

**ifs School of Finance Student Investor Challenge 2008
 National Final**

Business Challenge

Time allowed: 50 minutes for tasks 1-4
 15 minutes for task 5

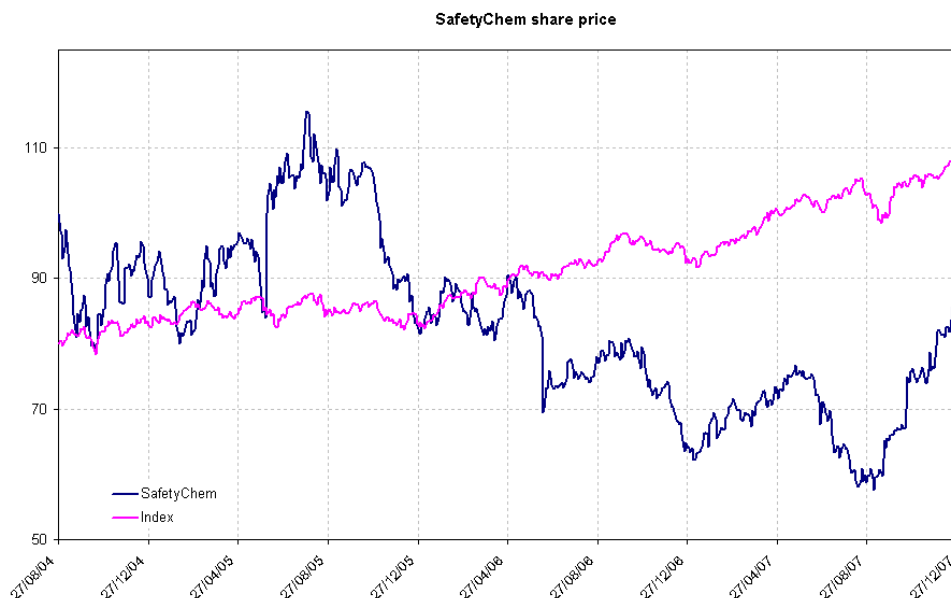
You are the Executive Team of a medium-sized company called SafetyChem, which manufactures specialty chemicals, including hazardous chemicals, especially for use in pharmaceuticals, cosmetics, agricultural and veterinary industries.

About SafetyChem

SafetyChem is a medium-sized company established 40 years ago, with a factory on the outskirts of a town called Potass, by a river that runs through the town. The population of Potass is 6,700 and many of the residents are employed in your factory. You source many of your raw materials from mines in southern Africa and have part ownership of one of the mines.

You are known as a caring employer and you try to comply with all the international standards on the environment and health and safety levels, but there have been incidents in the past that have tarnished the company's reputation. The worst case occurred 3 years ago when a large number of local children suffered stomach upsets and headaches. There was a suspicion, never proven, that there may have been a leak from the factory in to the river, where the children had been playing in the hot summer. All the children seemed to have made a full recovery.

You are very cost conscious and all your staff, including the scientists, have plenty to keep them busy. Last year the income for SafetyChem was £152,000,000, expenditure was £137,000,000, giving a gross profit of £15,000,000. After paying corporation tax of 32%, the profit was £10,200,000. This year looks like returning equally good results.



Your share price took a hit in 2005 after the health scare and it has taken some time for the share price to recover, but things are now on the up.

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is a system where organisations take responsibility for the impact of their business activities. This means that they consider the effects on customers, suppliers, employees, shareholders, communities and the environment in all aspects of their operations.

CSR involves organisations voluntarily taking steps to improve the quality of life for employees and their families, as well as for the local community and society at large. The Government is very keen for all companies to take in to consider these matters in all they do.

Corporate Social Responsibility can involve a range of activities such as:

- Working in partnership with local communities
- Socially responsible investment (SRI)
- Developing relationships with employees and customers
- Environmental protection and sustainability

Any charitable giving, including time committed by members of staff, is tax-deductible. This means that the any money given to charity is deducted from the gross profit number before tax is calculated.

Therefore, if SafetyChem had given £100,000 to charity in the year 2006/7, they would have been taxed on £14,900,000, giving a net profit of £10,132,000.

The task you are given is this.

The Board of Directors of SafetyChem has asked the Executive team to develop a CSR policy for SafetyChem. In particular they have given you four activities they wish you to consider in the area of community support.

1. Potass River Trust
2. Scientists in Schools
3. Bethnal Orphanage - Zambia
4. Potass annual Music and Arts Festival

Further details on each of these are included on a separate sheet.

Task 1

Give three reasons why it might be beneficial for your company to have a CSR policy.
(6 marks)

Task 2

Identify any problems or disadvantages you think might occur as a result of having such a policy.
(6 marks)

Task 3

Using the options suggested by your Board, outline your policy giving reasons for your decisions. Detail and justify your decisions as much as you can.
(24 marks)

Task 4

How would you raise awareness of your company's activities? You may want to consider:

- a) Your own staff
- b) Shareholders and
- c) The local community
- or d) Any other considerations you may think of.

Give an example of your strategy clearly stating which group you are targeting. (You may choose to run an advertising campaign in the Newspaper, issue a press statement, or any other awareness raising or marketing activities.) You may like to use either the laptop or other materials that are available on your tables.
(12 marks)

Resources:

Laptop with word, excel and powerpoint, A3 paper, A4 card & paper (plain & colour), pencil, pen, felt tips, ruler, sticky tape, blue tack, highlighter, post-its, prit stick, calculator, sellotape, scissors, paper clips (large & regular).

A few months after agreeing your strategy the following things occur:

1. The government changes the tax law so that tax relief is only available for giving directly to charities. This means that sponsoring the Music and Arts Festival no longer qualifies for tax relief, although all of the other activities will still attract relief.
2. A further change in the tax law means that tax relief is only available to companies giving in excess of 5% of their gross profit.
3. The Potass River Trust has issued a report on the best and worst companies in terms of their environmental impact over the last ten years. SafetyChem has appeared in the list of worst offenders.

Task 5

Outline any changes you would want to make to your policy as a result of these new developments. Give your reasons.
(12 marks)