million dollars, compared to a loss of US \$39 million in 2012. Li & Fung’s business in Europe accounted for 24% of turnover,<sup>4</sup> with a focus in the United Kingdom and Germany (Li & Fung Annual Report 2013). The spin-off of Global Brands, in mid-year 2014 creates an entity with short term cash losses, but – from their point of view – the possibility of long term appreciation. If their US market penetration and cost management is successful they can become a rich market brand manager, not just a sourcing agent.

The domestic Chinese market only accounted for 5% of Li & Fung’s total revenue in 2013, but with the emergence of a Chinese middle class, Li & Fung has been creating “operating

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<sup>3</sup> A small number of their wholly-owned subsidiaries do engage in manufacturing, but this is not central to their operations.

<sup>4</sup> In this context, “turnover” is functionally the same as revenue.

groups” to increase their presence in China and Asia.<sup>5</sup> Li & Fung’s business in Asia accounted for 12% of turnover in 2013, and consistent with their focus on increasing a regional presence, they have concentrated on adding new contracts in Asia (Li & Fung Annual Report 2013).

As of 2013, 69% of Li & Fung’s total sales were of soft goods and 31% were hard goods, with “services” making up 1%. With regards to Li & Fung, “soft goods” refers to apparel, while “hard goods” refers to toys, furniture, home goods, cosmetics, etc (Hoovers 2014).

### *Structure*

Over the past century, Li & Fung has evolved into a complex global conglomerate of businesses under the auspices of the publicly-traded Fung Group. A privately held entity, Fung Holdings (1937), is its primary shareholder. Trading, logistics, and distribution functions are contained within Li & Fung, which is publicly listed on the SEHK. Retailing operations are controlled by Fung Retailing, a privately held company which owns six major subsidiaries, two publicly traded (Convenience Retail Asia and Trinity) and four privately held (Branded Lifestyle Holdings, Fung Kids (Holdings), Toys “R” Us (Asia), Suhyang Networks, UCCAL Fashion Group). This is represented by the graphic below:

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<sup>5</sup> The five Li & Fung operating groups are LF Sourcing, LF Beauty, DSG, LF Fashion, and LF Products. LF Sourcing is specifically focuses on business for apparel and hard goods, while sourcing for the Group’s distribution business (Li & Fung Limited Annual Report 2013).

