

An inclusive and integrated approach to financial communication: A conceptual model

Norlè Schoonraad, Anske F. Grobler and Daan G. Gouws

Abstract

There seems to be confusion in theory and practice about the nature of financial communication, and specifically the management and organisation thereof. The first objective of this article is to describe the current approach to financial communication, first from an investor relations perspective and then from an accounting perspective. Based on a review of relevant literature and a short description of the findings of previous empirical studies conducted in the United States of America, United Kingdom, Europe and South Africa, shortcomings of both approaches are identified. The most important shortcomings are a lack of coordination and integration in financial communication efforts and a narrow focus on the financial community alone (an exclusive approach). The second objective of the article is to propose an inclusive and integrated approach to the management and organisation of financial communication. This is done in the form of a conceptual model, which is based on perspectives from the public relations, investor relations, accounting and general management literature.

1. Introduction

Financial communication is interdisciplinary in nature and as a result there is no single body of knowledge devoted to the concept. In theory as well as practice, financial communication has been characterised by constant turf wars, mainly between the disciplines of public relations (specifically financial public relations as subdiscipline) and accounting, and lately the *specialised* field of investor relations. The results of previous empirical studies conducted in the United States of America (US) (Petersen and Martin 1996), United Kingdom (UK) (Marston 1996; Dolphin 2004), Europe (Marston and Straker 2001) and South Africa (Schoonraad 2003) confirm this phenomenon.

Owing to the demands of a changing business landscape and in the light of new theoretical developments in general management, public relations and accounting, these turf wars are counterproductive and unnecessary. Against the background of the main findings of previous empirical studies, including the one conducted by Schoonraad (2003), it is argued in this article that the interdisciplinary nature of financial communication can be utilised to the advantage of the organisation as well as its multiple stakeholders.

2. Definition of terms

Financial communication might be defined in the following way:

The establishment and maintenance of mutually beneficial relationships between an organisation and its relevant stakeholders, by exchanging information that is needed to facilitate optimal decisions regarding the allocation of scarce resources (financial and non-financial).

The first part of the definition stems from Cutlip, Center and Broom's (1994, 2) definition of public relations as 'the management function that establishes and maintains mutually beneficial relationships between an organisation and the publics on whom its success or failure depends'. The second part of the definition comes from the accounting literature. For example, Work, Tearny and Dodd (2001, 3) refer to the use of accounting information by investors, creditors and other outside parties for decision-making purposes. Lastly, Belkaoui and Jones (1996, 29), Glautier and Underdown (1997, 16), and Lehman (1992, 21) refer to the role of accounting information in the allocation of scarce resources.

There are numerous terms related to the concept *financial communication*, most notably *financial public relations*, *accounting* and *investor relations*. For the sake of clarity, the term *financial communication* is used as an umbrella term to encapsulate all of the above-mentioned terms. However, in the review of literature that follows, the terms *investor relations* and *accounting* are used to describe specific approaches to financial communication.

It is also important to note that it is difficult to distinguish clearly between the terms *financial public relations* and *investor relations*. Financial public relations originally developed as a subdiscipline of public relations. However, some public relations textbooks use the term *investor relations* (Baskin, Aronoff and Lattimore 1997; Cutlip, Center and Broom 2000; Seitel 2001). Currently, this term is used more often than the term *financial public relations*. What makes the distinction between the terms difficult is that there is an increasingly popular view that investor relations is a discipline on its own and is seen by some as no longer being a subdiscipline of public relations. The use of the word 'investor' also contributes to the confusion. It can be literally interpreted to refer to shareholders only, but it can also be interpreted in a broader sense to refer to all parties that invest in a company. In section 5.4 it is argued that this investment is not always purely financial in nature. To avoid confusion, the term *investor relations* is used in this article and should be interpreted in the broader sense. Where the term is used to refer to the separate and distinct discipline it is indicated as such.

It is suggested in this article that financial communication should be managed and organised in an inclusive and integrated manner. The term *inclusive* is used in the stakeholder literature. For example, Clarke (1997, 214) uses the term *inclusive company* to describe the importance of managing stakeholder relationships. In similar fashion, the 2002 King Report on Corporate Governance (King Committee on Corporate Governance

2002, 98) advocates an inclusive approach - all stakeholders concerned should be considered when developing a company's overall strategy. An *inclusive* approach to financial communication is therefore operationalised as 'communication with all relevant stakeholders that need financial information, in order to make decisions regarding the allocation of their scarce resources (financial and non-financial)'.

Several authors note the lack of integration in investor relations efforts (Ferris and Newman 1991; Johnson 1990; Neilson 1990; Petersen and Martin 1996). Others emphasise the importance of coordination and cooperation between investor relations and other functions. For example, Johnson (1990, 26) refers to cooperation between two realms of corporate communication - investor relations and other public relations. Similarly, Ferris and Newman (1991, 18) report that the findings of a 1991 survey of investor relations practitioners in the US indicate increasing interdependence between investor relations and other public relations functions and departments such as human resources, finance, accounting and law, the company secretary and the offices of the chief executive officer (CEO) and chief financial officer. Therefore, an *integrated* approach to financial communication is operationalised as 'co-operation and coordination between functions/departments and their respective managers, in the management and organisation of financial communication'. The term *management* refers to reporting relationships between senior management and subordinates, while the term *organisation* refers to the position of financial communication in the organisational structure.

3. The investor relations approach to financial communication

During the 1930s investor relations developed as a subdiscipline of public relations. Its development followed the introduction of the Securities Act of 1933 and the Securities Exchange Act of 1934 in America (Seitel 2001, 458). The importance of investor relations increased during the 1960s when investors turned to stock markets to make their fortunes (Seitel 1995, 398). The main functions of investor relations were performed by former financial journalists, who wrote press releases and exchanged information with newspapers (Davis 1995, 72). It entailed little more than crisis management (Rao and Sivakumar 1999). The 1980s became known as the era of mergers and takeovers (Cutlip et al. 2000, 474). As a result, investor relations gained special prominence and was recognised as a full-time professionalised operation by the 1990s (Rao and Sivakumar 1999). According to White and Mazur (1996, 218), investor relations is one of the most challenging areas of corporate communication.

