The Importance of Financial Communication in the Investment Decision

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Abstract

The paper addresses the importance of integrated reporting for financial communication. Given that investors make decisions based on the information presented in the financial statements, they should be given special importance in terms of how to prepare and disseminate them, in order to reduce uncertainties and increase their usefulness. Issuers that provide information in financial reporting need to be aware of their significant impact on investment strategies, liquidity and the level of market capitalization. Financial reporting is undergoing a profound transformation from the perspective of new processing and dissemination techniques in the digital environment, while increasingly diverse information needs are on the rise, generating pressure from users. Thus, we seek to observe to what extent investors are influenced by the general market trend and the financial performance of issuers. Trading price volatility may warrant increased attention on behalf of the investor to preliminary financial reporting in the absence of other significant events that occurred around the reporting period.

Key words: investment behavior, volatility, financial assets, financial reporting, key financial indicators
J.E.L. classification: A11, F64, Q56

1. Introduction

The use of investment resources generates situations and actions that influence the life of society. The financial-accounting information provided by the entities must meet the qualitative factor for a decision to be effective given that the users of the information are influenced by the image presented on the basis of annual financial statements.

If financial information is communicated inefficiently, the consequences can be unpleasant. For example, investors may overlook important information, leading to lost opportunities to invest. Another unfortunate example with the same result is the situations in which the relationships between different information are not well structured in the financial reporting. Therefore, good communication can motivate investors to act effectively at a low cost.

Market participants, owners, investors and creditors need concrete information about any event that may affect the business and value of an investment. Thus, it becomes essential to provide relevant and accurate information requested by both capital markets and authorities. There are also required frequent stakeholder analysis and analysis of the political situation before the process of mergers and acquisitions.

Therefore, the key action in preventing requests from participants in economic activities is "communication". This concept has been defined in various forms over the years. The origin of the word comes from the Latin language, "communis" and means "to agree", "to be in touch with" or "to be realted to", although in the vocabulary of the ancients the term also fulfilled the meaning of "to transmit to others", "to share something with others."

The most comprehensive definition we consider to be the following statement published by Charles E. Osgood in the book *A vocabulary for Talking about Communication* (1987) "In the most general sense, we talk about communication every time a system or a source influences another system, in this case a recipient, through alternative signals that can be transmitted through the channel that connects them." Given this idea, we can admit that in the science of communication "information is what is communicated in one or another of the available languages" (Tudorel, N. et al., 2006, p. 12) and at the same time "communication has the role of increasing the notoriety and credibility of the company, in order to attract investors" (Avram, A. et al., 2017, p. 43).

Regarding the communication from a financial perspective, it consists of planning some objectives and the way of using the resources, elaboration of strategies, adoption of decisions and start of actions. The transformation of decisions is due to the existence of factors among which we list the multitude of objectives, the complexity of interests, the uncertainty of situations, the unexpected reactions of the environment. It is the duty of managers to synchronize and harmonize the time and space of actions, desires and realities through the coordination function. In this case, the management process must not lack the cohesion, continuity and dynamism that, together, allow the achievement of specific objectives. Therefore, we can say that there is a basic component of the coordination function represented by communication.

2. Theoretical background

In order to substantiate investment decisions, the most valuable source of information is financial reporting. The literature (Walton & Aerts, 2006) admits that „financial reports are the only way currently available to form an opinion about a company's profitability and financial structure, in a format more or less comparable to that of other companies."

Thus, according to research by Peterson & Fabozzi (2006), "financial statements provide the information necessary to assess a company's future profits and thus the cash flows expected to be generated from those profits".

The analysis of financial statements was framed by Wild et al. (2007) in the broader context of business analysis, which states that the assessment of a company's prospects and risks is necessary in order to make business decisions. On the other hand, Benston et al. (2006) consider that "capital market investors can benefit from obtaining and interpreting quickly enough, by buying or selling shares at a price lower or higher than the market value ". To support this perspective, we also find the opinion of Stickney et al. (2007) according „the analysis of financial statements has as primary objective the evaluation of the extent to which the market offers a fair price for shares issued by a company". Based on these statements, we can conclude that the significant price changes are primarily correlated with the evolution and financial prospects of the issuers of marketable financial instruments.

In the national literature, Duțescu (2000) addresses the information needs on the capital market, stating that "the level of understanding and use of financial-quotable information by institutional investors in Romania is relatively good", since they seem "to use considerably and with great speed" this information.

3. Research methodology

The research method is based on a predominantly deductive approach, starting from the role of financial communication in the investment decision as presented in the foreign literature and in Romania and continuing with the selection and synthesis of available information on the field under research, likely to allows for documented opinions and conclusions.