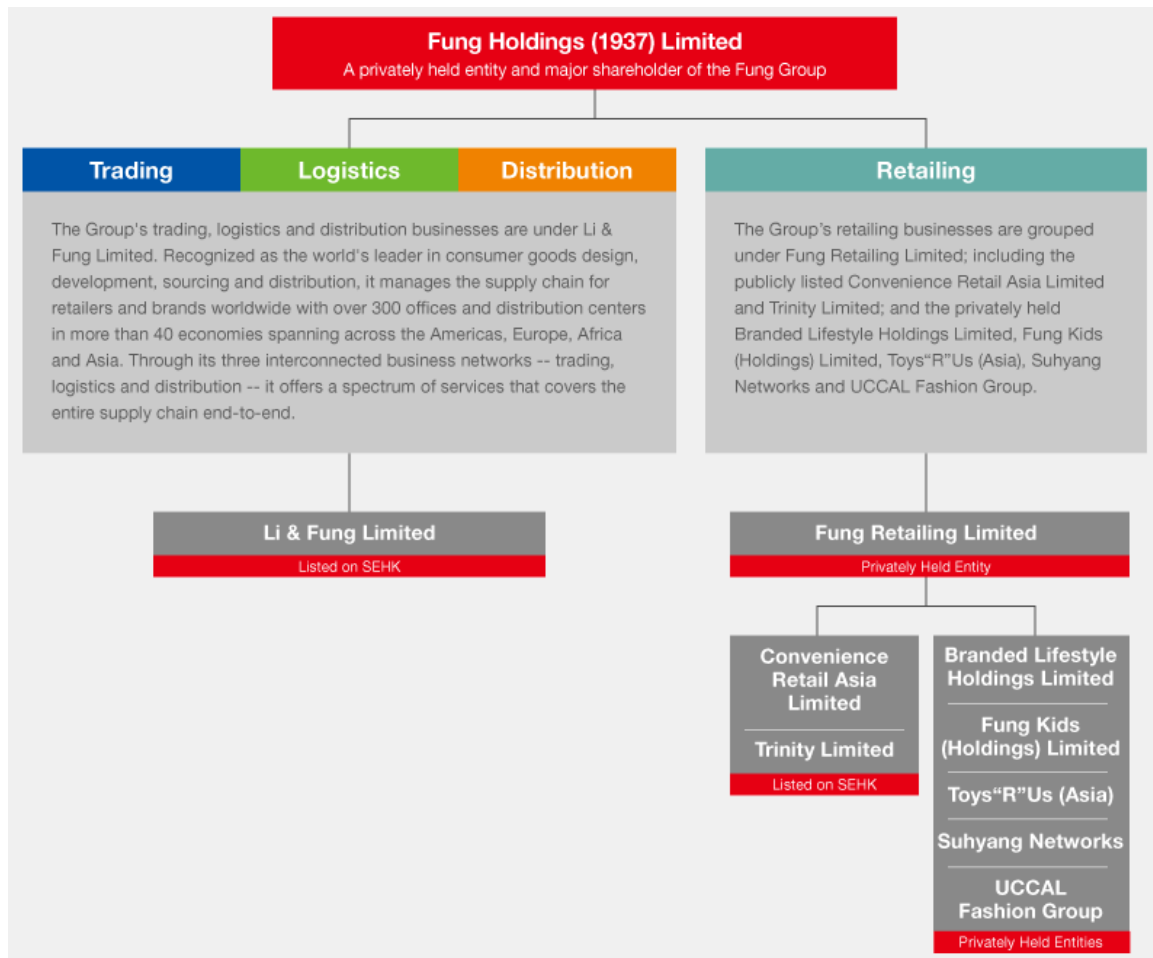


Figure 1: Business Structure of the Fung Group (Fung Group 2014b)

Following a period of heavy acquisitions between 2009 and 2011, executives within the Fung Group made the decisions to create a spinoff of Li & Fung, called Global Brands Group, Global Brands will handle Li & Fung's licensing and branding operations as a publicly-traded company - a separate entity from Li & Fung, but controlled within Fung Holdings (1937). (Chu and Ng 2014; Chan 2014). In July of 2014, Global Brands was spun-off as a separately listed entity, with former Li & Fung CEO Bruce Rockowitz as its CEO. He was succeeded as Li & Fung CEO by Spencer Fung. The business press does not note whether this was a demotion for Rockowitz (considering the difficult results of the Recession years' financials), or an elevation of the importance of Global Brands to Li and Fung strategy.



### *Recent Awards and Recognitions*

Li & Fung has received many accolades for corporate governance and performance. In 2013 alone, Li & Fung received the following: an award for being one of the “World’s Most Admired” companies from *Fortune*, “Corporate Governance Asia Recognition Award 2013--Asia’s Icon on Corporate Governance” from *Corporate Governance Asia Journal*, and “The Asset Corporate Platinum Award 2013” for all around excellence from *The Asset* (Li & Fung Annual Report 2013). Li & Fung was also ranked as number 716 in *Forbes* “Global 2000” companies (an increase from being ranked 808th in 2011) and Bruce Rockowitz was ranked as 4th in “Asian Corporate Director Recognition Awards 2013” by *Corporate Governance Asia Journal* (Li & Fung Annual Report 2013). Other recognitions in the last three years relate to investing skills, corporate governance, world’s most admired companies, one of the most influential Asian companies, and best CSR, CFO and CEO excellence awards to Bruce Rockowitz, Ed Lam and William Fung.

### **Recent Financial History and Business Strategy**

#### *Recession Sourcing Deals and Acquisitions*

The 2008 recession initiated the change in Li and Fung strategy; pre-recession Li & Fung looks very different from today’s firm. In the midst of the Great Recession, Li & Fung began making investments and acquisitions and actively sought to diversify their business.