It is important to note that most definitions of investor relations only refer to communication with the *financial community*. Stakeholders who are traditionally not seen as members of the financial community, such as employees or customers, are not mentioned in most definitions. For example, Baskin et al. (1997, 317) and Cutlip et al. (1994, 101) define investor relations as the building of positive relationships with the

financial community. Marston (1996, 477) defines investor relations as the link between a company and the financial community. Savage (1970, 125) describes the financial community as 'those through whom the buyers and sellers of securities transact their business'. In his definition of investor relations, Andrew (1990, 22) refers to specific members of the financial community, namely financial institutions, investment analysts, shareholders and the financial press. Similarly, Marston and Straker (2001, 82) include analysts, investors and potential investors in the financial community.

Some definitions of investor relations only refer to investors, without a clear indication of whether the term *investors* should be interpreted in a narrow or a broad sense. For example, Brown (as quoted in Rao and Sivakumar, 1999) and Farragher, Kleiman and Bazaz (1994, 404) define investor relations as providing present and potential investors with information about a company's performance and future prospects. Arfin (1994, 7) refers to 'managing the interface' to describe the flow of information between a company, investors and those who influence investors.

In a small number of cases, investor relations is defined in a broader sense. Buchner (1994, 231) defines *financial public relations* (read *investor relations*) as 'the science of communicating with specific target audiences, respectively or generally, about a company's trading activities and conditions, financial status, strategy, and values, on a consistent basis, so that they may accurately evaluate their investment'. Although it is commonly thought that shareholders are the only target audience of investor relations, other target audiences include financial institutions, creditors, financial analysts, customers, employees, government, opinion leaders, the general public, the media, trade unions and pressure groups (Buchner 1994, 233-235). In its latest definition of investor relations, the National Investor Relations Institute in America (NIRI) refers to two-way communication between a company, the financial community and other constituencies, although 'other constituencies' is not clearly defined (NIRI 2003).

3.1 The management and organisation of investor relations

A subject of continuous debate is the management and organisation of investor relations within the organisation. Marston (1996, 481) observes that personnel of varying degrees of seniority can take responsibility for the *management* of investor relations. At the lowest level, one usually finds an investor relations officer (IRO). According to Marcus and Wallace (1997, 316) and Wilson (1980, 10) the investor relations officer must have ready access to top management. This is to ensure that this person is fully informed of top-level policy and planning (Savage 1970, 127). Arfin (1994, 49) states that the IRO can either report to the corporate affairs manager or to the financial director.

Results of previous studies about the management of the investor relations function suggest that in most cases, the IRO reports to the financial director or CEO. For example, in 1991, Marston (1996) conducted a survey amongst the Top 500 UK companies to

investigate the organisation of the investor relations function. In 1998, Marston and Straker (2001) investigated the approach to investor relations followed by the Top 80 European companies (excluding UK-based companies). In both these studies, the majority of IROs reported to the financial director or the CEO.

There is no consensus in the investor relations and public relations literature regarding the *organisation* of investor relations. Cutlip et al. (1994, 19) view investor relations as a specialised part of public relations. Hanrahan (1997, 149), on the other hand, contends that investor relations can be the responsibility of many departments. According to White and Mazur (1996, 219) and McGrath (1974, 36), some companies place investor relations in the financial director's department, while others place it in the communication, public relations or public affairs department. Grunig and Hunt (1984, 352) define *investor relations* as a 'hybrid of public relations and corporate finance'. However, Petersen and Martin (1994, 3) remark that this definition could lead one to believe that these disciplines are equal contributors to investor relations, which in many cases they are not.

Diamond (1997, 29) observes a trend where investor relations is increasingly being isolated from the public relations function. Hutton (1999, 203) also notes that public relations is losing functions such as investor relations and government relations to other functional areas within organisations. Public relations practitioners are often criticised for their lack of knowledge and understanding of the financial dynamics of organisations. For example, Marcus and Wallace (1997, 2) *describe financial public relations* as 'a poor adaptation of the basic skills and promotional techniques of public relations'. They further claim that investor relations is not merely public relations directed at the financial community, but a highly specialised and separate field.

The results of previous studies offer no conclusive answer regarding the organisation of investor relations, although the financial department seems to dominate. In Marston's (1996, 482, 484) 1991 study, 35.9 per cent of the respondents placed investor relations under the financial director's department, while only 19.9 per cent of the respondents indicated that the public relations department carried out investor relations. Petersen and Martin (1994, ii) found in their study that CEOs did not view investor relations as a public relations function, but preferred that financial departments conduct investor relations. During 1998, Marston and Straker (2001, 87) investigated the approach to investor relations followed by the top 80 European companies (excluding UK-based companies). In this study 31 per cent of the respondents stated that investor relations was conducted within the financial director's department. Only five per cent of respondents indicated that investor relations was part of the public relations department.

The study conducted by Dolphin (2004) is one exception. Twenty-one interviews were conducted with representatives of the 'top layer of British industry'. In this study, 55 per cent of respondents indicated that the communication executive takes responsibility for investor relations. Another exception is the study conducted by Schoonraad (2003). The

300 largest South African companies listed on the Johannesburg Securities Exchange were surveyed. In this case, 23.7 per cent of respondents indicated that the financial department takes responsibility for financial communication, while 18.4 per cent indicated that the public relations or corporate communication department took responsibility. What distinguishes this study from the ones conducted abroad is the inclusion of the 'cross-functional team' variable in the question regarding the organisation of financial communication. The largest percentage of respondents (36.8%) selected this option.

In conclusion, it can be said that the financial department, and therefore the accounting function, currently plays a dominant role in financial communication. This might explain why definitions of investor relations place so much emphasis on communication with the financial community.

3.2 Shortcomings of the investor relations approach

The most important shortcoming is the lack of coordination and integration in investor relations efforts as referred to by Ferris and Newman (1991), Johnson (1990), Neilson (1990), and Petersen and Martin (1994; 1996). Empirical research results reveal the same trend (Dolphin 2004; Marston 1996; Marston and Straker 2001; Petersen and Martin 1996). Schoonraad (2003) found that there is evidence of an integrated approach to financial communication in the South African context, as 36.8 per cent of respondents in her study indicated that a cross-functional team takes responsibility for financial communication. However, owing to the exploratory nature of the research and a low response rate (12.7%), the findings of the study cannot be generalised to the overall population of South African listed companies.

A second shortfall of the investor relations approach is that most definitions of investor relations only refer to communication with the financial community. Although it is not denied that communication with the financial community is vitally important, it will be argued in a forthcoming section that financial communication should involve a wider spectrum of publics or stakeholders. Before this argument can be made, it is important to understand the accounting approach to financial communication.

