

CHAPTER 9

Conclusion and recommendations

The objective of academic research, whether by sociologists, political scientists, or anthropologists, is to try find answers to theoretical questions within their respective fields. - Rubin (in Neuman, 2000:20)

9.1 Introduction

A very broad range of perspectives (theoretical and empirical) was covered in the preceding eight chapters. It is therefore necessary to identify the main themes that emerged and show how each contributed to a clearer understanding of the nature, management and organisation of financial communication.

In Chapter 1 it was indicated that this study was exploratory in nature. One of its main objectives was to describe the current approach to financial communication (from a theoretical and an empirical perspective) – Circle I of the Mitroff *et al.* (1974) model. The other main objective was to develop a conceptual model - Circle II of the same model – that can provide a point of departure for future research about the nature, management and organisation of financial communication.

Therefore, this chapter is dedicated to a summary of the most important theoretical and empirical conclusions, the identification of the limitations of the study, as well as recommendations for future research.

9.2 Conclusions

This study consisted of a theoretical as well as an empirical component. In the section that follows, the main conclusions that were drawn from each of these components are summarised under separate headings. However, when discussing the conclusions derived from the empirical component, reference will be made to relevant theory, where

applicable.

9.2.1 Conclusions from a theoretical perspective

In Chapter 2, the current approach to financial communication was described from an investor relations perspective. It became evident that there is a degree of confusion regarding terminology. For example, public relations text books use the terms “financial public relations” and “investor relations”. It was found that a distinction cannot be drawn between these terms, except when the term “investor relations” is used to refer to a specialised field, distinct from public relations. The other main theme in Chapter 2 was the organisation and management of investor relations. A review of the literature revealed that there is no consensus on how investor relations should be organised and managed. The findings of empirical studies conducted previously suggested that, in most cases, the Financial Director (usually an accountant) and his / her department take responsibility for investor relations.

In Chapter 3, the current approach to financial communication was described from an accounting perspective. In other words, the “world” of the major role player in investor relations (Financial Director) was explored in more detail. The main conclusion was that the accounting profession is expanding and assuming broader roles every day. Therefore, accounting is no longer limited to meeting the objectives of accountability and decision-usefulness. Accountants are now expected to be consultants, entrepreneurs, financial analysts, and even public relations specialists. This is consistent with the investor relations literature.

It also became clear that the accounting discipline is very influential and powerful. The information provided by the accounting information system influences people’s decisions regarding the allocation of scarce resources, and therefore, the welfare of society as a whole. However, a significant part of society finds this information very difficult to interpret and use. Accounting information, in its current format, does not consider the needs of less sophisticated or “non-financial” users.

One conclusion that was drawn from the investor relations as well as the accounting literature, was that financial communication is currently characterised by a narrow focus on the financial community alone. Therefore, perspectives from corporate governance, corporate social responsibility, stakeholder theory and public relations as relationship management, were used to justify an approach that considers the financial information needs of all relevant stakeholders.

The revised King Report on Corporate Governance, published in South Africa in 2002, emphasises the importance of an inclusive (stakeholder) approach when formulating corporate strategy. The concept of a “triple bottom line” suggests that organisations need to be accountable in terms of their financial, social and environmental performance. According to stakeholder theory, it is not only “financial” stakeholders that invest in a company. Other stakeholders also make some kind of “investment” in the company. For example, employees invest time, skills and loyalty. All stakeholders, relevant to the company, need information that will help them make optimal “investment” decisions.

The phrase “stakeholder relationships” occurs regularly in the corporate governance, corporate social responsibility and stakeholder literature. However, exactly what these relationships entail, or how they should be managed, is not made clear. The component of public relations research that deals with relationship management has made important progress in this regard. The models of Broom *et al.* (1997) and Grunig and Huang (2000) provide insight into the nature of, and processes involved in organisation-public relationships.