A series of highly-lucrative sourcing deals with new business partners were part of this strategy. Sourcing agreements reached with Talbots (The Patriot Ledger 2009) and Liz Claiborne (Talley 2009) were among the first indicators of Li & Fung’s move towards high-end apparel; both deals were reached in 2009. Prior to this, Li & Fung had specialized in low-quality, low-

cost apparel (Davies 2013). While high demand for low-cost apparel meant success for a substantial period of growth, their move towards higher-end goods was aimed at long-term profitability in a post-recession market. Agreements with retailers like Talbots and Liz Claiborne meant that coming out of the recession, Li & Fung would have its foot in the door to access larger portions of the retailers' profits.

An agreement in 2010 with UK-based apparel retailer French Connection worth US \$10 million further diversified their sourcing deals (O'Doherty 2010). This is part of a trend towards sourcing deals with more internationally-minded retailers and wholesalers, especially in the case of French Connection, which has retail operations in multiple countries, including the United States (O'Doherty 2010). Also in 2010, Li & Fung secured an agreement with Walmart that would be worth at least US\$2 billion per year (Birchall and Mitchell 2010), and another deal with Sears worth US\$10 million. While these do not correspond with either a more upscale or international business model in sourcing operations, they firmed up the status quo for Li & Fung in high-volume, low-quality orders that tend to make up the core of Li & Fung's business. Generally, these recent sourcing deals indicate a threefold approach: 1) Continue to secure and maintain high-value sourcing deals with larger retailers, 2) Seek out new sourcing opportunities with international retailers, and 3) Seek out new sourcing opportunities with high-quality goods retailers.

Li & Fung has taken a similar approach regarding acquisitions. In mid-2010, Li & Fung completed a series of seven acquisitions worth US\$140 million (South China Morning Post 2010). Two of the acquisitions were of Hong Kong-based companies; Jackel Group, which supplies "fragrance and personal care products", and HTP Group, a designer of denim (South China Morning Post 2010). The two other acquisitions were of Cipriani Accessories and Max

Leather Group, both companies that design, distribute, and import men's and women's accessories, with operations in multiple countries, including the United States, Mexico, and Canada. By completing acquisitions of multinational companies such as these, Li & Fung is moving closer to being a brand/jobber rather than merely a sourcing agent

In 2010, managing director of Li & Fung, William Fung, made comments about recent acquisitions in the cosmetics sector, revealing his goal to reach US\$1 billion in core operating profit and to turn over more than US\$20 billion (Tsang 2010). A larger move into cosmetics would be relatively new, but lucrative territory for Li & Fung. A separate acquisition of producer Jimlar in late 2010 meant that Li & Fung would oversee production for luxury brands Coach and Calvin Klein, as Jimlar had been responsible for supplying many of their goods (The Toronto Star 2010). Li & Fung's later purchase of Visage, a European producer-brand, marked the beginning of a series of other acquisitions in Europe, worth at least US\$170 million (The Journal 2010).

The acquisitions of Jimlar and Visage were critical; the two companies do much of the same work as Li & Fung. Specifically, Visage and its clothing sourcing operation stand out because of Visage's business model, which includes the branding of its own sourced products for its customers, if a customer deems Visage branding appropriate (Visage 2011). Essentially, Visage maintains sourcing operations as its core business, but brands the products that it sources from its manufacturers if a retailer opts for such a product. Later, Li & Fung completed an acquisitions deal worth nearly US\$1 billion where it purchased IDS, a firm that had handled logistics for production and distribution operations for Li & Fung (Wong 2010). The deal meant that Li & Fung had full control of these operations in-house, as opposed to contracting the work as it had been doing prior to the August acquisition. While this move may seem out of step with

other acquisitions which reached toward higher-end retail profits, purchasing IDS may have been the best option to support their low-cost sourcing deals, which remain the core of Li & Fung's business. Like Li & Fung's sourcing deals reached in 2010, their acquisitions were congruent with the same threefold approach they took with those sourcing agreements.