4. The accounting approach to financial communication

The accounting discipline has a much longer history than public relations or investor relations. According to Belkaoui and Jones (1996, 1), the first form of financial record keeping was used approximately 3 000 be. In 1494 Luca Pacioli published a book that explained the double-entry bookkeeping system. The practice of reporting financial results to investors and the public (financial disclosure) originated during the mid-nineteenth century (Puxty 1990, 350).

According to Gouws and Terblanche (1998, 91-119) new definitions of accounting emphasise the importance of communication and consider accounting to be a communication discipline. Is this accurate when one takes into account that financial disclosure is typically a one-way process and communication ideally a two-way process? For example, Mautz and Sharaf (1961, 14) define accounting as the collection, summarisation and communication of financial data. Although the term *communication* is used in the definition, no explanation is given of how accounting makes provision for feedback from the recipients of financial data. Using the term *disclosure* might have been more appropriate.

Davis, Menon and Morgan (1982, 309) describe four images that shaped the development of financial accounting, namely accounting as a historical record, a descriptor of current economic reality, a commodity and an information system. These four images, especially accounting as an information system, provides a useful starting point for the argument that financial disclosure cannot be considered as financial communication per se.

According to the first image (historical record), accounting records the history of the organisation in financial terms. For example, Willmott (1990, 315) states that accounting quantifies and reports the basic facts of economic life - that is, calculating, organising and regulating the processes of production and exchange. Accounting is seen as monitoring past performance, and facilitating rational and efficient decision-making regarding the generation and allocation of scarce resources. However, this image of accounting has been criticised on the grounds that historical costs are not necessarily reflective of economic reality.

The image of accounting as descriptor of current economic reality emphasises the measuring of true income - the change in the wealth of a firm over a period of time (Belkaoui and Jones 1996, 69; Davis et al. 1982, 310; Laughlin and Lowe 1990, 18). Current and future prices are considered to reflect economic reality more accurately than historical prices.

The third image considers accounting information to be a commodity (Davis et al. 1982, 312). Accounting information has an impact on the welfare of various groups in society which creates a demand for this type of specialised information (Belkaoui and Jones 1996, 69). Therefore, the role of accounting information is investigated in terms of supply and demand analyses, information economics and agency theory.

The image of accounting as an information system currently dominates accounting thought and research (Davis et al. 1982, 311). Accounting can easily be analysed as an information system, according to Gouws and Lucouw (1999, 101). Elements of accounting as an information system include input in the form of raw financial data, processing of this data and output of financial information in the form of financial reports (Glautier and Underdown 1997, 11).

However, Gouws (1997, 63) notes that accountants are unable to take accounting further than financial reports. The challenge is therefore to bridge the gap between the organisation's accounting information system and users' information needs. According to Laughlin and Lowe (1990, 18) the accounting information system should in the first place be designed around the information and decision needs of its users. Cox (2003, 303) argues that modern accounting systems should provide information which will meet the requirements of both the organisation and individuals. Glautier and Underdown (1997, 11) refer to managers, shareholders, employees, customers, creditors and the general community as users of accounting information.

The objective of accounting as information system should therefore be to enable various stakeholders to make optimal decisions about the allocation of scarce resources (Belkaoui and Jones 1996, 29; Glautier and Underdown 1997, 16; Lehman 1992, 21; Tinker 1985, xx). This decision - usefulness objective has received much attention in accounting literature during the past four decades (Gouws and Lucouw 1999, 101; Wolk et al. 2001, 170). Prior to this, the stewardship objective (accountability to business owners regarding the utilisation of resources) was dominant.

4.1 The accountability (stewardship) objective of accounting

Traditionally the role of accounting was understood in terms of the accountability or stewardship objective (Lehman 1992, 18; Puxty 1990, 350), based on agency theory. An agency relationship consists of a principal and an agent. In legal terms, an agent is someone who is employed to represent the interests of another person (the principal) (Wolk et al. 2000, 100).

The implication of agency theory is that an information system is needed which will help the principal to monitor agent behaviour and curb opportunism (Eisenhardt 1989, 64). One such an information system is accounting. Information is provided to owners (principals) to help them evaluate the way in which managers (agents) utilised resources entrusted to them. Wolk et al. (2001, 46; 101) observe that many agency relationships are monitored and governed by routine financial reporting. According to Tinker (1985, xvii), this is known as *stewardship*, or *accountability by managers to the owners of the firm*. Gouws (1997, 66) notes that the decision-usefulness objective has lately encompassed, but not replaced, the rather narrow stewardship objective.

4.2 The decision-usefulness objective of accounting

In their definition of financial accounting, Wolk et al. (2001, 3) refer to the use of accounting information for assessing management performance as well as making decisions. Imam (2000, 133) declares that financial reporting should provide information that is useful for making rational investment, credit and other related decisions. The first document to recognise the decision-usefulness objective was Accounting Principles Board

(APB) Statement No. 4, published by the Accounting Principles Board in America in 1970 (Puxty 1990, 350). Since this recognition, the decision-usefulness approach has been characterised by an ever-growing body of research, focusing on the users themselves, their decisions, information needs and information-processing abilities.

The decision-usefulness objective has been criticised on the grounds of user diversity. According to Cox (2003, 304), user diversity presents a major challenge to accounting systems. The main concern is that users are diverse in terms of the decisions they need to make and possibly their information needs as well. There are two views in this regard. The first view is that multiple sets of accounting information are needed to accommodate the diverse decisions and information needs of users. The second view is that although there are different user groups, they make similar decisions and therefore have similar information needs. The assumption that user needs are actually heterogeneous still needs to be proved empirically (Wolk et al. 2001, 191).

4.3 The expanding role of the accounting profession

A prominent trend at present is the expansion of the accounting profession into other fields and disciplines. It is assuming a broader role within organisations and within society (Bedford and Shenkir 1987, 90). Accounting services are becoming broader in scope, which in turn, require an extremely high level of professional competence from accountants.

Traditionally, the role of the accountant in a company was to keep record of the flow of money in and out of the company, interpret this information and report it to the Board of directors and investors. Nowadays, accountants are expected to be entrepreneurs, financial analysts, sales persons, good communicators, negotiators, public relations specialists and managers (IFAC 1996, par 8). According to Favaro (2001, 4-5), chief financial officers are now expected to play dynamic roles in four crucial areas: strategic planning, information management, investor relations and organisational leadership.

