

# DEEP DIVE

## CORPORATE COMMUNITY ENGAGEMENT AND

### LI & FUNG: GLOBAL TRENDS, LOCAL STRATEGY



- More multinational companies are pursuing social good initiatives through community engagement practices.
- Studies have found that companies that are more involved in community engagement perform better in the long term, in terms of return on equity, return on assets and stock performance.
- For consumer-facing businesses, corporate charitable contributions were associated with subsequent sales growth, according to research.
- The conceptual framework behind community engagement practices has evolved from corporate social responsibility (CSR) to creating shared value, which involves integrating the practices into the company's strategy and addressing social needs with a business model.
- Li & Fung formalized a holistic sustainability strategy in 2009. The company is working to address social needs and sustainability under the framework of shared value.

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# CORPORATE COMMUNITY ENGAGEMENT AND LI & FUNG: GLOBAL TRENDS, LOCAL STRATEGY

## EXECUTIVE SUMMARY

This report looks at the global trend of businesses pursuing social good initiatives and addressing social needs through community engagement and sustainability practices. Studies have found that companies that are more involved in community engagement perform better in the long term, in terms of both profitability and stock performance, and we believe that socially driven strategies are becoming increasingly important for consumer-facing businesses.

The first part of this report reviews the evolution of community engagement frameworks and some of the ways multinational companies have implemented community engagement initiatives. The second part of the report focuses on Li & Fung as a case study for community engagement practices and examines how these practices integrate with the company's overall strategy.

### THE TRIPLE BOTTOM LINE

Scholarly discussions about CSR can be traced back to the 1950s, but CSR as a business practice rose to prominence in the 1990s and 2000s, with more companies adopting it as a standard for doing business. In 1994, John Elkington introduced the idea of the triple bottom line, and suggested that companies measure how socially and environmentally responsible they are by preparing three different bottom lines: the traditional bottom line of the profit and loss account, which measures financial performance; the “people’s account,” which measures how socially responsible the company is; and the “planet account,” which measures the environmental performance of the company. The triple bottom line reflects the full cost of doing business.



## I. HOW BEST PRACTICES EVOLVED AT MULTINATIONALS

### From Corporate Social Responsibility to Creating Shared Value

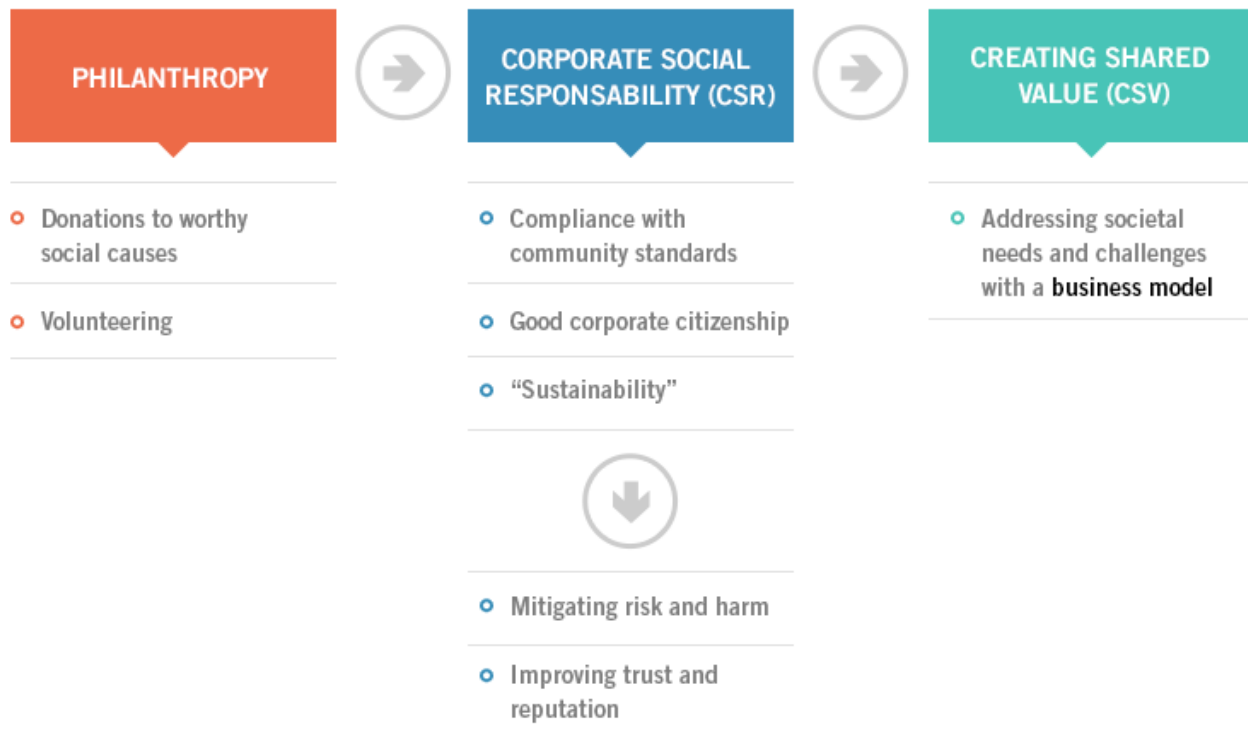
More and more companies around the world have adopted practices to address social issues, such as poverty, inequality and the environmental impact of business, alongside their own profit-making mandate. These practices are known variously as community engagement, corporate sustainability and community investment, and the terms are often used interchangeably. In this report, we use “community engagement” broadly to refer to companies’ efforts to address social and environmental needs.