### *New Models*

The series of acquisitions made in 2010 were even more aggressive than the sourcing agreements reached over the same year. While they indicate a new move toward higher-quality goods in international markets, the fact that these are acquisitions rather than sourcing agreements is indicative of some underlying motivation of Li & Fung. Two things to consider here are: 1) the benefits that Li & Fung receives from acquiring as opposed to “only” reaching a sourcing agreement and 2) the manner in which Li & Fung raised the capital to complete the aforementioned acquisitions. While benefits from acquisitions can only be quantified over a longer period of time, it is the case that Li & Fung took a new and deliberate, much more proactive approach to acquisitions. (Wong and Wang 2009, Wang 2009). The manner in which Li & Fung was able to make these acquisitions, then, is especially relevant. The firm sold 30% of the company's stock (Lee 2009) to fund some of its new acquisitions. This, in addition to lines of bank credit meant that Li & Fung was prepared to make acquisitions worth more than US\$1 billion (Chen 2009). This signaled a move away from the status-quo of a sourcing-deal-centric business model. While sourcing agreements had previously formed the core of Li & Fung's business, their commitment to making these new acquisitions suggests the future of a Li & Fung that aspires to recoup the margins of brand ownership.

The addition of Global Brands Group to the Fung Group family, includes the major suppliers Jimlar, Visage, and Trinity. These suppliers' customers include Calvin Klein, Coach,

and other similar brands. The separation of the licensing and branding functions that were once the responsibility of Li & Fung is intended to refocus Li & Fung on its core business of trading, logistics, and distribution, and allows Global Brands Group to focus on the newer and “riskier” licensing and branding operations (Chan 2014). This, perhaps, is to address investor insecurity, reflected in Li & Fung’s stock price. Over the two years after the major sell-off that funded acquisitions, share prices rose dramatically and peaked at US\$50, perhaps fueled by speculation of Li & Fung’s new business strategy. Now, shares trade at under US\$12 (Google Finance 2014). This is despite the fact that total net income has risen steadily, at just over 21% growth in the last year (although revenue has not seen significant increases in recent years).

## **Li & Fung’s Corporate Social Responsibility**

### *Public CSR Philosophy*

The central focus of Li & Fung’s self-articulated Corporate Social Responsibility is sustainability and managing environmental impact, with lesser priority given to social and economic development. The stated goal of their CSR program is to “improve social, environmental and economic conditions in our supply chain, reduce the environmental footprint of our own operations, enhance the health and well-being of our colleagues, and contribute to the sustainable development of the diverse communities where we operate” (Li & Fung 2014c). Li & Fung seems to have many more initiatives aimed towards sustainability than social well-being, and Li & Fung is one of the few corporations which reports their carbon emissions. (This carbon emission reporting makes Li & Fung appear to pollute less than other large corporations, but this may be misleading because they do not own their own means of production and it is unclear whether shipping of goods is accounted for, so their carbon emissions would naturally be lower.)

### *Recognition of Pressures Inherent in Sourcing Dynamics*

Regarding human rights and factory conditions, Fung commented on the constant friction between brands and Li & Fung as a sourcing company because brands are always looking for cheaper and faster products. Fung said “[t]here are conflicting requirements and top management has to reinforce the message that no matter how great the pressure, there are certain standards that are non-negotiable—or else the buyers try to get around them” (Sharett 2002). He highlighted that more licensing of products decreases brand responsibility: “Most people have not confronted the fact that this is still their brand, even though the licensee makes it, and they are still responsible for the conditions in which those products are made. You have to extend the control over your brand” (Sharett 2002).

On other occasions, William Fung made favorable comments about the raising of minimum wages, as it would improve efficiency of the business, “[i]t is not just a matter of us trying to look good and do the right thing” (Edwards 2014). This statement from Fung reinforces similar statements from other executives. Bruce Rockowitz – at the time CEO of the core Fung Ltd. – publicly recognized that it is in the best interest of companies to improve conditions of factories because negative pressure from consumers has the potential to affect sales. Li & Fung’s top management seem to believe that consumer awareness and demand for social responsibility will lead to a better industry.