Professional accounting bodies such as the International Federation of Accountants (IFAC) and the American Accounting Association (AAA) recognise the importance of communication in the practice of accounting. Accounting education has been struggling to meet the demands of an expanding profession (Bedford and Shenkir 1987, 85) and there have been several calls for a reorientation of accounting education (IFAC 1996; AECC 1990). However, the emphasis is currently more on incorporating courses in interpersonal and business communication skills in accounting curricula, and less on making accounting students aware of the role of accounting in the financial communication process.

4.4 Shortcomings of the accounting approach

The most important shortcoming of the accounting approach is that financial disclosure is often mistakenly equated with financial communication. This would have been true if disclosure processes made provision for feedback from recipients or users. However, disclosure is in most cases a one-way process and can therefore not be seen as communication.

Another shortcoming of accounting is its narrow focus on the financial community. Lehman (1992, 22) contends that the belief that the maximisation of shareholder wealth will lead to the maximisation of societal wealth, is problematic. Shareholders' interests are not necessarily representative of the interests of society.

A third shortcoming of accounting is its emphasis on historical data. Both Lehman (1992, 2) and Lundholm (1999, 316) warn that accounting is losing its relevance. By the time that annual or quarterly financial reports are published, the information they contain has long been available from other sources, and has already been 'absorbed' into share prices.

Finally, expectations of the accounting profession and professional are broadening all the time. Current accounting education is not adequate to meet the requirements of an expanding profession (Bedford and Shenkir 1987, 85).

5. Theoretical perspectives surrounding an inclusive approach to financial communication

It has been noted above that current approaches to financial communication (investor relations and accounting) focus more on the financial information needs of members of the financial community (from here on referred to as *financial stakeholders*) and less on the financial information needs of non-members such as employees and customers (from here on referred to as *non-financial stakeholders*). It can therefore be said that financial communication is currently characterised by an *exclusive* approach. This is in direct contrast to sentiments expressed in the corporate governance, corporate social accounting, corporate social responsibility, stakeholder and public relations as relationship management literature. The following brief overview of these topics contributes to a better understanding of the meaning and necessity of an inclusive approach to financial communication.

5.1 Corporate governance

Corporate governance is essentially about responsible leadership and management of a company (Naidoo 2002, 1). It encompasses, among other things, a company's accountability to the broader society in which it operates. Following the same line of thought, Halal (2000, 10) states that corporate governance has evolved from a traditional profit-centred model to a social responsibility model. The 1994 King Report on Corporate

Governance was one of the first of its kind, worldwide, to advocate an integrated approach to corporate governance that goes beyond financial and regulatory aspects. The interests of a wide range of stakeholders need to be considered, by adhering to principles of good financial, social and environmental practice - the triple bottom line (King Committee on Corporate Governance 2002, 7; Naidoo 2002, 125).

The 2002 version of the King Report on Corporate Governance lists seven characteristics of good corporate governance, including transparency, accountability, fairness and social responsibility (King Committee on Corporate Governance 2002, 11-12). *Transparency* is a measure of management's ability to make information available that is candid, accurate and timely, so that investors can make informed decisions. This is related to the decision-usefulness objective of accounting. Although the King II advocates an inclusive stakeholder approach, it rejects the notion that companies are *accountable* to all stakeholder groups. In all *fairness*, corporate governance requires that the interests of stakeholders, identified by the company as important and relevant to its business, should be taken into account. Thus, an inclusive approach should still be realistic. Companies cannot be accountable to *all* stakeholder groups that exist. Furthermore, a company is seen as *socially responsible* if it is non-discriminatory, non-exploitative and environmentally responsible.

5.2 Corporate social accounting

The concept of *corporate social accounting* is closely related to the inclusive approach suggested in the 2002 King Report on Corporate Governance. Jones (1990, 272) reports that interest in news forms of corporate reporting, which consider wider audiences and content, can be traced back to the 1970s. It took some time, however, for the accounting profession to acknowledge this new school of thought. Kam (1990, 50), for example, reports that both the Accounting Principles Board and Financial Accounting Standards Board ignored society as a user of accounting information. In 1977 a special committee of the American Accounting Association was one of the first to acknowledge society as an indirect user of accounting information. In an article published in 2000, Imam (2000, 133) comments that financial reporting still, to a certain extent, ignores exchanges between a firm and its social environment.

Kam (1990, 50) argues that since all members of society are affected by reported accounting information, society can justifiably be considered as a user of this information. Supporters of corporate social accounting claim that the modern business enterprise has responsibilities beyond legal obligations to shareholders, namely obligations to other stakeholders. These stakeholders include equity investors, loan creditors, employees, analyst-advisors, business contacts, the government, consumers and the community or neighbourhood and are actual or potential users of accounting information (Jones 1990, 272)

5.3 Corporate social responsibility

According to Havenga (1997, 135), corporate social responsibility 'involves the voluntary sacrifice of profits in the belief that its consequences will be superior to the results of a policy of pure profit maximisation'. However, Naidoo (2002, 127) points out that the so-called trade-off between socially responsible investment and profit is a myth. The philosophy underlying corporate social responsibility does not require that companies totally abandon the profitability motive. Rather, society grants organisations their 'licence to operate' by providing them with resources and infrastructure. Organisations therefore need to account how these resources were utilised to the benefit of itself and society - triple bottom line accountability.

There is also a link between corporate social responsibility and public relations. According to Frankental (2001, 22), corporate social responsibility is often regarded as an add-on to public relations or a 'public relations exercise'. However, Seitel (2001, 87) states that most firms view corporate social responsibility as a way of life. Be that as it may, the important thing is that both public relations and corporate social responsibility scholars recognise the importance of quality relationships with key stakeholder groups (Clark 2000, 376). Grunig and Hunt (1984, 48) declare that public relations is the practice of social responsibility, while Grunig (1992, 240) identifies social responsibility as one of 12 characteristics of excellent organisations.

5.4 Stakeholder theory

Freeman (1984, 25) defines stakeholders as any group or individual who can affect, or is affected by, the achievement of the firm's objectives. Although a large part of the stakeholder literature has been devoted to the debate around shareholder interests versus stakeholder interests, there is also a body of literature that suggests that these interests are not necessarily in conflict (Cassidy 2003; Freeman and Liedtka 1997; Hasnas 1998; Post, Preston and Sachs 2002; Vinten 2000). The emphasis is rather on collaborative stakeholder relationships (Halal 2000, 12). Organisations should strive to create combined value, by implementing strategies where shareholder value and stakeholder value are mutually reinforcing (Cleland and Bruno 1997, 27).