The conceptual frameworks behind community engagement practices have evolved over the years; basic philanthropy has evolved into corporate social responsibility (CSR) as measured by the “triple bottom line,” and CSR is evolving further into “creating shared value.”

Historically, businesses mostly engaged in social good initiatives philanthropically, through donations. Then, academics and businesses started talking about CSR, which put more emphasis on companies' impact on society and introduced ways of reporting that impact to increase transparency. Beyond reporting, CSR governed the relationship between a corporation and its various stakeholders, such as customers, suppliers, employees, governments and the local community in which the corporation operated.

CSR has been the subject of discussion and evolution, and in the late 2000s to early 2010s, a new concept known as "creating shared value" emerged.

**Figure 1: The Role Of Business In Society – Evolving Approaches**



Source: Harvard Business School

Michael Porter and Mark Kramer introduced the idea of shared value in a *Harvard Business Review* article in 2006 and later refined the concept in a 2011 article. Porter and Kramer argued that traditional CSR practices were based on a reactive approach, with companies addressing social issues as a way to build a good reputation and maintain a good relationship with stakeholders. In effect, however, companies often treated these practices as a necessary expenditure or a trade-off between profitability and social good.

Porter and Kramer suggest that instead of regarding social good initiatives as a trade-off, a more efficient approach is to identify unmet social needs and meet them, thereby creating economic value that benefits both the company and society. For example, to help poor farmers, the shared value approach focuses on training them on how to improve growing techniques,

which lead to improved product quality. In turn, the higher-quality crops benefit both the farmers and the company buying those crops.

Porter and Kramer suggest that there are huge unmet needs in society in areas such as health, housing, nutrition, environment and aging that are often overlooked by companies. They suggest that companies think about aligning their business models with social needs, and utilize corporate assets and expertise to serve those underserved markets.

**Figure 2: Creating Shared Value**



*To help poor farmers, the shared value approach focuses on training them on how to improve growing techniques, which lead to improved product quality.*

Source: 3 Pillars Network

Under the shared value framework, companies can explore unmet needs in three ways:

1. **Reconceiving products and markets:** Serving unserved and underserved customers with redesigned products.  
Examples:
  - i) Food companies that traditionally concentrated on taste and quantity refocus on the need for better nutrition.
  - ii) Intel and IBM have been helping utilities harness digital intelligence to economize power usage.
2. **Redefining productivity in the value chain:** Utilizing resources, energy, suppliers, logistics and employees differently.  
Examples:
  - i) Walmart reduced its packaging and rerouted its trucks to cut 100 million miles from its delivery routes in 2009, saving \$200 million while shipping more products. By doing so, it also tackled problems related to excess packaging and greenhouse gases.
  - ii) Marks & Spencer overhauled its supply chain. The company stopped purchasing supplies in one hemisphere and shipping them to another. The changes are expected to save the retailer £175 million annually by fiscal year 2016, while reducing carbon emissions.