Li & Fung has recently added Vendor Support Services to their business, which includes the monitoring of factories. This move has been criticized by activist groups such as the Clean Clothes Campaign, which states “a consultancy approach takes little to no responsibility for the role Li & Fung has to play in the safety issues at the factories they source from” (Chu 2014). The effect of this new program on workers remains to be seen. As middlemen in the industry, Li &

Fung recognizes the benefit of CSR to their business, which both suppliers and brands demand. Having better CSR than their competitors is a strategy to differentiate their services. However, Li & Fung is in a position where they are constantly pressured by brands to lower their sourcing prices. Fung may lament these pressures, but their sourcing strategy is based on lower costs from factories, which directly imply lower wages and less rigorous health and safety standards.

### *CSR Initiatives*

Although the core of Li & Fung's CSR work is related to protecting the environment, from analysis of media articles over the past six years, it appears that Li & Fung has increased their participation in CSR programs aimed towards increasing their reputation as a socially responsible company. They participate in programs focusing both on their employees and the broader community, such as increasing women's involvement in management positions in the trade sector and giving their employees optional days off in order to volunteer in the community.

Li & Fung participates in a USAID's Women in Trade initiative in order to increase women's participation in trade companies. This program is a response to "a USAID-funded study showed that women comprise less than 10 percent of management and 20 percent of junior staff in trade companies" (The Balochistan Times 2013). Li & Fung is one of fifteen companies that participate in the Women in Trade initiative that provided seventeen recent Pakistani graduates internships in the trade sector. Among the companies participating are TARGET Sourcing Services Pakistan, TEXLYNX, and NISHAT Group. (The Statesman 2011). Although the number of women participants is tiny compared to the thousands of people these companies employ, this program has garnered significant good press for Li & Fung.

Another CSR program sponsored by LiFung Trinity (which is a member of the Fung Group) allows employees to take days off in order to participate in community service, modeled

after similar programs in other foreign firms. There are a number of service opportunities for employees. “The foundation encourages the group's staff to initiate community projects, such as beach cleaning and tree planting, by providing them with the resources to undertake activities” (Wei 2012). However, LiFung Trinity seems to use these days off to appease newer employees who do not get as many vacation days. “The scheme especially targets new colleagues who have fewer holidays in their first year of joining the company. They are given two days of community service leave a year, while the other staff have one” (Wei 2012). This program seems to deflect criticism that the company could receive about new employees receiving less days off and seems also to have the added benefit of associating the company with a positive role in local communities.

Li & Fung attempts to distinguish itself as environmentally “responsible.” While “fewer than one in 10 companies listed on the Hang Seng Composite Index publish reports on their carbon footprints, in a ‘worrying’ sign of a business sector dragging its heels over global warming, a consultancy says” (Kao, 2013), Li and Fung present a contrasting image. Li & Fung, CLP, HSBC, and Swire are categorized as “large-capitalization” (LargeCap) companies, of which 25% report carbon emissions (compared with 3% of small-capitalization firms). Li & Fung appears to report their carbon emissions regularly and makes this information available to the public. On their website, they advertise measures the company has implemented to reduce its carbon footprint. The website states, “[r]educing our carbon footprint and improving our carbon intensity through the use of cleaner and more efficient energy and fuel sources and equipment, will remain at the top of our agenda for our own operations and for those of our suppliers” (Li & Fung 2013). Rather than a response to any explicit external pressure, Li and Fung’s awareness of



their carbon footprint and environmental impact is apparently related to cost savings, a motive which they do not hide in their report

### *Recognition for CSR Programs*

Li & Fung has received recognition for their CSR work and has been a member of a number of different CSR initiatives. They are a participant in the United Nation's Global Compact Initiative and a member of Business for Social Responsibility, which is an international US based non-profit organization. In 2008, Li & Fung joined the Business for Social Responsibility Clean Cargo Working Group (CCWG) and implemented voluntary environmental management guidelines. In 2006, Li & Fung became a member of Supplier Ethical Data Exchange (SEDEX), which is an organization that uses technology to maintain and share data on labor practices in the supply chain. Since 2002, Li & Fung became a member of the FTSE4Good Index Series from UK's FTSE Group due to its high CSR standards.