4. Findings

4.1. Communication at the level of economic entity

Communication from the economic entities is a process continually redefined. The current organizational environment is characterized by continuous economic, social, informational changes that require organizations to adapt in order to remain competitive, finding new organizational formulas and strategic alternatives designed to increase their capabilities and opportunities.

The information that an organization holds is communicated to employees through internal communication. This process allows company members to understand the company's goals and values and adapt to its culture and procedures.

The life of any business is represented by the accounting data provided. Therefore, the communication of qualitative economic information generates decisions and essential actions for their future activity.

Financial accounting information is available in various forms in the annual financial statements, thus representing a well-structured and formal means of communication. This set of economic, financial, social or environmental information can be an important aid in making well-informed decisions.

4.2. Communication and the investment process

At the micro and macroeconomic level, the use of investment resources generates states and actions that influence the life of society. The financial - accounting information provided by the entities must meet the qualitative factor for a decision to be effective, given that the users of the information are influenced by the image presented on the basis of the annual financial statements.

We can define the action of investing as "a set of practical actions, performed by legal and natural persons, as well as by the state, directed towards the extended reproduction of capital to satisfy the needs of society based on the use of patrimonial and intellectual values in various projects - economic, commercial, scientific, cultural, and charitable" (Şestacovscaia, 2012).

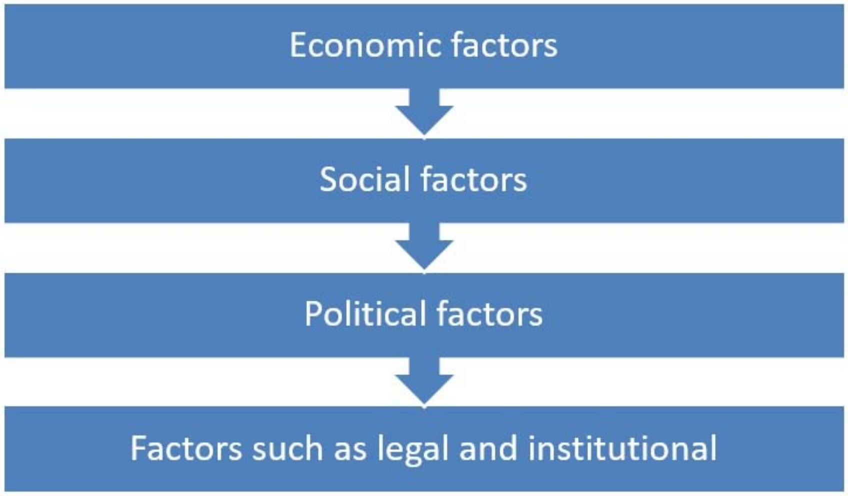
The implementation of internal accounting reporting in the decision making process has the following advantages (Figure no. 1):

Figure no. 1. The advantages of implementing accounting reporting

Source: Own processing after Nederiţa; Panuş, 2010

However, like any other action taken by the company, the investment process can be risky. Depending on their nature (Figure no. 2), the risks can be grouped as follows:

Figure no. 2. Factors influencing the investment process



Source: Own processing after Marianciuc, 2007

A business company is characterized by the interdependent nature of the environment in which it operates and which is influenced by a system composed of economic, social, political and legalinstitutional factors. In this context, "the role of financial communication is to protect, but also to increase the value of the entity" (Avram, 2017).

After analyzing the information provided through the annual statements, investors decide what is the next step in their action: whether it is worth investing in the company or not, or the information presented does meet their requirements. Last but not least, "the annual financial statements are of great importance in the process of communicating with shareholders and in developing financial analyzes useful to the entity's management, which means that it must present a true and fair view of the financial position, performance, cash flows of entity and changes in equity"(Avram et al., 2017).

4. Conclusions

Communication is a process of collecting and distributing information to the public. It takes place in several stages, each of which is intended to inform, influence and share opinions.

The article addresses the process of redefining communication at the level of economic entities in response to changes in the current economic environment. The accounting data that is provided to a company is the basis for making decisions and taking the necessary actions to carry them out, the communication of these details being useful for a company.

The annual financial statements are essential documents that support the company's operations and must be presented in a format that is consistent with applicable accounting regulations. They must be approved by the GMS members and disseminated through the appropriate channels.

The importance of communication comes from the desire to create a successful quality management system. We believe that it plays a significant role in communicating with the different levels of an organization, and internal communication plays a key role in quality management by helping to understand the objectives of the quality management system and its impact on the organization.

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