

Some Considerations on The Role of Financial Communication Within Corporate Governance

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Abstract

On the background of a climate dominated by mistrust, suspicion and uncertainty, in contemporary society an increasing emphasis is put on financial communication as the main pillar that ensures transparency and helps the economic entity to gain credibility among stakeholders.

Financial communication has become a strategic concern, managed at top management level. The management of any entity is characterized by at least three fundamental processes: thinking, decision making and communication. Without proper thinking, no decision could be made. Without making decisions, we cannot talk about management. Without communicating the decisions made, we cannot put them in practice.

Communication is a natural process, but within the corporate governance, it occupies a significant share on the behalf of both issuers and receivers on one hand, with great care to ensure a continuous feed-back on the other hand.

Key words: financial communication, investors, corporate governance, economic entity, stakeholders

J.E.L. classification: G10, G19.

1. Introduction

Financial communication is an extremely important instrument that allows the economic entity to manage its external relations by the means of financial and accounting information, thus succeeding in the creation of an interconnection with the external environment by providing the information requested by interested stakeholders; so it is not surprising that finding the means of effective communication with the stakeholders is among the priorities of corporate governance and, in turn, a very important role is played by the communication with investors.

Financial communication occurs as a part of public relations and is aimed at present and potential shareholders and investors. The purpose of this form of communication is to support and above all to strengthen the company's stock market value and prospects, but also its credibility to shareholders and investors. From this perspective, financial communication is a competitive confrontation field, where the company convinces investors to buy its shares rather than those of its competitors. The financial communication gets integrated with some difficulty in the overall communication of the entity due to its rigorous character, which is conferred by the presentation and explanation of the financial situation of the company.

One of the problems that arise in the field of financial communication concerns the minimum of information to be included in the synthesis documents, taking into account that any form of communication is characterized by a message and a code and the recipient must have the capacity of decoding the received message. Regular disclosure of financial reports by listed companies has been and is more than necessary. Currently, not only listed companies are disseminating financial data and information. A good image, from this point of view, helps the entity obtain easier a bank loan and other various funding, attract investors and eventually determine the entity's shares to be sold at the highest price. All this is achieved through a good communication of the entity with the environment in which it operates.

2. The role of financial communication

Financial communication has the role of increasing the company's notoriety and credibility in order to attract investors. More specifically, financial communication aims to promote the company's global image on the financial markets.

Financial communication, in addition to being a genuine marketing policy of the entity, is also a legal obligation. This obligation is more stringent for listed and publicly traded entities. Initially, financial communication has been used only by companies listed on the stock exchange which presented regularly some financial reports. Gradually, these reports have gone beyond the simple staging of figures, turning into true corporate governance policies. However, nowadays, not only listed companies disseminate data regarding their financial image, being known the effect their propagation has on the competitive environment. A good financial image increases the public's confidence in the entity's shares and, consequently, the possibilities of obtaining funding sources, all of which are the result of the effective financial communication with the external environment.

The role of financial communication is to protect, but also to increase the entity's value. It can materialize, both theoretically and practically, in investing in company's values and informing current or potential shareholders, being at the same time an opportunity to identify, educate, retain and satisfy the perceptions of the target audience. Effective financial communication can show the reliability of a business that leads to gaining the public confidence. Financial communication is based on both transparency and credibility. Credibility plays a very important role in light of the information the entity provides to stakeholders, information that must fall within the scope of fairness, reality, relevance and consistency so to be perceived as credible by the stakeholders. Financial communication, as any human process, is accompanied by risks, which brings to the fore the human and professional quality, probity and use of the judgment of all the actors involved in the entity's financial communication process (Avram et al, 2017, p.44).

Financial communication of economic entities provides for the external actors an overview of:

- entity 's global image;
- entity's management message;
- entity's long-term vision;
- entity's accounting information (balance sheet, profit and loss account, balance sheet, cash flows, etc.);
- entity's financial calendar;
- entity's shareholding structure;
- entity's corporate governance.

Financial communication primarily reunites members of the entity in a dialogue of knowledge and effective actions in the field of economic activity and secondarily allows a constant flow of information between the corporate governance and stakeholders. Financial communication is represented by all the company's actions to inform shareholders and other categories of investors about the securities they hold or any timely investments, as well as the stock market regulatory, supervisory and control authorities, financial analysts, specialized media and the general public (Prutianu, 2000, p.283).

In other words, financial communication means all the measures taken by a company to inform shareholders and other categories of investors, but also regulatory, supervisory and control authorities, financial analysts, specialized media and the general public. In his *Treatise of Communication and Negotiation in Business*, Ștefan Prutianu presents the companies' necessity of persuading investors to keep the shares and securities they hold and possibly acquire other financial assets able to bring financial returns. „Beyond customers, human resources and raw materials, any company needs money. To acquire its resources, the company operates in several markets: on the commercial market it seeks customers for its products and services, on the labor market it attempts to acquire its human resources and on the capital market it seeks financial resources. On the capital market (or financial market) the listed companies no longer sell products and services but their own value, as a matter of fact they "sell" themselves. The "products" that the company promotes and sells on this market are titles or securities, commonly called shares. (Prutianu, 2008, p.265).”

Investors as well as other stakeholders acquire information about the activity of an organization from a variety of sources: media, stock exchange, financial statements, or directly from the source etc. (Leger, 2008, p. 145). In other words, financial communication is not limited to publishing the annual report (annual financial statements), but this report represents a reference point in the process due to the particularly relevant and important information disseminated on this occasion.