The question is: is there something wrong with a narrow, exclusive approach to financial communication? After all, *financial* information is communicated to *financial* stakeholders. Do other 'non-financial stakeholders' really need financial information? Ackoff's (1994, 39) system perspective of the organisation presents a strong argument in favour of an inclusive approach to financial communication. According to this perspective all stakeholders make investment decisions regarding the allocation of their scarce resources (financial and non-financial) (Etzioni 1998, 680). Although all these investments are not necessarily financial in nature, they do have financial implications. For example, current and potential employees need financial information about salaries

and benefits, so that they can decide whether to invest their skills and resources in the organisation or not. In other words, stakeholders need information, specifically financial information, about the organisation in order to

- make informed investment decisions
- decide whether they should enter into, maintain or end a relationship with the organisation.

5.5 Relationship management

It is argued that stakeholder relationships are the contemporary organisation's most valuable assets. Since the late 1990s, various scholars have defined *public relations* in terms of relationship management (Burning and Ledingham 2000, 85; Ledingham and Bruning 2000, 56). But what motivates organisations and stakeholders to engage in relationships with each other? Broom, Casey and Ritchey (1997) identify certain antecedents to relationships, including the need for resources. According to resource dependency theory, organisations and stakeholders enter into relationships to exchange resources (such as money, physical facilities and materials) (Broom, Casey and Ritchey 2000, 11; Hallahan 2000, 503). This is especially significant, as financial communication facilitates decisions regarding the allocation of scarce resources.

6. An inclusive and integrated approach to financial communication

In Section 3 it became apparent that, in most cases, the financial function assumes responsibility for financial communication. This is not a situation conducive to an inclusive approach to financial communication. According to Vinten (2000, 381), accountants are, by stereotype, not known for their recognition of the wider stakeholder concept. The main focus of accounting theory and practice is not on the management of stakeholder relationships. However, according to a growing body of literature, it is the main focus of public relations. It is therefore suggested that an *inclusive* approach to financial communication necessitates an *integrated* approach to the management and organisation of the financial communication process. This process is depicted in Figure 1.

Figure 1 represents a conceptual model for an inclusive and integrated approach to financial communication. It might seem from Figure 1 that the financial communication process is conceptualised as a linear one, with different managers and departments assuming responsibility for different stages. This is not the intention of the conceptual model. The model rather suggests that the entire financial communication process should be managed and organised in an interdisciplinary or cross-functional manner. The block in the centre of the model represents the cross-functional team responsible for the financial communication process. The white blocks represent five steps in the financial communication process. As indicated by the large block arrows, the public relations manager, investor relations manager (as specialist), the financial director and their

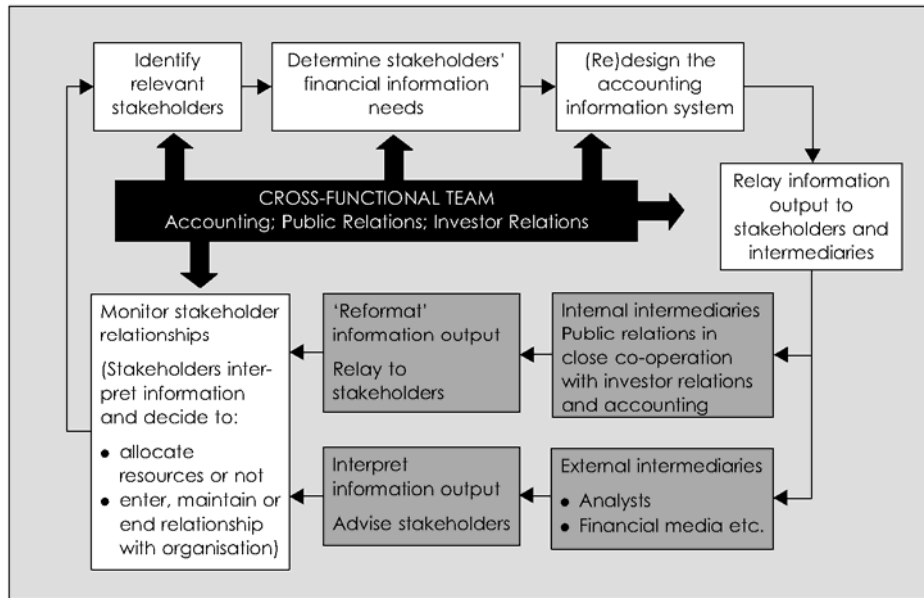


Figure 1: Conceptual model for an inclusive and integrated approach to financial communication

respective departments should be involved in all the steps to a greater or lesser extent, depending on the expertise needed. The four shaded blocks provide information regarding internal and external intermediaries and their respective roles in the financial communication process. Also note that financial communication is depicted as a continuous process as indicated by the thin line arrows. The process does not stop at the fifth step - monitoring stakeholder relationships. The information obtained in this step should be used to reconsider the list of relevant stakeholders. Some stakeholders might not be relevant any longer, while there might be new ones that should be added to the list. A new cycle of the financial communication process is thus started.

In order to explain the reasoning behind the conceptual model, the five main steps in the financial communication process are discussed separately in the subsections that follow.

6.1 Identify relevant stakeholders

In following an inclusive approach, the first step in the process should be to identify all relevant stakeholders. According to Grunig and Repper (1992, 117; 126), this is the strategic role of public relations. It is therefore proposed that public relations should play an active role in identifying all *potential* stakeholders, financial and non-financial. However, all stakeholders are not equally important at a certain moment. Some might be active (strategic) while others might be passive (less strategic). According to Grunig and

Huang (2000, 32) separating strategic publics (or stakeholders in more general terms) from less strategic ones is not an easy task. Each member of the board of directors might have a different perception of what makes a public strategic or not. This, however, is not necessarily a drawback. It is proposed that the distinction between active (strategic) and passive (less strategic) publics should not be made by public relations alone. The perspectives and experience of the investor relations manager, the financial director and other Board members are important. Thus, a cross-functional team should take responsibility for the identification of stakeholders concerned, 'financial' and 'non-financial'. This is to ensure an inclusive approach to financial communication.

6.2 Determine stakeholders' financial information needs

In section 4 it is argued that the design of the accounting information system should be based on the information needs of its users. According to Glautier and Underdown (1997, 362) determining or defining these needs may be approached in two ways. The first approach involves empirical research. Survey research might be appropriate in the case of large stakeholder groups such as individual shareholders and employees. In the case of institutional shareholders, analysts and the financial media, interviews and focus groups might be considered. The choice of a research method will also be determined by the availability of resources (funds as well as staff capacity and knowledge).