3. **Building supportive industry clusters and improving the business environment in which the company operates:** Improving skills, the supplier base, the regulatory environment and the supporting institutions that affect the business.

Example:

- i) Recognizing that it needed a workforce capable of using its products, Cisco Systems introduced an e-learning initiative called the Networking Academy to teach IT skills. Cisco invested \$350 million in the program, which trained more than 4 million network administrators globally and generated both skilled workers and technologically savvy future customers for the company.

*Market research in the US also found that consumers are more willing to buy products that are associated with nonprofit activities.*

*The 2011 survey found that millennials who frequently participated in volunteer activities organized by their employers were twice as likely to be very satisfied with their career progression as those who did not participate in such activities*

### HOW COMPANIES BENEFIT

A number of studies have shown that community engagement practices have a positive impact on companies' economic performance, and also help enhance employee engagement.

Harvard Business School research conducted by Robert Eccles, Ioannis Ioannou and George Serafeim and published in 2011 found that companies with more community engagement practices had better stock market and accounting performances over the long term. The research identified 90 companies that had adopted environmental and social policies since the 1990s (known as "high sustainability" companies) and compared them with 90 companies that had adopted few such policies (known as "low sustainability" companies). The research tracked the performance of these 180 companies for 18 years, and the results showed that the high-sustainability companies performed better in terms of return on equity, return on assets and stock price over a long-term period.

Another piece of academic research, published by Baruch Lev, Christine Petrovits and Suresh Radhakrishnan in 2006, found that charitable contributions made by public companies from 1989 to 2000 helped enhance the future revenue growth of the companies, especially for those in industries that are highly sensitive to consumer perception, such as retailers and financial services companies. Corporate charitable contributions were associated with subsequent sales growth, according to the research.

Market research in the US also found that consumers are more willing to buy products that are associated with nonprofit activities. The *2010 Cone Nonprofit Marketing Trend Tracker* found that 59% of Americans are more likely to buy a product associated with corporate-nonprofit partnership.

In addition, a Deloitte survey suggested a strong link between frequent participation in workplace volunteer activities and employee engagement. The 2011 survey found that millennials who frequently participated in volunteer activities organized by their employers were twice as likely to be very satisfied with their career progression as those who did not participate in such activities, and they were 24% more likely to recommend their companies to a friend.

Companies including Hewlett-Packard (HP), PwC, Toyota Financial Services and UnitedHealth Group have found that employees who participated in community engagement initiatives scored higher in terms of morale, engagement, pride and productivity than those who did not participate. For example, HP's study showed that the morale of employees who



participated in such activities was 13% higher than the morale of those who did not participate. A Hasbro employee survey revealed that the second-most-referenced reason employees loved working at the company was the community engagement program, while the first-most-referenced reason was “year-round half day Fridays.”

**Best Practices**

In practice, companies focus on four main areas when addressing social issues: environmental problems, social equality, health and well-being, and community development.

**Environmental Problems**

Some of the environmental problems that multinationals have been addressing as part of their social good agendas include air pollution, greenhouse gas emissions and waste disposal.

**Figure 3: Initiatives Addressing Environmental Issues**

Company	Initiative	Country	Results
<b>Fujitsu</b>	Data centers use up to 2% of the electricity consumed globally and for Fujitsu, they used 27% of the energy the company consumed. Fujitsu redesigned its data centers to use renewable energy and worked with suppliers to reduce carbon dioxide emissions.	UK	The company is now using 100% renewable energy in its UK data centers, whereas other top IT companies rely on coal for 60% of their energy needs.
<b>O2</b>	O2 partnered with Vodafone to launch an industry-wide rating system to evaluate the eco-friendliness of mobile devices.	UK	The ratings inspired customers to purchase charger-free phones and recycle their devices. More than 1.4 million devices were recycled, and 150,000 fewer chargers were used.