Financial communication role is to protect and enhance the company's shares value. This can be materialized in: an investment in company's values, informing current or potential shareholders, identifying and satisfying the perceptions of the target audience. Good financial communication has the effect of gaining public trust. Instead, the lack of transparency in terms of financial results leads to suspicion from the public, placing the entity in a shadowy cone. A remark made by a communications specialist puts financial communication in a central position in the organization's economic universe. From his perspective, this form of communication is regarded as the "respiratory system" that ensures the "oxygen exchange" with the economic environment (Domnişoru, 2011, p.35).

Accuracy of the information communicated is particularly important so that messages can be transmitted and received with little or no alteration of the original intent. The message content represents the explicit exchange of information without the involvement of individual feelings and interests. In a professional context, maximum importance and attention must be paid to this level of the communication process. Comprehensibility of content can be ensured by simplicity / clarity, structure, accuracy and reliability. Good financial communication has the effect of gaining the trust of general public, investors, business and competitive environment as well as that of the regulatory and supervisory authorities. We distinguish two forms of financial communication:

- regulatory financial communication and
- discretionary financial communication (Avram et al, 2016, p.939).

3. Organization of financial communication

Internal communication in an economic entity is very important because it is an active factor in determining the motivation and loyalty of its staff and collaborators. In the current period, the most used method of achieving internal communication is the intranet, as a form of linking all the categories of staff within the economic entity. With the help of intranet, the internal objectives of economic entity are transmitted both overall and structural, the written media receives information of interest to the organization, the improvement of professional training is ensured and the latest changes in legislation, methodological norms and the internal customs are processed. Considered as sensitive information, financial information is treated in accordance with rules such as:

- centralizing and specializing the staff structures responsible for the financial communication strategy;
- establishing the spokespersons;
- establishing a firm control over the information that comes out of the entity;
- delivering a consistent, coherent and consistent discourse.

Many entities use the institution of specialized spokesman for their relations with the media, rating agencies and financial analysts. It is an advantage for the entity to be represented by a professional in the art of communication, although for special situations it is preferable for the Board of Directors Chairman, Chief Executive Officer or Financial Director to enter into dialogue with the business community, financial media and supervisory bodies (ASF, BNR). It is necessary to organize a team specialized in financial communication subordinated to an executive director (usually the economic director), which should coordinate at least three teams covering the following tasks:

- Relations with the economic and financial press;
- Relations with analysts and supervising authorities;
- Relations with individual shareholders.

The responsible for relationships with the economic and financial media monitors all information issued in the specialized press about the economic entity, its important clients or competition, organizes meetings, conceives and delivers press releases, organizes press conferences, and is generally a person very well informed about the business environment.

The responsible for relationships with the financial analysts and supervisory institutions has the authority to monitor the relations with stock market regulatory, supervisory and control (ASF, BSE) authorities or rating agencies. The responsible for relationships with the individual shareholders shall keep in touch with the contracting registry company that maintains the Register of Shareholders as well as the Register of Shares and answers to the individual requests for financial information. The target audience for financial communication is divided into the following categories:

- Individual investors, that is to say persons who became shareholders after having subscribed and paid their quota of shares or purchased the shares on an organized market. They need processed and accessible information;
- Institutional investors, Romanian or foreign ones, have an important position in the entity's shareholding and they need direct information by telephone, fax or email, which is accepted with difficulty, and they also acknowledge such information from media release;
- Financial analysts and journalists appreciate the financial information they analyze and interpret it, informing afterwards the general public;
- Capital market, acting as an intermediary between issuers and investors, carefully keeps track of all the financial information published;
- Company employees monitor financial information to know the entity's prospects;
- Regulatory and control authorities have an interest in acknowledging the financial situation of economic entities;
- Rating agencies consider financial information the raw material for the fulfillment of their mission.

Financial communication within any entity is at least responsible for answering to its legal obligations to inform and interact with shareholders, and the most important means of communication available to economic entities are:

- Ordinary, extraordinary and special general meetings;
- Annual, half-yearly and current reports;
- Relations with the general, economic and financial media;
- Relations with investors and financial analysts;
- Financial advertising and legal announcements;
- Relationship with individual shareholders;
- Relations with own employees;
- Other events, actions and financial information documents.

All these media instruments used by financial communication have as their main objective the provision of reliable and necessary financial information needed by stakeholders in the effective decision making process.

4. Conclusions

Financial communication has become a strategic concern, managed at the level of corporate governance that ensures the transparency of financial information and contributes to proving the credibility of an entity among stakeholders. Financial communication is an approach to the entity's external environment, but its organization is an internal problem. The following rules are recommended in organizing financial communication:

- Specialization of the personnel responsible for communication and technology;
- Limiting the number of spokespersons specialized in financial communication;
- Establishing a firm control over the financial information disseminated;
- Broadcasting a one-voice speech, which is should be unitary, coherent and consistent.

Interpersonal communication is one of the most important and least understood skills that a manager might have, in fact a vital quality in order to fulfill the role of mentor. In any entity, communication has the effect of achieving the objectives and channeling energy toward solving the problems and ensuring the continuity of entity's activity in profitable conditions. Modern information technologies have an influence on communication functions and enable the communication process to be accomplished at great distances through modern communication systems. The use of e-communication with its two forms: the intranet and the extranet are of vital importance to the economic entities, providing them with the information flows necessary in the decision making process.

Communication within economic entities can be achieved in various ways, depending on the specific of companies and the strategies pursued namely oral communication, written communication, e-communication and non-verbal communication. In financial communication, the most important role belongs to written communication and, in the last period, e-communication has gained ground and a very important role is played within it by the intranet.

5. References

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