The second approach involves trying to understand the types of decisions stakeholders are faced with and then suggesting what information they require (Glautier and Underdown 1997, 362). The experience and knowledge of the financial director and the investor relations manager (and their respective departments) will play an important role in this approach, but determining stakeholders' financial information needs should never be reduced to a guessing game. It is suggested that this approach should be complimented with empirical research. Eccles and Mavrinnac (1995, 24) recommend a rigorous, systematic approach to data collection about stakeholders' financial information needs. The public relations function can make an important contribution in this regard, by virtue of its boundary-spanning role. Because the function operates 'at the edge of the organisation' (Steyn and Puth 2000, 19), it is in an ideal position to gather and interpret information about the external environment, and specifically the financial information needs of stakeholders.

6.3 (Re)design the accounting information system

Theoretically speaking, it makes sense that an organisation's accounting information system should be designed around the information needs of users. According to Stanton (1997, 684), shareholders, creditors, customers, suppliers, government and the public are commonly cited as users of accounting information. In other words, financial and non-financial stakeholders are considered as users of accounting information. However, it

cannot be assumed that adherence to formal disclosure requirements will guarantee that all stakeholders' information needs will be met. For example, Stanton (1997, 684) states that, due to the user primacy principle (as advocated by the Financial Accounting Standards Board in the US), the emphasis of disclosure is more on the interests of investors and creditors than the interests of non-investors. According to Work et al. (2001, 242) the rationale behind this principle is that the information needs of non-financial stakeholders are similar to those of investors and creditors.

In South Africa, the 2002 King Report on Corporate Governance advocates an inclusive approach, in which the needs of all relevant stakeholders are recognised. It must be noted though, that the principles of the King II do not dictate a mandatory course of action (Naidoo 2002, 157). Thus, the reality is that the design of an organisation' accounting information system is first and foremost determined by generally accepted accounting principles (GAAP), as well as the various disclosure requirements applicable in a particular country. Within the framework of GAAP and these disclosure requirements, financial stakeholders such as shareholders and creditors have a legal right to accounting information, but non-financial stakeholders can only claim a moral right (Stanton 1997, 687). To accommodate the financial information needs of *all* relevant stakeholders, organisations might have to follow the route of voluntary disclosure.

Eccles and Mavrinac (1995, 23) contend that voluntary efforts to improve the disclosure process will probably be more effective than trying to change disclosure rules and regulations. Voluntary disclosure of information might include forecasts of sales and earnings, new product announcements, announcements of strategy changes and planned capital expenditures and other background information that will help stakeholders in their decision-making processes (Lev 1992, 25).

In Figure 1 the financial communication process is depicted as dynamic and continuous. No element of the process should be seen as static or cast in stone. Stakeholder groups are not equally strategic and active at all times, and their information needs will vary. Therefore, the accounting information system should constantly be adapted or redesigned in order to accommodate stakeholders' changing information needs. This should be done in accordance with mandatory disclosure requirements, as well as the organisation's voluntary disclosure policy.

6.4 Relay information output to stakeholders and intermediaries

The output of the accounting information system can be relayed to stakeholders by using a variety of communication media. Annual and interim reports (printed and online), the annual general meeting (AGM), press releases to the financial media and meetings with analysts are a few of the commonly used options. However, not all stakeholders are able to interpret and use financial information in the format dictated by statutory requirements. Intermediaries are needed to either 'reformat' the information, or to interpret it and advise

stakeholders accordingly. In the first instance the communication knowledge and skills of the public relations manager are needed to 'translate' or 'reformat' the information so that less sophisticated stakeholders can understand and use it. In this way, the public relations manager fulfils the role of internal intermediary. However, the public relations manager should at least have a basic understanding of financial information (Diamond 1997, 30) and should conduct the 'translation' process in close co-operation with the financial director and investor relations manager.

There are also external intermediaries such as analysts and the financial media involved in the financial communication process. For example, analysts receive financial reports from the organisation and gather additional information from electronic information services, meetings and telephone conversations with company executives and visits to company facilities (Libby, Libby and Short 1998, 239). They collate and interpret the information and then make buy, hold or sell recommendations to existing and potential shareholders. Financial journalists gather and receive information by similar means as analysts. They use the information to formulate opinions on the advantages and disadvantages of investing in the organisation.

6.5 Monitor stakeholder relationships

Finally, the cross-functional team will have to monitor the organisation's relationships with the various stakeholder groups. The following should be considered: is the information provided to each group adequate to facilitate informed decisions regarding the allocation of scarce resources (financial and non-financial)? Why was a particular relationship terminated, or why did a particular stakeholder decide not to enter into a relationship with the organisation? This step is necessary to ensure that financial communication remains a two-way and interactive process.

Although the conceptual model only focuses on the contributions of public relations, investor relations and accounting, it is acknowledged that other types of expertise, for example legal and marketing expertise, are also needed. An organisation has to abide by certain rules and regulations related to financial disclosure, and it also needs to 'sell its shares', in order to attract the capital it needs.

7. Conclusion

The following abbreviated quote from Varey and White (2000, 5) sums up the main argument of this article:

Rather than seeing traditional departments and narrow specialist groups operating in institutional 'silos' in competition: for supremacy; to protect their 'turf ... for 'a seat at the boardroom table' ... to secure 'the ear of the dominant coalition' ... a model of integrated communication systems seeks to build bridges between the 'islands of communication' ... and

to eventually establish new task groupings, perhaps by way of cross-functional working in the interim.

For years, academics and practitioners battled with the question: which organisational function should take responsibility for the management of financial communication? Various research projects have been undertaken in the past to address this question, and up to date, no definite answer could be provided. It is suggested in this article that the interdisciplinary nature of financial communication warrants an interdisciplinary approach to the management and organisation thereof. What is even more important is that financial communication efforts should not only be directed at the financial community, but to all an organisation's relevant stakeholders. This is to enable an organisation to build and maintain mutually beneficial relationships with all its relevant stakeholders, based on informed decisions regarding the allocation of scarce resources (financial and non-financial).

Acknowledgement

This research has been made possible through the financial assistance of the National Research Foundation (NRF).