Source: Company reports

**Social and Gender Equality**

Social and gender inequality is an important issue for many multinational corporations and an impediment to the realization of economic potential. For example, according to a 2012 report by Booz & Company, US and Japanese GDP could increase by 5% and 9%, respectively, by 2020, if the employment rates of both men and women were to be equal.

**Figure 4: Initiatives Promoting Equality**

Company	Initiative	Country	Results
<b>Nestlé</b>	Nestlé worked with milk suppliers in rural communities in India and set up an institute in China to train dairy farmers on how to improve milk production quality.	India, China	Product quality was improved. The initiative also empowered the dairy farmers to move up the value chain.
<b>Gap</b>	Gap rolled out its P.A.C.E. campaign to reach out to 1 million women to give them skills and education in order to change their lives.	India, Cambodia, Vietnam, China, Bangladesh	The campaign empowered women to start businesses and become financially independent.

Source: Company reports



**Health and Well-Being**

Other companies have been tackling hygiene and nutritional problems in poor regions, while promoting health, well-being and work-life balance initiatives for employees.

**Figure 5: Initiative Promoting Health and Well-Being**

Company	Initiative	Country	Results
<b>Unilever</b>	Unilever’s antibacterial soap brand Lifebuoy launched a hygiene promotion program in 2010 that aimed to change the handwashing behavior of 1 billion people by 2015. The initiative helped cultivate handwashing habits and boost sales of the soaps.	24 countries across Asia, Africa and Latin America (with a focus on countries with the highest rates of diarrhea-related child deaths, such as India and Pakistan)	The antibacterial soap Lifebuoy reached 257 million people globally and the brand’s sales grew by 15% in 2014.

Source: Company reports

**Community Development**

Community development mainly involves education and youth development. By nurturing talents in the community, companies are helping to build skills in the workforce.

**Figure 6: Community Development Initiatives**

Company	Initiative	Country	Results
<b>Salesforce.com</b>	Salesforce, a customer relationship management (CRM) solutions provider, helped nonprofit organizations and colleges deploy CRM systems in order to improve efficiency.	Worldwide	Lead generation at the participating colleges increased by 23% and collateral fulfillment time was reduced by over 50%.
<b>O2 and Bauer Media</b>	O2 worked with Bauer Media to launch the “GoThinkBig” program to help young people gain access to work opportunities.	UK	The program had offered around 30,000 job opportunities to 16–24-year-olds by the end of 2015.

Source: Company reports

**ENGAGING CLIENTS AND OTHERS**

Some companies have looked beyond their own organizations as they have rolled out their community engagement and sustainability programs, actively engaging industry and value chain partners. For example, French cosmetics and beauty company L’Oréal found that its suppliers accounted for 28% of the carbon emissions generated by its supply chain. As a result, the company designed sustainability strategies with set requirements for suppliers’ environmental and social footprints. The company pledged that, by 2020, it will evaluate and select all of its strategic suppliers based on their environmental and social performance; by 2015, it evaluated 51% of its suppliers, while 74% have completed a self-assessment.

*The company released a progress report on the program in 2015, and said that within 18 months of completing the program, 76% of graduates had increased their revenue and 57.1% had created new jobs.*

In 2010, Goldman Sachs launched its 10,000 Small Businesses program in the US and the UK. The program provided educational material and mentorship to small business owners, while also helping them gain access to funding from sources other than commercial and retail banks. The company released a progress report on the program in 2015, and said that within 18 months of completing the program, 76% of graduates had increased their revenue and 57.1% had created new jobs.

Goldman Sachs contributed \$500 million to the initiative; \$200 million went to fund the training program and \$300 million went to support the community development financial institutions (CDFIs) that offer loans to small businesses and low-income populations. For Goldman Sachs, the CDFI investment comprised a combination of loans and philanthropic donations, meaning that this community development support could also bring economic return for the bank.