### *Role in Walmart's Alliance*

The Alliance for Bangladesh Worker Safety is a non-binding agreement amongst North American apparel companies, retailers, and brands to improve safety in Bangladeshi ready-made garment factories (Alliance 2014a). When the Alliance for Bangladesh Worker Safety formed in 2014, Li & Fung was a founding member of the Advisory Board. Along with WRAP, CARE USA, Institute for Women, Peace and Security at Georgetown University, and the Bangladesh Knitwear Manufacturers and Exporters Association, Rick Darling of Li and Fung sits on the Board of Advisors for the Alliance agreement. The Board of Advisors serves to "help guide the Alliance as it tracks implementation and progress against its aggressive goals, which include inspecting 100 percent of Alliance garment factories by July 2014, implementing a

comprehensive worker training program and helpline, and providing remedial support for factories to address safety issues” (Business Wire 2014; Alliance 2014b). Although Li & Fung “support[s] the European-based Accord on Fire and Building Safety in Bangladesh” (Li & Fung 2013), they say they have not signed onto the Accord because they say, they are not a brand. We note that the \$1.3 billion revenue of Global Brands, in which they have a controlling interest, is a collection of brands (Global Brands Group 2014b).

The Accord, in contrast to the Alliance, is contractually binding, includes mandatory worker voice in safety and inspections, and extends rights of adjudication in both Bangladeshi and firms’ home nation courts (Accord on Fire and Building Safety In Bangladesh 2014).

#### *Li & Fung Code of Conduct and Factory Standards*

Li & Fung maintains their own “Code of Conduct and Business Ethics” as well as a “Code of Conduct for Suppliers” which are used in quarterly inspections by their Risk Management and Sustainability Committee (Li & Fung 2012; Li & Fung 2014d). Their Code of Conduct and Business Ethics covers the following topics in detail (Li & Fung 2012a):

- Conflicts of Interest
- Anti-Corruption
- Accurate Financial Information and Records
- Insider Trading on Company Securities
- Supplier Code of Conduct
- Protection and Use of Company Information and Assets
- Accurate Reporting on Company Information
- Relationships with Stakeholders
- Product Quality and Safety
- Human and Labor Rights, and Fair and Equal Treatment
- Harassment
- Corporate Political Activity
- Environmental Protection
- Workplace Safety and Violence
- Contribution to Community
- Reports of Concerns and Misconduct

Li & Fung's policies on each of these topics are available through their sustainability resource center's website and offers resources, updated industry information, and training schedules for vendors around the world (Li & Fung 2014e). Also publicly available is a supplier compliance manual that outlines how to meet these codes of conduct for suppliers (Li & Fung 2012b). They also provide tutorials for critical and major issues. Training modules on preventing human trafficking, improving conditions, human resources management, meeting local legal standards and export security requirements are available, as well as occupational safety and health tool kits, suggestions for sustainability, and videos by the Fung Academy on fire safety, electrical safety, managing working hours, and manufacturing excellence (Li & Fung 2014e).

#### *Response to Tazreen Factory Fire*

Prior to the Rana Plaza disaster of April 2014, whose aftermath took place as we were completing this report, the Tazreen Factory Fire – also in Bangladesh – was among the most shocking industrial fire/mortality incidents of the recent period. One hundred twelve lives were lost in that fire. Li & Fung acknowledged their business with the factory and expressed their condolences to the families of the victims. They were among the first corporations to compensate families of injured and perished workers. Li & Fung offered to work with the government and other third parties to improve safety, but interestingly turned attention to government primacy.

After the Tazreen fire, Li & Fung waited for the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) to award money to the families of victims so that Li & Fung could match it. They followed through and matched the 100,000 taka awarded to the family of every victim, as well as setting up an education fund for the children of victims through the Fung Foundation (Khan 2012).