References

- Accounting Education Change Commission. 1990. Objectives of education for accountants: position statement number one. *Issues in Accounting Education* 6 (2): 307–312.
- Ackoff, R. L. 1994. *The democratic corporation*. New York: Oxford University.
- AECC see Accounting Education Change Commission.
- Andrew, A. 1990. *The financial public relations handbook*. New York: Woodhead-Faulkner.
- Arfin, F. N. 1994. *Financial public relations: Lessons from the corporate leaders*. London: Pitman.
- Baskin, O., C. Aronoff and D. Lattimore. 1997. *Public relations: The profession and the practice*. Madison: Brown & Benchmark.
- Bedford, N. M. and W. G. Shenkir. 1987. Reorienting accounting education. *Journal of Accountancy* August: 84–91.
- Belkaoui, A. R. and S. Jones. 1996. *Accounting theory*. 1st Australian ed. Sydney: Harcourt Brace.
- Broom, G. M., S. Casey and J. Ritchey. 1997. Toward a concept and theory of organization-public relationships. *Journal of Public Relations Research* 9 (2): 83–98.
- . 2000. Concept and theory of organization–public relationships. In *Public relations as relationship management: a relational approach to the study and practice of public relations*, ed. J. A. Ledingham and S. D. Bruning, 3–22. Mahwah, New Jersey: Lawrence Erlbaum.
- Bruning, S. D. and J. A. Ledingham. 2000. Perceptions of relationships and evaluations of satisfaction: an exploration of interaction. *Public Relations Review* 26 (1): 85–95.
- Buchner, P. 1994. Financial public relations. In *Public relations in South Africa: a management reader*, ed. B. Lubbe and G. Puth, 230–249. Durban: Butterworths.
- Cassidy, D. 2003. Maximizing shareholder value: The risks to employees, customers and the community. *Corporate Governance* 3 (2): 32–37.

- Clark, C. E. 2000. Differences between public relations and corporate social responsibility: an analysis. *Public Relations Review* 26 (3): 363–380.
- Clarke, T. 1997. Measuring and managing stakeholder relations. *Journal of Communication Management* 2 (3): 211–221.
- Cleland, A. S. and A. V. Bruno. 1997. Building customer and shareholder value. *Strategy and Leadership* May/June: 22–28.
- Cox, B. 2003. Accountability lost: the rise and fall of double entry. *Omega* 31: 303–310.
- Cutlip, S. M., A. H. Center and G. M. Broom. 1994. *Effective public relations*. 7th ed. Englewood Cliffs, New Jersey: Prentice Hall.
- Cutlip, S. M., A. H. Center and G. M. Broom. 2000. *Effective public relations*. 8th ed. Upper Saddle River, New Jersey: Prentice Hall.
- Davis, J. 1995. The art of spin. *Management Today* March: 72–74.
- Davis, S. W., K. Menon and G. Morgan. 1982. The images that have shaped accounting theory. *Accounting, Organizations & Society* 7 (4): 307–318.
- Diamond, B. 1997. It's the bottom line, stupid. *Communication World* April/May: 28–31.
- Dolphin, R. R. 2004. The strategic role of investor relations. *Corporate Communications: An International Journal* 9 (1): 25–42.
- Eccles, R. G. and S. C. Mavrinac. 1995. Improving the corporate disclosure process. *Sloan Management Review* Summer: 11–25.
- Eisenhardt, K. M. 1989. Agency theory: an assessment and review. *Academy of Management Review* 14 (1): 57–74.
- Etzioni, A. 1998. A communitarian note on stakeholder theory. *Business Ethics Quarterly* 8 (4): 679–691.
- Farragher, E. J., R. Kleiman and M. S. Bazaz. 1994. Do investor relations make a difference? *The Quarterly Review of Economics and Finance* 34 (4): 403–412.
- Favaro, P. 2001. Beyond bean counting: the CFO's expanding role. *Strategy and Leadership* 29 (5): 4–8.
- Ferris, R. D. and R. M. Newman. 1991. Building better financial communications: IR specialists cooperate with others in corporate structure. *Public Relations Journal* October: 18–25.
- Frankental, P. 2001. Corporate social responsibility: A PR invention? *Corporate Communications: An International Journal* 6 (1): 18–23.
- Freeman, R. E. 1984. *Strategic management: a stakeholder approach*. Boston: Pitman.
- Freeman, E. and J. Liedtka. 1997. Stakeholder capitalism and the value chain. *European Management Journal* 15 (3): 286–296.
- Glautier, M. W. E. and B. Underdown. 1997. *Accounting theory and practice*. 6th ed. London: Pitman.
- Gouws, D. G. 1997. Perspectives surrounding accounting communication. *Meditari* 5:61–82.
- Gouws, D. G. and A. B. Terblanché. 1998. The accountant as facilitator of communication. *Meditari Accountancy Research* 6:91–119.
- Gouws, D. G. and P. Lucouw. 1999. The process beyond the numbers and ratios. *Meditari Accountancy Research* 7:99–122.
- Grunig, J. E. and T. Hunt. 1984. *Managing public relations*. New York: Holt, Rinehart and Winston.