## II: LI & FUNG'S SUSTAINABILITY AND COMMUNITY ENGAGEMENT PRACTICES



*Helping people in need in the communities where the company operates, contributing to the well-being of these communities and aligning community initiatives with the company's business and supply chain activities.*

As a leader in global supply chain management, Li & Fung formalized a holistic sustainability strategy in 2009. Today, the company is working to address social needs and sustainability under the framework of shared value. Its sustainability strategy comprises four major parts:

1. **Supply chain sustainability:** Working together with suppliers, customers and industry partners to enhance supply chain sustainability and adopt higher standards in sourcing.
2. **Engaging employees:** Addressing the well-being and career development of employees in order to foster long-term employee commitment to the company.
3. **Community engagement:** Helping people in need in the communities where the company operates, contributing to the well-being of these communities and aligning community initiatives with the company's business and supply chain activities.
4. **Managing the environmental footprint:** Reducing emissions and improving energy efficiency by managing the use of resources such as energy, water and raw materials, and adopting office designs that are more environmentally friendly and energy efficient.

Below, we take a closer look at the Li & Fung's supply chain sustainability and community engagement practices and how they align with the company's business under the shared value approach.



**SUPPLY CHAIN SUSTAINABILITY**

Li & Fung sources products for brands and retailers and manages customers’ supply chains by connecting 15,000 suppliers in over 40 markets around the world. The company recognizes that sustainability in the supply chain is an integral part of its business. Shared value exists between a more sustainable supply chain (characterized by better-managed factories, improved working environments for workers and reduced environmental impact) and the long-term success of the business of supply chain management.

*Each of the diverse locations in the company’s supply chain has different challenges that the company manages in collaboration with industry colleagues, nonprofit organizations and local authorities.*



The company’s initiatives to enhance supply chain sustainability focus on three areas:

1. **Managing risk and furthering compliance in supply chains:** Li & Fung has outlined the obligations of suppliers in its *Supplier Code of Conduct*, which covers requirements regarding human and labor rights, health and safety, environmental protection, ethical conduct, and transparency. Suppliers are also expected to comply with relevant local laws and regulations. Each of the diverse locations in the company’s supply chain has different challenges that the company manages in collaboration with industry colleagues, nonprofit organizations and local authorities.
2. **Collaborating with customers and industry partners:** The company is involved in industry initiatives that bring its customers and industry partners together to set standards. For example, it is working with governmental and nongovernmental organizations to improve factory safety in Bangladesh, one of its largest sourcing markets. It is a member of the Board of Advisors for the North America–based Alliance for Bangladesh Worker Safety and the Europe-based Bangladesh Accord on Fire and Building Safety.

3. **Sourcing responsibly:** The company provides options for customers in sustainable design and manufacturing, and conducts risk and traceability assessments. These initiatives have been instituted partially in response to increasing customer awareness of the social impact of products and customers’ requests for sustainably sourced materials and products with reduced environmental impact from well-managed factories.

**Examples: Supplier Capacity Building**

Li & Fung aims to help suppliers build capacity and move up the value chain. In partnership with the nonprofit BSR (Business for Social Responsibility), Li & Fung launched *Water Management Guidelines for Suppliers*, which provide guidance on effective water and wastewater management to mitigate risks and identify opportunities for improvements in factories. Its Sustainability Resource Center website provides suppliers access to compliance resources and tools. It has collaborated with several customers and has launched pilot programs on wastewater management and energy efficiency. Lessons from these pilot programs are developed into educational materials, which can be downloaded from the company’s supplier portal and shared with suppliers to help them improve their practices.

*While the supply chain is directly related to Li & Fung’s business, the company has also extended its efforts to reach society more broadly, carrying out projects to help people in need in the communities in which it operates.*

**COMMUNITY ENGAGEMENT**

While the supply chain is directly related to Li & Fung’s business, the company has also extended its efforts to reach society more broadly, carrying out projects to help people in need in the communities in which it operates. Community engagement is a way for the company to demonstrate its values and beliefs. For example, the company says in its annual report that it believes creating positive change in the community goes hand in hand with having a successful business. “It helps us attract and retain employees and transform our people by helping them better understand our local communities and their needs,” the report states.