In Chapter 5, the similarities between the accounting, investor relations, corporate governance, corporate social responsibility, stakeholder and public relations as relationship management literature were identified. These similarities were used to develop a conceptual model for an inclusive and integrated approach to financial communication. It was suggested that the contributions of the public relations, investor

relations and accounting disciplines to the financial communication process should all be acknowledged and utilised. However, it was also recognised that all these disciplines should not necessarily play an equal role in all the aspects of financial communication. For example, public relations should take the lead in the process of identifying relevant stakeholders, while accounting should take the lead in the design of the accounting information system. Investor relations specialists have valuable experience in communicating with sophisticated financial stakeholders.

9.2.2 Conclusions from an empirical perspective

Survey research was conducted to establish whether there are indications of an inclusive and integrated approach to financial communication in practice, as advocated by the theoretical conceptual model. The research methodology used was described in Chapter 6. The research design and the choice of research methods and techniques were guided by the fact that the research was quantitative, exploratory and descriptive in nature.

In Chapter 7, the findings related to the construct “an inclusive approach to financial communication”, were discussed. Four questions were used to investigate this aspect in the questionnaire. Results of two of these questions clearly indicated that there are indeed signs of an inclusive approach to financial communication. In their definitions of financial communication, many respondents either used the term “stakeholder”, referred to various “financial” and “non-financial” stakeholders, or indicated that financial communication is a two-way process. Financial communication was rated to be important (mean values of higher than four) with twelve of the fourteen stakeholder groups listed in one of the questions. The only two variables that obtained mean values of less than four were those representing trade unions and environmental pressure groups.

However, the results of the other two questions dealing with an inclusive approach to financial communication, were inconclusive. Respondents varied widely in their opinions regarding the adequacy of JSE/statutory requirements in meeting the financial information needs of stakeholders. This could be attributed to the diversity of respondents in terms of position/functional affiliation in the company. A large number of respondents were Financial Directors or Managers, but there were also a number of Board Members and Communication, Investor Relations and Marketing executives.

The results of the questions investigating an integrated approach to financial communication yielded interesting, and somewhat surprising, results. These results were reported and interpreted in Chapter 8. Regarding the organisation of financial communication, the largest number of respondents indicated that a cross-functional team took responsibility for financial communication. However, the majority of respondents still indicated that a single department (either the Financial, Public Relations, Corporate Communication or Marketing departments) was responsible for financial communication. Nevertheless, the fact that many respondents chose the “cross-functional” team option was encouraging and showed that there are at least indications of an integrated approach to financial communication.

The most interesting results were obtained from the questions dealing with the management of financial communication. Three questions investigated the importance of the involvement of the most senior financial manager, most senior communication manager and consultants in the financial communication process, respectively. Identical variables were used in all three questions, representing various aspects of, and roles in the financial communication process. Overall, the results suggested that the involvement of both the most senior financial manager and most senior communication manager is very important, while the involvement of consultants is less important. However, the involvement of the most senior communication manager was considered to be more important than that of the most senior financial manager, in five of the seven aspects. This contradicts those parts of the literature that claim that the

public relations function and practitioner have limited or no roles in financial communication. It must also be noted though, that in most cases the mean values for the most senior communication manager were only slightly higher than those for the most senior financial manager.

In conclusion, it is evident from the empirical research that there is not consensus regarding the best or ideal way of managing and organising financial communication. This does not necessarily have negative implications. To the contrary, it suggests that more research about the management and organisation of financial communication is needed. However, it must also be kept in mind that financial communication is interdisciplinary in nature. It is therefore highly unlikely that a single or uniform approach will transpire in future. Future research efforts should rather concentrate on the *contributions* of various disciplines to financial communication, especially those that were not included in this study.

9.3 Limitations of the study

A single study cannot, and should not, attempt to cover all aspects of a particular field of enquiry. The delimitations of this study were set out in Chapter 1. In the following sections, those aspects of the literature that were not covered, as well as the limitations and shortcomings of the empirical component of this study, are highlighted. The identification of the limitations of this study is important, as it will indicate priorities for future research.

9.3.1 Limitations in terms of the theoretical component

Wilson (1980:10) identifies four aspects of investor relations (or financial communication for the purposes of this study) on which research efforts can be focused:

- organisation of the function;
- the various audiences with which the organisation communicates;
- the nature of the information conveyed to these audiences; and
- the communication channels used to transmit the information.