This type of CSR, which is above and beyond competitors, may prevent negative media attention; amid the media uproar after the Tazreen disaster, not a single source directly demanded that Li & Fung make payment or implicated them negatively. After the Tazreen factory fire, Human Rights Watch reported the amount awarded to these families was insufficient (US Official News 2013), but the negative attention was not focused on Li & Fung. Criticism tended to be placed on the government, local factory management, and the Western brands, leaving Li & Fung out of the discussion. The Clean Clothes Campaign, centered in Amsterdam, one of the most outspoken activist groups relating to garment factory workers' rights, did not focus on middlemen sourcing companies. They calculated that compensation to workers should have totaled US \$5.7 million, but that the debt should be "shared between the factory owner, retailers, the BGMEA, and the government" (US Official News 2013). Instead of criticism, Li & Fung's reputation actually appeared to benefit from the disaster, as they were acknowledged for going above and beyond what a typical corporation would do in the same situation. Their apparent CSR strategy of taking action before public pressure is applied is consistent with their environmental policies (notably regarding their carbon emissions reports), implying a coherent approach.

Li & Fung has, consequent to its media and crisis response strategies avoided becoming a target of Global North "naming and shaming" but has instead attempted – with some justification – looked to government policies and actions as central to accident prevention. William Fung pointed to what he believed must be the role of the government. He commented "it was up to the authorities to enforce the laws on safety standards" (Cheung 2013). This is an indication that the corporation, although working with the government, would rather place blame on government rather than change their own practices. Fung said "[o]ur company has hired many

inspectors to examine fire safety facilities in factories in Bangladesh where we source products. However, there is not much we can do. It is still up to the authorities to enforce safety standard in factory buildings and there are problems with implementation of laws" (Cheung 2013).

Although Li & Fung artfully attempts to deflect blame from themselves, executives at Li & Fung have acknowledged that better working conditions may lead to better business. With severe factory disasters happening in the past two years, executives think there is a growing consciousness in customers. Bruce Rockowitz said: "What's happened now - what's going on in Bangladesh - I think people are much more hypersensitive. I think it's going to improve the industry" (MacKinnon and Strauss 2013). If Li & Fung is moving into branding themselves, the non-binding CSR they have articulated may help their image. For example, "Li & Fung, the buying agent for retailers including Wal-Mart Stores Inc. and Target Corp., said it is setting up a new unit to provide buyers and factories with consulting services, financing and insurance to bolster compliance with safety codes" (Chu 2014). Rick Darling stated that Li & Fung is a good company to offer the services, because "[a]s the leading global supply chain company, we have responsibility to engage more fully and attempt to speed up and expand the safety process improvements that have taken place" (Chu 2014). Li & Fung's Vendor Support Services -- a project to monitor factories, headed by William Fung himself -- began in March 2014 and is scheduled to take about three years. The initiative could potentially extend to 15,000 factories in 46 countries (Chu 2014).

### *Critical Analysis of CSR and Influence in Government*

The positive media attention garnered from Li & Fung's CSR programs in communities (as and factories may contribute to Li & Fung's public stature and influence with the Chinese

government. The Fung Business Intelligence Centre and Li & Fung executives that sit on civic and government committees seem to have a strong voice in government and a role in China's future economic goals.

The Fung Business Intelligence Centre makes reports that appear to have influence over governmental policies. For example, the Centre released a report in 2013 with a “plan which promotes development among the eastern, central, and western regions is the country's first national scheme for domestic trade and is set to become the blueprint for the sector” (Soh 2013). The report also included other topics deemed important such as “government policies and initiatives aimed at boosting domestic consumption and the regulation of online retail shopping” (Soh 2013). Li and Fung's strategic overviews, widely available through the Centre website are similar to the kinds of think-tank issue-framing that sociologists like William Domhoff have called the “policy-planning process” within a policy-planning network. The ties between the Centre and the government could lead to an influence that ultimately benefits Li & Fung. For example, “[w]ith Beijing assisting local companies through policies and initiatives, the advice given by the Fung Business Intelligence Centre for foreign commercial companies was to focus on their core competencies by differentiating themselves in the retail market through branding and location” (Soh 2013). The relationship between the Fung Business Intelligence Centre and the government could potentially help Li & Fung if the government implements their suggestions.