Li & Fung’s strategy for community engagement focuses on three areas:

1. **Investing in the potential of people through education:** The company partners with local organizations through its global network to support disadvantaged people, including children, youth and adults. It helps

them access education, job training and mentoring in order to learn new skills, including professional skills and life skills. The idea is that giving people the opportunity to learn can help change their lives and contribute to the well-being of the larger community.

2. **Helping communities in need:** Through global campaigns and locally organized activities, the company aims to raise awareness and help solve social and environmental needs. Campaigns focus on women's and men's health, blood donation, environmental protection, supporting the elderly, providing medical and food supplies to meet basic needs, and disaster relief fundraising, among other areas.
3. **Mobilizing employees and business networks for change in communities:** The supply chain helps the company connect communities around the world. It leverages its huge global network of 26,000 employees, customers, suppliers and community partners to help communities improve livelihoods, support people excluded from economic participation and develop new business opportunities that support sustainable economic development.

*In 2015, the company's employees donated over \$368,000 and provided over 30,000 volunteer hours to support community initiatives around the world.*

Li & Fung began reporting the results of its community engagement activities more systematically in 2011. In 2015, the company's employees donated over \$368,000 and provided over 30,000 volunteer hours to support community initiatives around the world.

**Examples: Empowering Disadvantaged Women**

In partnership with BSR, Li & Fung launched the BSR HERproject in factories across Bangladesh, China, India, Indonesia, Pakistan and Vietnam. The project aims to empower women working in global supply chains through education and various types of support, including health and finance. For example, HERfinance, which was launched in 2012 in India, seeks to build the financial capacity of low-income workers, particularly female workers, through work-based financial education programs and by connecting factory employees to appropriate financial services. HERhealth is a program that aims to increase women's health awareness and access to health services. By the end of 2015, the program was implemented in 89 factories and reached more than 174,000 workers in Cambodia, Bangladesh, India and Vietnam. The program has resulted in reduced absenteeism and sick leave and improved workplace communication and will be expanded further in 2016.

*HERhealth is a program that aims to increase women's health awareness and access to health services; it has been implemented in 15 factories in Cambodia and has reached more than 20,000 workers.*



*The HERproject (Photo credit: BSR HERproject)*

*The project is based on the concept that participation in the labor force helps women gain financial empowerment, which can lead to greater decision-making power for them at home; it is a way to address gender inequality while fighting poverty.*

The three-year Hemaya project in Jordan is an example of an industry initiative that brings together customers and industry partners. It is led by the nongovernmental organization CARE International and Li & Fung in partnership with one of Li & Fung’s customers, and is dedicated to promoting linkages between local employment opportunities and the local female workforce in order to raise Jordanian women’s awareness of their rights, entitlements and workplace responsibilities.

The project is based on the concept that participation in the labor force helps women gain financial empowerment, which can lead to greater decision-making power for them at home; it is a way to address gender inequality while fighting poverty. With Li & Fung’s endorsement, CARE selected five factory partners in Jordan and partnered with community-based organizations that shared the mandate of supporting women’s economic empowerment activities.



*The Hemaya project (Photo credit: CARE International)*

*As community engagement models and consumer demands evolve, large companies are increasingly moving beyond philanthropy and adopting more long-term strategies that support sustainability in supply chains as well as worker education and community well-being.*

Both the HERproject and the Hemaya project are examples of Li & Fung, in collaboration with nongovernmental organizations and business partners, helping the people who live and work in the communities in which its supply chain operations are located. The entire supply chain stands to benefit from the improvement of these female workers’ well-being, and thus shared value is created between the communities and the company.

**CONCLUSION**

The examples and cases in this report demonstrate how multinational companies are becoming a greater force in addressing social issues such as poverty, inequality and environmental problems as they learn that doing good for society does not conflict with being economically successful. As community engagement models and consumer demands evolve, large companies are increasingly moving beyond philanthropy and adopting more long-term strategies that support sustainability in supply chains as well as worker education and community well-being.



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