This study mainly focused on the first aspect (integrated management and organisation of financial communication). However, the emphasis was only on the roles of accounting, public relations and investor relations in the management and organisation of financial communication. The investor relations literature suggests that it is increasingly seen as a marketing function. A new direction in the field of marketing and communication is known as Integrated Marketing Communication (IMC). In view of the fact that the emphasis of this study was on an integrated approach to financial communication, the IMC literature could have provided additional depth and perspective. However, the contribution of the marketing discipline was not considered in this study and therefore literature on IMC was not consulted.

Furthermore, financial communication is different from other forms of communication, in that it is regulated by statutory and legal requirements. Therefore, legal experts also play an important role in financial communication. A large component of financial communication is also related to investment decisions. However, the contributions of the law, financial management and economics disciplines were not investigated in this study.

This study also focused to a limited extent on the second aspect identified by Wilson (1980:10) - communication with various audiences/stakeholders. A strong theoretical argument was presented for an inclusive (stakeholder) approach to financial communication (using corporate governance, corporate social responsibility, stakeholder theory and relationship management literature). However, literature about financial communication with individual stakeholder groups was not consulted.

The third and fourth aspects identified by Wilson (1980:10) - the nature of information that needs to be communicated, as well as the communication channels used - were not included in this study. Especially the fourth aspect has already been quite extensively researched. For example, there are numerous articles and research reports about the effectiveness of the Annual Report as a financial communication channel.

9.3.2 Limitations in terms of the empirical component

Survey research was conducted to supplement the theoretical component of the study. Although the research was exploratory in nature, a quantitative approach was used. The motivation behind the use of quantitative research was to obtain as wide a range of perspectives as possible, and not in-depth information. The decision was also based on the fact that similar studies conducted previously also used a quantitative approach.

An Internet-based questionnaire was used instead of a printed version. It is usually easier and less time consuming to manage the data collection process with an electronic questionnaire. However, the response rate in this study was still very low (12,7%). One reason for this is that executives of the Top South African companies are requested almost on a daily basis to complete questionnaires. In other words, they have reached such a level of exposure to survey research, that most of them are simply not willing to participate any more. A lack of time also plays a role. In some cases, company policy prevents them from participating in survey research.

Responses were also received from a very diverse group of respondents. In one sense, this diversity was not a drawback, but rather provided a broader array of perspectives. But this diversity also had to be kept in mind throughout the data analysis and interpretation process. In the end, the data gathered did not yield definitive results.

9.4 Recommendations for future research

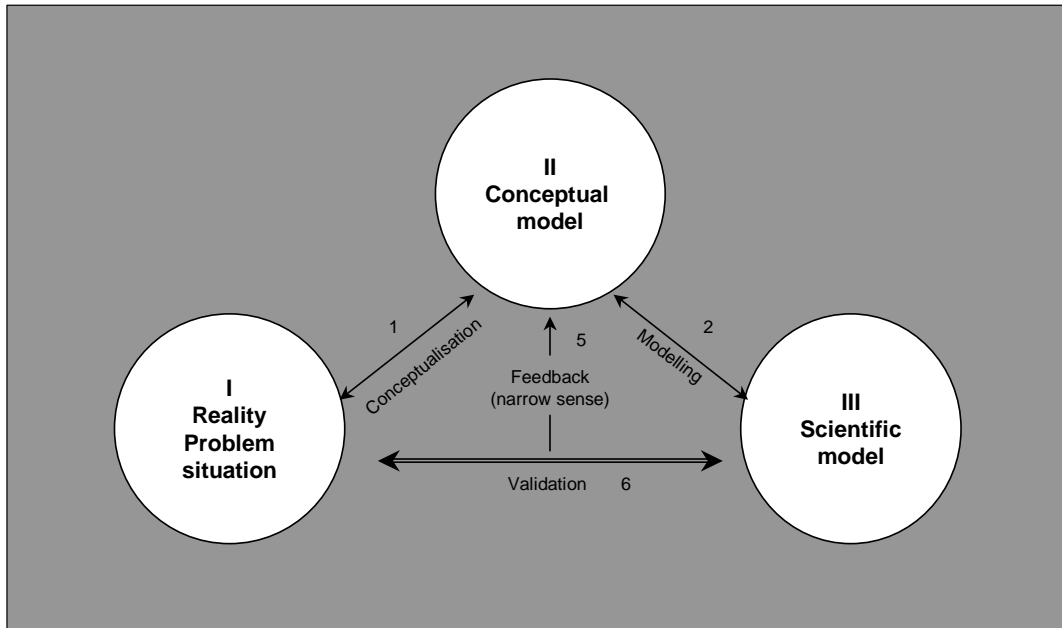
Based on the limitations of the current study, certain recommendations can be made in terms of a continuation of the present study, important research topics and the methodology used in future research.