- Grunig, J. E. 1992. What is excellence in management? In *Excellence in public relations and communication management*, ed. J. E. Grunig, 219–250. Hillsdale, New Jersey: Lawrence Erlbaum.
- Grunig, J. E. and F. C. Repper. 1992. Strategic management, publics and issues. In *Excellence in public relations and communication management*, ed. J. E. Grunig, 117–158. Hillsdale, New Jersey: Lawrence Erlbaum.
- Grunig, J. E. and Y. H. Huang. 2000. From organizational effectiveness to relationship indicators: Antecedents of relationships, public relations strategies, and relationship outcomes. In *Public relations as relationship management: A relational approach to the study and practice of public relations*, ed. J. A. Ledingham and S. D. Bruning, 23–54. Mahwah, New Jersey: Lawrence Erlbaum.
- Halal, W. E. 2000. Corporate community: a theory of the firm uniting profitability and responsibility. *Strategy & Leadership* 28 (2): 10–16.
- Hallahan, K. 2000. Inactive publics: the forgotten publics in public relations. *Public Relations Review* 26 (4): 499–515.
- Hanrahan, G. 1997. Financial and investor public relations. In *Public Relations Principles and Practice*, ed. P. J. Kitchen, 148–167. London: International Thomson.
- Hasnas, J. 1998. The normative theories of business ethics: a guide for the perplexed. *Business Ethics Quarterly* 8 (1): 19–42.
- Havenga, M. 1997. The company, the constitution, and the stakeholders. *The Quarterly Law Review for People in Business* 5 (4): 134–139.
- Hutton, J. G. 1999. The definition, dimensions, and domain of public relations. *Public Relations Review* 25 (2): 199–214.
- IFAC *see* International Federation of Accountants.
- Imam, S. 2000. Corporate social performance reporting in Bangladesh. *Managerial Auditing Journal* 15 (3): 133–141.
- International Federation of Accountants. 1996. *Prequalification education, assessment of professional competence and experience requirements of professional accountants*. International Education Guideline.
- Johnson, J. 1990. Integrating IR and other public relations. Large companies: making cooperation a priority. *Public Relations Journal* April: 26–28.
- Jones, T. C. 1990. Corporate social accounting and the capitalist enterprise. In *Critical accounts*, ed. D. J. Cooper and T. M. Hopper, 272–292. London: MacMillan.
- Kam, V. 1990. *Accounting theory*. 2nd ed. New York: John Wiley.
- King Committee on Corporate Governance. 2002. *King report on corporate governance for South Africa 2002*. Parklands: Institute of Directors for Southern Africa.
- Laughlin, R. and T. Lowe. 1990. A critical analysis of accounting thought: prognosis and prospects for understanding and changing accounting systems design. In *Critical accounts*, ed. D. J. Cooper and T. M. Hopper, 15–43. London: MacMillan.
- Ledingham, J. A. and S. D. Bruning. 2000. A longitudinal study of organization-public relationship dimensions: defining the role of communication in the practice of relationship management. In *Public relations as relationship management: a relational approach to the study and practice of public relations*, ed. J. A. Ledingham and S. D. Bruning, 55–70. Mahwah, New Jersey: Lawrence Erlbaum.

- Lehman, C. R. 1992. *Accounting's changing role in social conflict*. Princeton, New Jersey: Markus Wiener.
- Lev, B. 1992. Information disclosure strategy. *California Management Review* Summer: 9–32.
- Libby, R., P. A. Libby and D. G. Short. 1998. *Financial accounting*. 2nd ed. Boston: McGraw-Hill.
- Lundholm, R. J. 1999. Reporting on the past: a new approach to improving accounting today. *Accounting Horizons* 13 (4): 315–322.
- Marcus, B. W. and S. L. Wallace. 1997. *New dimensions in investor relations. Competing for capital in the 21st century*. New York: John Wiley.
- Marston, C. 1996. The organization of the investor relations function by large UK quoted companies. *Omega* 24 (4): 477–488.
- Marston, C. and M. Straker. 2001. Investor relations: a European survey. *Corporate Communications: An International Journal* 6 (2): 82–93.
- Mautz, R. K. and H. A. Sharaf. 1961. *The philosophy of auditing*. Menasha, Wisconsin: George Banta.
- McGrath, P. S. 1974. *Communicating with professional investors*. Conference Board Research Report No. 644. New York: The Conference Board.
- McMullen, M. 1990. IR: Staying on top in the '90s. *Public Relations Journal* April: 30–31.
- Naidoo, R. 2002. *Corporate governance – an essential guide for South African companies*. Cape Town: Double Storey.
- National Investor Relations Institute. 2003. About NIRI. <http://www.niri.org/about/index.cfm> (accessed 23 August 2003).
- Neilson, W. 1990. Integrating IR and other public relations. Smaller companies: persuading top management. *Public Relations Journal* April: 26–29.
- NIRI see National Investor Relations Institute.
- Petersen, B. K. and H. J. Martin. 1994. Excellence in investor relations: an exploratory study of CEO perceptions. Paper presented to the Public Relations Division of the Association for Education in Journalism and Mass Communication (AEJMC), Annual Convention, Atlanta, Georgia, 9–13 August: 1–39.
- Petersen, B. K. and H. J. Martin. 1996. CEO Perceptions of investor relations as a public relations function: an exploratory study. *Journal of Public Relations Research* 8 (3): 173–209.
- Post, J. E., L. E. Preston and S. Sachs. 2002. Managing the extended enterprise: the new stakeholder view. *California Management Review* 45 (1): 6–28.
- Puxty, A. G. 1990. The accountancy profession in the class structure. In *Critical accounts*, ed. D. J. Cooper and T. M. Hopper, 332–365. London: MacMillan.
- Rao, H. and K. Sivakumar. 1999. Institutional sources of boundary-spanning structures: the establishment of investor relations departments in the Fortune 500 industrials. *Organization Science: A Journal of the Institute of Management Sciences* 10 (1): 27.
- Savage, R. H. 1970. Crucial role of investor relations. *Harvard Business Review* November–December: 122–130.
- Schoonraad, N. 2003. *Managing financial communication: towards a conceptual model*. M.Com. (Communication Management) theses. Pretoria: University of Pretoria.
- Seitel, F. P. 1995. *The practice of public relations*. 6th ed. New Jersey: Prentice Hall.
- . 2001. *The practice of public relations*. 8th ed. New Jersey: Prentice Hall.

- Smith, P. 1989. Investor relations. Professionals and institutions. In *Handbook of financial public relations*, ed. P. Bowman, 8–15. Oxford: Heinemann.
- Stanton, P. A. 1997. User's rights to published accounting information: nature, justification and implications. *Accounting, Auditing and Accountability Journal* 10 (5): 684–701.
- Steyn, B. and G. Puth. 2000. *Corporate communication strategy*. Sandown: Heinemann.
- Tinker, T. 1985. *Paper prophets: a social critique of accounting*. London: Holt, Rinehart & Winston.
- Varey, R. J. and J. White. 2000. The corporate communication system of managing. *Corporate Communications: An International Journal* 5 (1): 5–11.
- Vinten, G. 2000. Corporate governance: The need to know. *Industrial and Commercial Training* 32 (5): 173–178.
- White, J. and L. Mazur. 1996. *Strategic communications management. Making public relations work*. Harlow: Addison-Wesley.
- Willmott, H. C. 1990. Serving the public interest? A critical analysis of a professional claim. In *Critical accounts*, ed. D. J. Cooper and T. M. Hopper, 315–331. London: MacMillan.
- Wilson, M. H. 1980. *The corporate investor relations function. A survey*. Michigan: UMI.
- Wolk, H. I., M. G. Tearny and J. L. Dodd. 2001. *Accounting theory: a conceptual and institutional approach*. 5th ed. Cincinnati, Ohio: South-Western College.