In Hong Kong, the Economic Development Commission was created in January 2013 “to advise the government on the direction of its overall strategy to improve economic growth” (Nip 2013). This commission consists of 26 members and four active groups that focus on transport, manufacturing, tourism, among other aspects of the economy. This commission appears to have

influence in the government's plans. As "Commission member and Ocean Park chairman Allan Zeman said the government showed a determination to plan for the next 10 to 20 years" (Nip 2013). The commission has businessmen that have been in their respective industries for a long time (such as Victor Fung, who sits as a chairman) and undoubtedly have a stake in the future of Chinese industrial policy. Zeman further commented: "The government used to be hands off [but] now, like Singapore, it is showing quite a strong leadership" (Nip 2013). Zeman also mentioned the commission will attempt address social problems, such as the aging population as well. It is possible that as chairman, Victor Fung will use the commission to promote plans that to benefit both a thriving middle class in China and his business.

### *Contradictions*

In his speech to the Century 21 Club in 2011 Victor Fung most explicitly laid out the Li and Fung strategy (Fung 2011). Breaking up supply chains into small pieces (yarn, buttons, textile, sewing, etc.); sourcing from multiple plants; following lower price labor away from rising areas (e.g., coastal China to the interior; from China to Vietnam); working from contract (with a brand or client) to contract. *This is a strategy of dispersion.* From the perspective of factory owners the pressure is constant. The next season's contract is always at stake; this season's margin is as narrow as such a major client as Lin and Fung can make it.

Among the competitive advantages Li and Fung brings to the complex world of global commodity chain sourcing is their mastery of the information technology that makes possible the management and tracking of the minute breakdown of the design, production and distribution flows. Implied too is the advantage proffered by of their network of thousands of local

employees with local and personal knowledge of large, small and medium enterprises throughout China and Asia.

With a strategy of dispersion and short-term contracts why would a factory owner have a motivation to invest in safety or in adequate worker pay? Pressure from buyers (Li and Fung) might motivate some such compliance, but only at the expense of shrinking margins and loss of other customers.

This may be why Li and Fung seems to call for more government regulation of safety and minimum wage compliance – they will continue to find the least cost combination of their supply chains. Unless ALL buyers are subject to the same – improved and effective – regulatory conditions, the logic of the Li and Fung strategy of dispersion means that their competitive advantage will continue to encourage them to seek out factories that court with disaster. Since Li and Fung’s concentrated sourcing expertise is in Asia, they operate everywhere in governmental regimes which are weak or so pro-owner that no such regulation takes place.

Contrast the Li and Fung strategy of dispersion with a strategy that supports safety and decent wages for workers. One version of this is the Worker Rights Consortium Designated Supplier strategy: “Licensees are required to pay a price to suppliers commensurate with the actual cost of producing under applicable labor standards, including payment of a living wage, and they are required to provide their supplier factories with long-term contracts, ensuring that factories participating in the program receive sufficient orders to remain financially viable” (Worker Rights Consortium 2012).

Li and Fung talks the talk, but it does not walk the walk. And their own documents demonstrate the contradiction.



### *A Note on Strategy and Vulnerability*

Li and Fung have been visible to management strategists for well over a decade: despite the difficulties caused by the Great Recession they are large, respected and increasingly well-known. And they are ambitious. The creation of Global Brands is a bid to create their own Western style Brand Jobber Conglomerate. And their sourcing business is now so large that it is almost impossible to hide. Visibility yields vulnerability in a cyber-world. The process of ethical challenge and brand-shaming can make Li and Fung extremely vulnerable just as Gap and Nike have been made vulnerable – despite their heroic efforts at reputation rescue.

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