9.4.1 A continuation of the present study

In Chapter 1, the Mitroff *et al.* (1974) model was used to indicate the scope of this study. It was decided to concentrate only on Circle I (identifying and describing a reality problem solution) and Circle II (developing a conceptual model). The next logical step

would be to refine the conceptual model and develop it into a scientific model that can be tested and validated. This possibility of a continuation of the present study is depicted in Figure 9.1, using some of the elements of the Mitroff *et al.* (1974) model.

Figure 9.1 A suggestion for the continuation of the present study – developing a scientific model



Source: Adapted from Mitroff *et al.* (1974:47)

In its present form, the conceptual model provides a framework that only recognises the contributions of the accounting, public relations and investor relations disciplines to the financial communication process. Regarding the immediate future, research projects could attempt to make the conceptual model more complete (by investigating the contributions of other disciplines such as marketing, economics, financial management and law) and develop it into a scientific model. Empirical research can then be conducted to establish whether the scientific model (Circle III) corresponds with the reality problem situation (Circle I) – in other words validating the model. Based on the results, the scientific model can either be refined, or be accepted as a valid theoretical

representation of the reality problem situation.

The last circle (IV – solution) of the Mitroff *et al.* (1974) model is not depicted in Figure 9.1. This is not to say that future research efforts should not be directed towards finding and implementing a solution to the reality problem situation. However, extensive research will be needed to develop the conceptual model into a scientific model. Only after this has been accomplished, will the possibility of converting the scientific model into a practical solution and implementing it, be considered.

9.4.2 Important research topics

Opportunities for future research in financial communication are virtually limitless. Based on the limitations of this study, the following recommendations can be made for future research:

- The roles and contributions of disciplines such as marketing, law, financial management and economics in the financial communication process.
- Research about financial communication with specific stakeholder groups. For instance, it was mentioned in Chapter 7 that financial communication with trade unions and environmental pressure groups was not rated as important. In the context of labour relations and the triple bottom line, these results definitely need to be followed up.
- Research into the financial information needs of different stakeholders groups presents another challenge for future researchers. Do stakeholders actually differ in terms of their information needs, or is a “shotgun” approach sufficient? Do the information needs of “financial” stakeholders differ significantly from the information needs of “non-financial” stakeholders?
- Although a lot of research has been done about the Annual Report as a channel of financial communication, research also needs to be done on other channels, especially more contemporary ones such as the Internet. The majority of companies in South Africa use the Internet extensively for financial communication purposes.

- A very important aspect that was also referred to in Chapter 7, is financial literacy. If the recipients of financial information cannot interpret and use the information, all efforts to find the best approach to financial communication are futile. Financial and economic empowerment initiatives cannot only rely on a “top down” approach. They have to be supplemented with a “bottom up” approach, based on financial education.

9.4.3 Research methodology

Decisions regarding research methodology (in terms of strategy, design, methods and techniques) must be carefully considered. In South Africa, survey research amongst top companies is problematic. In quantitative terms, this is a great pity, as findings cannot be generalised to the entire population. However, important contributions can still be made with qualitative research strategies, using in-depth interviews, focus groups, or even content analysis. Another option is to use case studies, instead of survey research. For example, multiple research projects can be conducted over time, focusing on a different sector of the population every time.

In conclusion:

The interdisciplinary nature of financial communication can be its greatest weakness.

The fragmentation of knowledge poses serious threats to a survival when scientific and technological know-how constantly outrun understanding of societies and individuals. - Armour (2003:34)

Or it can be its greatest strength.